

A CMS Energy Company

August 18, 2006

Ms. Mary Jo Kunkle
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
P.O. Box 30221
Lansing, MI 48909

Re: Case No. U-14992

Dear Ms. Kunkle:

Enclosed, for electronic filing in the above-captioned case, are Consumers Energy Company's Application and the testimony and exhibits of Consumers Energy Company's witnesses William E. Garrity, David W. Joos, John J. Reed, Michael A. Torrey and Stephen T. Wawro. The Application seeks relief in connection with the sale of the Palisades Nuclear Power Plant. Consumers Energy respectfully requests that the Commission act on the Application in an expeditious manner. This case is being filed only in PDF format.

Sincerely,

Jon R. Robinson

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STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
CONSUMERS ENERGY COMPANY)
for approval of a Power Purchase)
Agreement and for other relief in)
connection with the sale of the Palisades)
Nuclear Power Plant and other assets.)
_____)

Case No. U-14992

APPLICATION

Consumers Energy Company (“Consumers Energy” or the “Company”) hereby requests the Michigan Public Service Commission (the “Commission”) pursuant to MCL 460.6j(13) and other applicable law, to grant approval of a long-term Power Purchase Agreement and for certain other relief. In support of this Application, Consumers Energy states as follows:

1. Consumers Energy is a public utility engaged in, among other things, the generation, purchase, distribution and sale of electricity to retail customers in the State of Michigan. Consumers Energy is subject to the jurisdiction of the Commission pursuant to 1909 PA 106, as amended, MCL 4.551 *et seq*; 1919 PA 419, as amended, MCL 460.51 *et seq*; 1939 PA 3, as amended, M60CL 460.1 *et seq*; 1969 PA 306, as amended, MCL 24.201 *et seq*; and the Commission’s Rules of Practice and Procedure, as amended, 1992 AACRS, R 460.17101 *et seq*.

2. On July 11, 2006, Consumers Energy entered into an Asset Sale Agreement (“ASA”) to sell the Palisades Nuclear Power Plant (“Palisades”) to Entergy Nuclear Palisades, LLC (“Entergy”), a subsidiary of Entergy Corporation. A copy of the ASA is one of the exhibits

that accompanies this Application. At the same time, Consumers Energy entered into a Power Purchase Agreement (“PPA”) with Entergy for the output from Palisades for a 15 year term. A copy of the PPA is one of the exhibits that accompanies this Application.

3. Palisades is a single unit pressurized water reactor with an average net capacity of 798 MW located on a 469 acre site south of the City of South Haven. The plant commenced commercial operation in 1971. The current operating license for Palisades expires in 2011. In March 2005, Consumers Energy filed an application with the Nuclear Regulatory Commission (“NRC”) to extend the operating license to 2031. NRC approval of the license extension is anticipated in early 2007.

4. The ASA and PPA are the result of efforts initiated by Consumers Energy to address concerns about the continued operation of Palisades by the Nuclear Management Company (“NMC”). Pursuant to an agreement entered into in 2001, Palisades has been operated by NMC, a company formed by a group of nuclear plant owners to operate those plants. At the time Consumers Energy joined NMC, it was the fifth owner to place operating responsibility of its nuclear units with NMC. Since that time, two of the five owners have sold their plants and left NMC. As of the end of 2005, the three remaining owners were unwilling to make long term commitments to NMC. Indeed, in July 2006, one of the remaining owners, We Energies, announced that it was continuing its strategic assessment, and conducting an auction of its Point Beach Nuclear Plant. Thus, NMC’s continued existence was, and is, in question. Based upon an analysis of the impact of Consumers Energy resuming direct operation of Palisades, the Company determined that the most prudent course of action was to explore the possibility of selling the plant.

5. There are also other factors that supported Consumers Energy's decision to explore the sale of Palisades. For example, there are known significant capital expenditures that are required for the plant over the next several years, such as those necessary for the reactor vessel head replacement, steam generator replacement, to address reactor vessel embrittlement issues, and various other life extension projects. The Company concluded that the capital requirements associated with continued ownership of Palisades, when combined with other substantial capital expenditures that Consumers Energy must make over the next several years, supported a decision to sell Palisades. In addition, the ownership of a nuclear power plant entails considerable risks, including (i) risks associated with the continued viability of NMC, (ii) unpredictable but potentially substantial and expensive new regulatory requirements, (iii) decommissioning risks (including the investment performance risk of decommissioning trust funds, the difficulty in accurately projecting the cost of decommissioning, and the uncertainties associated with the execution of the decommissioning process), (iv) replacement power risk associated with potentially lengthy nuclear plant outages, and (v) re-licensing risk. Finally, there is a growing record of successful nuclear plant sales that have produced benefits for utility customers. The total transaction value of recent transactions, as measured by purchase price, power purchase agreement terms, decommissioning fund treatment, and other commercial terms, has trended upward. These are additional factors that Consumers Energy concluded supported a decision to sell Palisades.

6. In light of the above-described factors, in December 2005 Consumers Energy elected to offer Palisades for sale in a competitive auction process. Based upon its considerable experience in conducting such auctions, the Company retained Concentric Energy Advisors, Inc. ("CEA") as the auction manager. The basic objectives established for the auction process were

to (i) maximize competition by conducting an open auction in which all prospective bidders are provided with an equal opportunity to participate, (ii) obtain terms for the ASA and PPA that would ensure that Consumers Energy's existing commitments are honored, customers and employees are protected, and Palisades is retained as a long-term source of reasonably priced power for the Company's customers, and (iii) ensure that the winning bidder is committed to the continued safe and reliable operation, and ultimately, the decommissioning of the plant.

7. In addition to Palisades, Consumers Energy also determined to explore the transfer of ownership of the Big Rock Independent Spent Fuel Storage Installation ("Big Rock ISFSI"). The Big Rock ISFSI is a facility consisting of dry storage casks that contain spent fuel bundles (and reactor-generated greater than class C waste ("GTCC waste")) from the Big Rock Point Nuclear Plant. It is located on a secure, fenced and monitored site within the former operating nuclear plant site in Charlevoix County. After the shutdown of the Big Rock Point power plant, Consumers Energy removed the spent fuel bundles and GTCC waste from the operating plant and placed them in the ISFSI. The ISFSI will remain on the current site until the spent fuel bundles are transferred off-site to a U.S. Department of Energy ("DOE") facility or some other licensed storage facility. The sale of the Big Rock ISFSI was offered on an optional basis to prospective bidders in an effort by Consumers Energy to further reduce its business and regulatory risk by minimizing its exposure to the nuclear power sector (and the business of storing spent nuclear fuel). The transfer of the Big Rock ISFSI allows Consumers Energy to, in exchange for a one-time payment, avoid any further ongoing operation and maintenance expenses associated with the facility, as well as the costs associated with the removal of the spent fuel, and with the ultimate decommissioning of the ISFSI site.

8. Preliminary steps in the competitive auction process included (i) the identification of potential bidders, (ii) the preparation of a Confidential Offering Memorandum that provided detailed information regarding Palisades and the Big Rock ISFSI, (iii) making available additional extensive financial, technical, operational and organizational materials regarding Palisades and the Big Rock ISFSI, (iv) providing the opportunity for a detailed question and answer process, (v) providing the opportunity for on-site due diligence tours of the two sites, (vi) providing the opportunity for additional off-site management meetings and conference calls. In addition to the CEA personnel, many Consumers Energy and NMC employees were involved throughout each stage of this process.

9. Bids were received in electronic form on June 29, 2006. The bids included proposed changes to draft transaction documents that had been previously supplied to bidders, as well as proposed financial/commercial terms. The bid evaluation process identified Entergy as the bidder that had submitted the most favorable bid. Discussions were conducted with Entergy, which ultimately led to the execution of the ASA and PPA, and associated ancillary agreements.

10. The basic terms of the transaction represented by the ASA and PPA are as follows:

(A) Purchase price: Entergy agrees to pay Consumers Energy \$380 million for the Palisades Plant (based upon a March 1, 2007 closing date), plus or minus any adjustments pursuant to the terms of the ASA. Consumers Energy agrees to pay Entergy \$30 million in exchange for Entergy taking title to the Big Rock ISFSI.

(B) Power Purchase Agreement: Entergy and Consumers Energy have entered into a PPA that has a 15 year term with pricing that, on a present value basis, is estimated to be

\$199 million less than the cost estimated to be incurred if Consumers Energy continued to own Palisades for this period.

(C) Decommissioning: Entergy assumes Consumers Energy's obligations for: (1) the long term storage of spent nuclear fuel for both Palisades and the Big Rock ISFSI; (2) decommissioning Palisades and the Big Rock ISFSI in accordance with NRC regulations sufficient for termination of the NRC license; and (3) ultimately restoring both sites to "greenfield" condition. Approximately \$200 million from the existing non-qualified decommissioning trusts will be retained for the benefit of customers. If a favorable tax ruling regarding the qualified trust is received prior to closing, Consumers Energy will transfer \$250 million (based upon an estimated March 1, 2007 closing) from the existing Internal Revenue Code Section 468A qualified decommissioning trust to Entergy, which will leave approximately \$116 million (estimated before taxes) from the qualified trust available to be used for the benefit of customers. If a favorable tax ruling is not received prior to closing, Consumers Energy will transfer the balance in the qualified trust to Entergy (estimated to be \$366 million before tax), but will retain the right to recover \$116 million (estimated before taxes) upon receipt of a favorable federal tax ruling, or, if no such ruling is issued, upon the decommissioning of Palisades.

(D) Workforce: Entergy agrees to assume the Collective Bargaining Agreement ("CBA") covering the union workers at Palisades. The term of the CBA extends through May 2010. With respect to non-union employees, Entergy will offer continued employment to the existing Palisades and Big Rock ISFSI workforce at comparable wages for 18 months, and has committed to provide comparable health care and other benefits for a period extending 36 months after closing.

11. The ASA recognizes that various regulatory approvals are required in order to consummate the transaction. The regulatory approvals that are sought from the Commission are the following:

(A) Approval of the PPA pursuant to MCL 460.6j(13)(b) and other applicable law;

(B) Approval of the manner in which Consumers Energy's rates will be adjusted to remove the costs associated with ownership of Palisades and to incorporate the costs incurred pursuant to the PPA;

(C) Affirmation that the requirements imposed by the October 24, 2000 Order in MPSC Case No. U-12505 (the "Securitization Order") authorizing the securitization of Consumers' pre-2001 investment in Palisades have been satisfied;

(D) Approval of the proposed transfer of the funds in the MPSC-jurisdictional decommissioning trust funds; and

(E) Issuance of a certificate of convenience and necessity pursuant to 1929 PA 69 to supply station power to Palisades.

(F) Determination of Palisades as an "eligible wholesale facility" under Section 32(a) of the Public Utility Holding Company Act.

Each of these requested approvals are summarized in the following paragraphs, and are discussed in more detail in the testimony and exhibits that accompany this Application.

12. MCL 460.6j(13) states, in relevant part, as follows:

"(13) In its order in a power supply cost reconciliation, the commission shall:

* * *

"(b) Disallow any capacity charges associated with power purchased for periods in excess of 6 months unless the utility has obtained the prior approval of the commission."

Approval of the PPA pursuant to MCL 460.6j(13) and other applicable law is sought in order to eliminate doubt about the recovery of the costs associated with the PPA in future power supply cost recovery (“PSCR”) proceedings. The Commission is clearly empowered to grant advance cost recovery approval for costs incurred pursuant to a power purchase agreement so that the parties to the agreement can be assured of the future regulatory treatment of those costs. Such approvals have been granted on numerous prior occasions. Consumers Energy notes that there is no “regulatory out” provision in the PPA because the inclusion of such a clause would have significantly and adversely affected the total value any bidder would have been willing to offer; if indeed, bidders would have been willing to offer any bids under such a condition. The Company is unwilling to proceed with this transaction without first receiving assurance from the Commission that the costs to be incurred by the Company during the full term of the PPA will be fully recoverable in its rates.

13. Certain fixed costs associated with the ownership, operation and maintenance of Palisades are currently included in the Company’s base rates. The most practical means of recovering the costs associated with the PPA, which will vary based upon the actual power delivered, is through the PSCR process. As explained in more detail in the testimony and exhibits that accompany this Application, Consumers Energy proposes to identify the Palisades costs currently reflected in base rates, and to then apply a credit in that amount in the PSCR factor-setting and reconciliation process. This will ensure that customers only pay for the costs incurred under the PPA. This is similar to the ratemaking procedure followed by the Commission in connection with Consumers Energy’s sale of its transmission system. In addition, the Company currently collects separately stated decommissioning surcharges for the decommissioning of the Palisades Plant. The Company proposes that these surcharges be

terminated concurrently with the commencement of recovery of costs incurred pursuant to the PPA.

14. The Securitization Order authorized CECo to “securitize” the Palisades investment (net of depreciation) estimated as of December 31, 2000. The Securitization Order states, in relevant part, as follows:

“Specifically, should Consumers elect to sell Palisades, any profit arising from the plant’s treatment as a regulatory asset designated for securitization must be passed on to the utility’s customers. As noted by Brian Ballinger, a senior consultant in the Commission’s Licensing and Enforcement Division, doing otherwise would place customers at risk of paying twice for the capital costs of the plant (once through the non-bypassable securitization charge and again through any power purchase contract necessitated by the plant’s sale”. See, 4 TR 584. Thus, if Consumers sells Palisades for more than its book value following the plant’s treatment as a regulatory asset, or if the utility itself is purchased, Consumers (or its successor utility) shall immediately initiate a proceeding designed to compute and promptly return to the utility’s ratepayers all economic benefit arising from Palisades’ treatment as a regulatory asset. Similarly, if Consumers (or any successor utility) seeks to abandon Palisades subsequent to its being treated as a regulatory asset, the utility must first initiate a contested case proceeding to evaluate the effect of the proposed abandonment on its customers.” Emphasis added.

As explained more fully in the testimony and exhibits accompanying this Application, Consumers Energy intends to ensure that all economic benefit arising from Palisades’ treatment as a regulatory asset will be returned to customers.

15. As noted above, Consumers Energy will, unless the necessary favorable tax ruling is received earlier, transfer the balance in the existing qualified decommissioning trust to Entergy at the time of closing (estimated to be \$366 million before tax). Approximately \$200 million from the non-qualified decommissioning trusts will be retained for the benefit of customers, of which approximately \$189 million is in an MPSC-jurisdictional trust, and

approximately \$11 million is in a FERC-jurisdictional trust.¹ In addition, the agreement provides for the return to Consumers Energy of an additional approximately \$116 million from the qualified trust, upon receipt of a favorable federal tax ruling, or, if no such ruling is issued, upon the decommissioning of Palisades. Consumers Energy seeks all approvals necessary to transfer the qualified trust funds to Entergy, subject to Consumers Energy's rights to recover a portion of those funds, as well as all approvals necessary to remove the funds from the MPSC-jurisdictional non-qualified trusts to be used as ultimately determined by the Commission. To avoid any potential confusion, Consumers Energy also requests that the Commission waive, or at least suspend, pending the outcome of this proceeding, the requirement adopted in the September 20, 2005 Order in Case No. U-14150 that the Company file a new Palisades decommissioning report by March 31, 2007. Such a filing would obviously be rendered moot by the sale of Palisades.

16. When Palisades is operating, it will ordinarily meet its station power requirements through its own generation. During outages, however, it must meet those requirements through alternative means. Midwest Independent Transmission System Operator ("MISO") Schedule 20 service will be one option available to Entergy to meet those needs. Because Schedule 20 does not apply in all possible scenarios, however, Entergy wishes to have available the option of meeting its station power needs from Consumers Energy. Although Palisades is located in the service territory of AEP Indiana Michigan Power, Consumers Energy has historically supplied the plant's station power requirements from its own resources. Consumers Energy therefore agreed to make station power service available to Entergy on tariff terms. In order to do so, the Company believes that a certificate of public convenience and necessity pursuant to 1929 PA 69 must be issued, and therefore seeks such a certificate.

¹ All cited amounts are estimates as of March 1, 2007.

17. Substantial proceeds will be realized as a result of the sale. The \$380 million purchase price to be paid by Entergy exceeds the expected book value of Palisades at March 1, 2007 by \$65 million. As explained in more detail in the accompanying testimony, transaction costs (including costs associated with termination of the Company's NMC interests) are expected to total approximately \$30 million, and the payment for the Big Rock ISFSI is \$30 million. The remaining purchase price proceeds are available for uses that will benefit customers. Similarly, the approximately \$200-\$316 million freed up from the decommissioning trusts will be available for uses that will benefit customers. As set forth in more detail in the accompanying testimony, Consumers Energy proposes that the Commission approve the use of \$100 million of these proceeds to reduce PSCR costs otherwise payable by customers over the 2007-2009 period. This would provide an immediate and substantial benefit to customers. With respect to how any additional funds are utilized, Consumers Energy believes that it would be appropriate to utilize a significant portion of these funds to offset remaining decommissioning costs that have been incurred by the Company at the Big Rock Point facility in excess of collections and earnings on the trust amounts. One of the principal positive features of the proposed transaction is Consumers Energy's shedding of significant nuclear-related risks and costs. Consistent with this as a goal would be the elimination of any further decommissioning-related liabilities. The availability of the proceeds from the proposed transaction offers an opportunity to achieve this objective. Consistent with the Commission's prior practice, Consumers Energy intends to file an application for the reconciliation of Big Rock decommissioning actual costs by March 31, 2007, at which time this issue can be addressed. With respect to other potential uses of remaining proceeds, Consumers Energy proposes that a final determination of the uses of these remaining proceeds be deferred until a future general rate case, or, in the case of the additional funds to be

recovered from the qualified decommissioning trust, until such time as those funds are actually received by Consumers Energy. The Company is willing to commit to filing such a general electric rate case within 90 days of a final order in this proceeding, so that these benefits to customers can be distributed in a timely manner. As noted in the following paragraph of this Application, the amount of the proceeds available to use for the benefit of customers is dependent upon the timing of the closing of the proposed transaction, and the Company therefore believes that it is prudent to attempt to minimize the number of potentially disputed issues in this proceeding by deferring the final resolution of the use of the remaining proceeds until a future proceeding.

18. The terms of the ASA recognize the importance of Entergy assuming operational control of Palisades sufficiently in advance of the planned 2007 refueling outage so that Entergy has time to prepare for that outage. The ASA provides that, for each day the closing is delayed after March 1, 2007, the purchase price is reduced by amounts that start at \$79,306/day, and increase to \$133,412/day. To the extent closing is delayed until after the completion of the 2007 refueling outage, the purchase price is “reset” to reflect capital expenditures incurred during that outage, and additional purchase price reductions are imposed if closing is delayed after November 1, 2007. Thus, a delay in closing beyond March 1, 2007 is disadvantageous to both Consumers Energy and Entergy, as well as to Consumers Energy’s customers. In addition, there are numerous activities that must take place between the date of the final regulatory approvals and closing, and the possibility of rehearing requests and appeals will also be a factor that affects the willingness of parties to close. Consumers Energy therefore respectfully requests that the Commission adopt procedures that will allow for an expeditious processing of this Application. Specifically, Consumers Energy requests that the Commission

issue its final order granting the relief sought in this Application more than 30 days in advance of March 1, 2007, so that the ability to achieve closing by March 1, 2007 is preserved.

19. The ASA provides as a condition to the closing of the transaction that the Federal Energy Regulatory Commission (“FERC”) determine Entergy Nuclear Palisades, LLC (“Entergy”) to be an exempt wholesale generator (“EWG”) under Section 32 of the Public Utility Holding Company Act, as amended, 15 USC § 79z-5a. Entergy intends to obtain a determination of EWG status from the FERC, and through this Application, Consumers Energy seeks the requested “eligible facility” determinations from the Commission to facilitate Entergy obtaining EWG status. Specifically, Consumers Energy requests that the Commission determine that allowing Palisades to be an “eligible facility” as defined by PUHCA Section 32(a)(2), 15 USC Section 79z-5(a)(2), will: (1) benefit consumers, (2) is in the public interest, and (3) does not violate Michigan law. In support of its request for “eligible facility” status in this Application, Consumers Energy states as follows:

(A) Consumers Energy currently owns 100% of Palisades, the entire interest of which it is selling to Entergy, an indirect, wholly-owned subsidiary of Entergy Corporation, a registered public utility holding company under PUHCA. Entergy and Entergy Corporation. are not affiliated with Consumers Energy or its parent CMS Energy Corporation.

(B) Historically, and in its most recent electric rate case before the Commission, Case No. U-14347, Consumers Energy’s costs associated with the ownership and operation of Palisades were included in the Company’s utility rate base and cost of service in determining the Company’s revenue requirement. Further, fuel costs associated with Palisades have historically been included in the Company’s PSCR proceedings and recovered through its PSCR Clause.

(C) Section 32 of the PUHCA provides for the certification by the FERC of certain electric generation owners as EWGs. An EWG is a person or entity determined “to be engaged directly, or indirectly through one or more affiliates..., and exclusively in the business of owning or operating, or both owning and operating, all or part of one or more eligible facilities and selling electric energy at wholesale.” 15 USC § 79z-5a(a). An “eligible facility” is defined in Section 32(a)(2)(A) as a facility used for the generation of electric energy exclusively for sale at wholesale. In order for a generating facility that was included in the rate base of a utility, over which a state regulatory commission had jurisdiction as of October 24, 1992², to constitute an “eligible facility” for purposes of allowing its owner to be a EWG, Section 32(a) of PUHCA requires all relevant state commissions which had jurisdictional authority of such generating facility to make a specific determination that allowing the generating facility to be an eligible facility (1) will benefit consumers, (2) will be in the public interest, and (3) does not violate state law. 15 USC § 79z-5a(c).

(D) The testimony of Consumers Energy witnesses Joos, Garrity, Torrey, Wawro and Reed in this case supports a specific determination that allowing Palisades to be an “eligible facility” (1) will benefit the customers of Consumers Energy and (2) is in the public interest. Further, nothing in current Michigan law would prohibit the Commission from allowing Palisades to be an eligible facility.

For these reasons, Consumers Energy respectfully requests that the Commission issue its specific determination, pursuant to Section 32(c) of PUHCA, 15 USC § 79z-5a(c), that allowing Palisades to be an “eligible facility” under section Section 32(a) of the PUHCA, will (1) benefit

² October 24, 1992 is the date of enactment of the Energy Policy Act of 1992, which amended PUHCA to provide for EWG status.

the customers of Consumers Energy, (2) is in the public interest, and (3) does not violate Michigan law.

20. The testimony and exhibits filed by Applicant in support of the requested relief accompany this Application. Reference to this material will provide additional details on the relief being sought. The relief described in the testimony and exhibits is an integral part of this Application and should be considered as if specifically requested in this Application.

WHEREFORE, Consumers Energy Company respectfully requests the Commission to grant the following relief:

(A) Approve the PPA pursuant to MCL 460.6j(13)(b) and other applicable law;

(B) Approve the manner in which Seller's rates will be adjusted to remove the costs associated with ownership of the Palisades Plant and to incorporate the costs incurred pursuant to the PPA that is described in the testimony and exhibits accompanying this Application;

(C) Affirm that the requirements imposed by the October 24, 2000 Order in MPSC Case No. U-12505 (the "Securitization Order") authorizing the securitization of Consumers' investment in Palisades have been satisfied;

(D) Approve the proposed transfer to Entergy of the funds in the MPSC jurisdictional decommissioning trusts, and the proposed removal of funds from the MPSC jurisdictional trusts not transferred to Entergy in the manner more fully described in this Application and the accompanying testimony;

(E) Approve the use of a portion of the proceeds from the transaction to reduce power supply costs as set forth in more detail in the testimony accompanying this Application;

(F) Issue a certificate of convenience and necessity pursuant to 1929 PA 69 to allow Consumers Energy to continue to supply station power to Palisades;

(G) Determine that Palisades is an “eligible facility” under Section 32(a) of PUHCA;

(H) Waive, or suspend, pending the outcome of this proceeding, the requirement adopted in the September 20, 2005 Order in Case No. U-14150 that the Company file a new Palisades decommissioning report by March 31, 2007;

(I) Adopt procedures that will allow for an expeditious processing of this Application;

(J) Grant Consumers Energy such other and further relief as may be lawful and appropriate.

Respectfully submitted,

CONSUMERS ENERGY COMPANY

Dated: August 18, 2006

By: _____
John G. Russell
President and Chief Operating Officer

Jon R. Robinson (P27953)
Attorney for Consumers Energy Company
One Energy Plaza
Jackson, Michigan 49201
(517)788-0698

STATE OF MICHIGAN

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Case No. U-14992

VERIFICATION

STATE OF MICHIGAN)
) SS
COUNTY OF JACKSON)

John G. Russell, being first duly sworn, deposes and says that he is President and Chief Operating Officer of 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, to the best of his knowledge and belief; and that he is duly authorized to execute such Application on behalf of Consumers Energy Company.

John G. Russell
President and Chief Operating Officer

Subscribed and sworn to before me this 18th day of August 2006.

Sammie B. Dalton, Notary Public
State of Michigan, County of Jackson
My Commission Expires: 01/04/08
Acting in the County of Jackson

STATE OF MICHIGAN

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Case No. U-14992

DIRECT TESTIMONY
OF
WILLIAM E. GARRITY
ON BEHALF OF
CONSUMERS ENERGY COMPANY

August, 2006

WILLIAM E. GARRITY
DIRECT TESTIMONY

1 Q. Please state your name and business address.

2 A. My name is William E. Garrity. My business address is 1945 West Parnall Road,
3 Jackson, Michigan.

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

5 A. I am currently employed by Consumers Energy Company (“Consumers” or “the
6 Company”) as Senior Vice President – Electric and Gas Supply.

7 Q. What is your educational background?

8 A. I received a Bachelor of Science degree in Engineering in 1970 from Oakland University.
9 I received a Master of Science degree in Engineering – Economic Systems in 1974 from
10 Stanford University.

11 Q. Please describe your professional experience.

12 A. In January 1977, I joined the Company’s Energy Supply Management and Budget
13 Department as a General Engineer. I was promoted to Senior Engineer and Staff
14 Engineer in January 1978 and January 1980, respectively. In January 1981, I transferred
15 to the Plant Modifications and Miscellaneous Projects (PM&MP) Department as Section
16 Head – Economic Studies. In October 1983, I was promoted to Manager Cost and
17 Schedule in the PM&MP Department. In March 1986, I was promoted to Manager of
18 Engineering in the PM&MP Department. In April 1991, I was appointed Director, Fossil
19 Fuel Supply Department. In July 1996, I was appointed Director, Fuel Supply and Plant
20 Operations Department. In June 1997, I was appointed Executive Manager Fuels and
21 Power Transactions Department. In October 1999, I was promoted to Vice President
22 Fuels and Power Transactions. In March 2003, I assumed responsibility for natural gas
23 supply activities, and my title was accordingly changed to Vice President-Electric and

WILLIAM E. GARRITY
DIRECT TESTIMONY

1 Gas Supply. In June 2005, I was promoted to Senior Vice President – Electric and Gas
2 Supply.

3 Q. What are your responsibilities as Senior Vice President – Electric and Gas Supply?

4 A. I have overall responsibility to ensure that adequate energy supply resources are available
5 and utilized economically to serve Consumers’ electric and natural gas customers. Under
6 my direction, the electric supply area is responsible for the Company’s electric sourcing
7 and management of power supply resources and transactions, fuel and power supply risk
8 management, fossil fuel procurement, planning and delivery to generating stations, and
9 merchant operations including economic dispatch and regulation of Consumers Energy’s
10 generating plants and purchases and sales of wholesale power. The gas supply area is
11 responsible for the Company’s natural gas supply planning, procurement and
12 transportation, gas control and system planning, gas transportation services, and dispatch
13 of the Company’s gas transmission and storage system. My responsibilities include the
14 energy supply activities associated with the Company’s gas cost recovery (“GCR”) and
15 electric power supply cost recovery (“PSCR”) proceedings before the Michigan Public
16 Service Commission (the “Commission” or “MPSC”). I am also responsible for
17 overseeing the Company’s relationship with the Midwest Independent Transmission
18 System Operator (“MISO” or “Midwest ISO”) as a transmission customer and market
19 participant. This includes all MISO activities related to the provision of transmission
20 service and the operation of the MISO Energy Market, including participation in Federal
21 Energy Regulatory Commission (“FERC”) proceedings concerning these matters.

WILLIAM E. GARRITY
DIRECT TESTIMONY

1 Q. Are you a member of any professional organizations?

2 A. I am a registered Professional Engineer in the State of Michigan. In addition, I am a
3 member of the Engineering Society of Detroit, a member of The Institute for Operations
4 Research and Management Science, and a senior member of the Institute of Industrial
5 Engineers.

6 Q. Have you previously testified before this Commission?

7 A. Yes. I testified in Case No. U-13380 concerning wholesale third party sales, summer
8 capacity purchases, and the impact of these sales and purchases on the calculation of
9 stranded costs. More generally, my testimony concerned the market price of power. I
10 testified in Case No. U-14701 regarding the PSCR factor that the Company proposed to
11 implement in January 2006 and the need to implement that PSCR factor. In addition,
12 personnel under my direction have since 1991 been responsible for PSCR, rate case and
13 other regulatory filings and testimony associated with fossil fuel supply. Since 1997,
14 personnel under my direction have been responsible for regulatory filings and testimony
15 associated with fossil fuel supply and purchased and net interchange power. This has
16 included cases associated with the approval of several power purchase agreements (Case
17 Numbers U-13162, U-14626 and U-14892). Since 2003, personnel under my direction
18 have also been responsible for GCR, general rate case, and other regulatory filings
19 concerning the cost and purchase of natural gas.

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

21 A. This testimony is submitted on behalf of Consumers Energy (“Consumers”) in support of
22 its filing regarding the Palisades transaction. This testimony describes the Power
23 Purchase Agreement (“PPA”) which Consumers proposes to enter into with Entergy

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1 Nuclear Palisades, LLC (“Entergy”) as part of the proposed sale of the Palisades Nuclear
2 Plant (“Palisades” or the “Plant”) and provides an assessment of the benefits which will
3 accrue to Consumers’ customers in connection with the PPA. In addition, this testimony
4 reviews the mechanisms for Palisades delivering power into the transmission system and
5 the MISO Energy Market.

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

7 A. Yes. I am supporting the following exhibits:

8 Exhibit A-1 (WEG-1); Palisades Nuclear Power Plant Power Purchase Agreement
9 Between Entergy Nuclear Palisades, LLC and Consumers Energy Company, dated
10 July 11, 2006 (“PPA”)

11 Exhibit A-2 (WEG-2); Palisades Power Purchase Agreement Pricing

12 Q. What was your involvement in the preparation of these exhibits?

13 A. I was personally involved in the drafting and negotiation of Exhibit A-1 (WEG-1).
14 Exhibit A-2 (WEG-2) was prepared under my direction and supervision.

15 Q. How is your testimony organized?

16 A. The remainder of my testimony is organized into the following sections:

- 17 • Power Purchase Agreement;
- 18 • Customer Benefits of the PPA;
- 19 • Operation in MISO, Interconnection and Other Factors; and
- 20 • Conclusions.

21 Q. Please summarize your testimony.

22 A. The PPA with Entergy will provide Consumers’ customers with capacity, energy and
23 ancillary services on terms which offer both lower cost and lower risk than customers

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1 would have under Consumers' continued ownership of Palisades. The PPA provides
2 power at a cost that is approximately \$199 million lower on a present value basis than the
3 costs that Consumers projects it would incur if it continued to own the plant. The PPA
4 prices are stable and are also well-within the range of the Company's market price
5 projections and below the Company's median market price projection. In addition, the
6 PPA achieves significant nuclear ownership and operating risk transfer from Consumers
7 and its customers to Entergy.

8 **Power Purchase Agreement**

9 Q. Please summarize Consumers' objectives in structuring the PPA.

10 A. Consistent with its objectives for the Palisades auction in general, as discussed by
11 Mr. Joos and Mr. Reed, Consumers' principal objectives for the PPA were to:

- 12 • Ensure continued access to all power products from Palisades (capacity, energy and
13 ancillary services) on a long-term, reliable basis,
- 14 • Reduce nuclear ownership and operating risks to the maximum extent possible,
- 15 • Provide long-term price certainty and stability,
- 16 • Maintain or reduce power supply costs for customers as compared to the cost of
17 continued ownership of Palisades by Consumers, and
- 18 • Contribute to overall transaction value (purchase price, PPA terms, and
19 decommissioning fund treatment).

20 Q. Please summarize the characteristics of the PPA that meet these objectives.

21 A. The PPA meets these objectives through the following key characteristics:

- 22 • Unit contingent, performance-based pricing such that all capacity and energy
23 payments are made only for energy delivered;

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- 1 • Pricing levels that are lower than Consumers' anticipated continued cost of Palisades
2 ownership, and which are fixed through the fifteen-year term of the agreement;
- 3 • Economic transfer of nuclear ownership and operating risks to Entergy;
- 4 • Firm replacement power requirements for scheduled outages during the summer
5 months of June, July and August and penalty provisions for failure to provide energy
6 at a 95% capacity factor in July and August;
- 7 • Other contractual provisions which provide incremental protection and greater
8 certainty to customers, such as price shaping to incent Entergy to provide capacity
9 and energy when it is most needed and damages for failure to deliver required and/or
10 scheduled replacement power.

11 Q. What specific services will Consumers procure on behalf of its customers under the PPA?

12 A. The Palisades PPA provides for Entergy to sell and Consumers to purchase the capacity,
13 energy and ancillary services (including reactive power support) at the Palisades
14 substation, which Consumers currently receives today, for the 15-year term of the
15 agreement. The PPA is a unit contingent agreement, whereby Entergy is obligated to
16 provide and Consumers is obligated to accept all of the energy that the Palisades facility
17 is capable of producing, except for certain "Uprate" conditions discussed below. In
18 addition, the PPA preserves for Consumers the potential future value from Plant
19 attributes not currently traded or valued, and also preserves access to all Financial
20 Transmission Rights ("FTRs") associated with the products being purchased. The term of
21 the Palisades PPA starts on the transaction closing date and terminates on the 15th
22 anniversary of that date.

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1 Q. Please describe the provisions regarding the sale and purchase of capacity and energy
2 under the PPA.

3 A. Except for Uprates (discussed below), Consumers will purchase all the capacity and
4 energy available from the Palisades plant beginning as of the date of the sale. The PPA
5 requires that the capacity be qualified as Accredited Capacity, which means that it must
6 satisfy the resource adequacy requirements in Module E of the MISO Tariff and that it be
7 measured in accordance with ECAR Document No. 4¹. The PPA provides that, in order
8 for Entergy to obtain its payment for delivered energy, it must ensure that Consumers'
9 capacity amount from Palisades is Accredited Capacity as recognized by MISO and/or
10 ReliabilityFirst Corporation, or that alternative Accredited Capacity up to the full amount
11 of Buyer's Capacity Amount is otherwise provided.

12 Q. What is "Buyer's Capacity Amount" under the PPA and how does it affect the capacity
13 and energy Consumers receives under the PPA?

14 A. Buyer's Capacity Amount is determined as specified on Exhibit B to the PPA. It
15 essentially corresponds to the capacity of Palisades, which varies seasonally. I want to
16 emphasize that, except for Uprates and Replacement Capacity and Energy, Consumers
17 will purchase and receive all of the capacity, energy and ancillary services the plant can
18 produce regardless of the amounts associated with the Buyer's Capacity Amount
19 (Column D of Exhibit B to the PPA). In the event of an Uprate, Buyer's Capacity
20 Amount will be used to determine Consumers' percentage (Buyer's Entitlement) of the
21 total net output of the plant. Consequently, Consumers' entitlement to the total capacity,
22 energy and ancillary services of the plant is capped by this percentage and not by

¹ ECAR and two other NERC regional reliability councils (MAIN and MAAC) were replaced by ReliabilityFirst Corporation ("RFC") as of January 1, 2006. ECAR Document No. 4 remains applicable for the ECAR companies in RFC.

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1 Column D of Exhibit B². With respect to Replacement Capacity and Energy, Buyer's
2 Capacity Amount is used to establish a limit on the amount of Replacement Capacity and
3 Energy that Entergy may provide and to set a threshold for Derates such that only Derates
4 greater than 5% of Buyer's Capacity Amount trigger the Replacement Capacity and
5 Energy provisions under the PPA.

6 Q. Why was a threshold of greater than 5% of Buyer's Capacity Amount chosen?

7 A. The intent of this threshold amount is to allow a dead-band to accommodate fairly minor
8 fluctuations (i.e., when compared to total system load) in Palisades output. Five percent
9 (5%) of Buyer's Capacity Amount is approximately 40 MW. Generally speaking,
10 utilities of Consumers Energy's and Entergy's size usually consider 50 MW to be the
11 minimum transaction size when buying and selling power in the bilateral wholesale
12 market.

13 Q. Will Consumers be responsible for making a fixed capacity payment to Entergy?

14 A. No, not in any traditional sense.

15 Q. Please explain.

16 A. The PPA has a payment structure that is based on delivered energy. The contract
17 provides to Consumers, however, all of the capacity associated with its entitlement to the
18 facility, and as mentioned above the payments are contingent on both delivery of the
19 energy and on Entergy supplying Accredited Capacity. Today, customers pay certain
20 fixed costs associated with Palisades whether the facility is generating power or not.
21 Under the PPA, customers will not pay such costs if the facility is not delivering energy
22 and Entergy is not providing replacement power.

² In addition, the cap prevents Entergy from having a free "put" to Consumers in the PPA, whereby Entergy unilaterally could put power to Consumers, under the same rates and terms, in the event of an uprate to the plant.

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1 Q. Can you quantify these “avoided” costs?

2 A. Yes. As shown in Mr. Torrey’s Exhibit A-11 (MAT-3), the total fixed costs for Palisades
3 in 2006 rates is approximately \$169 million (i.e., retail base rates plus decommissioning
4 charges). Customers currently pay this amount independent of the output of the Plant.
5 Based on a 2006 projected generation level of 5,764 GWh, this fixed cost amount is
6 equivalent to approximately \$29.35/MWh or 88% of the total average Palisades rate of
7 \$33.45/MWh [Line No. 7, Column (b) on Exhibit A-11 (MAT-3)].

8 Q. Please explain how customer costs would be different under the proposed PPA structure.

9 A. If we were to assume hypothetically that the Plant generated only 70% of its projected
10 2006 output of 5,764 GWh or about 4,000 GWh, today customers would still pay the
11 fixed costs of approximately \$169 million plus variable (primarily fuel) costs of
12 approximately \$16 million, for a total of \$185 million for the Palisades output, plus
13 replacement power costs for the 1,764 GWh not generated by the Plant. Under the PPA
14 pricing structure applied to 2006 rates, customers would only pay for delivered energy
15 under the PPA, which would amount to approximately \$134 million for the Palisades
16 output (this reflects PPA pricing adjusted to 2006 levels), plus the same replacement
17 power costs for the 1,764 GWh not generated by the Plant (this example assumes that
18 Entergy does not supply replacement power). This would represent a cost savings of
19 about \$50 million or 28% compared to the current rate structure.

20 Q. Is Consumers “entitled” to all of the capacity of Palisades even though there is no fixed
21 capacity payment obligation?

22 A. Yes. Consumers is entitled to the output from Palisades, based upon the size and
23 capability of the facility today (approximately 798 MW, subject to seasonal variations).

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1 Entergy has however, retained the right to implement an Uprate (increase) of the capacity
2 of the facility and it can sell the associated Uprate amount to any party, including
3 Consumers.

4 Q. How are Uprates of the Palisades Plant handled under the PPA?

5 A. The PPA defines an Uprate as an increase in the maximum power level at which the plant
6 may operate under its NRC license or an increase obtained as a result of the replacement
7 or modification of the plant's moisture-separator reheaters. All such Uprates are the
8 exclusive property of Entergy. Aside from these two types of upgrades, however,
9 Consumers has the rights to all capacity and associated energy from the plant. To
10 determine the amount of an Uprate, a capacity test of the plant will be conducted and
11 compared to the most recent capacity test conducted prior to the upgrade event (such tests
12 are required at least annually under the PPA). The pre-upgrade event test is then divided
13 by the post-upgrade event test to arrive at Consumers' percentage (Buyer's Entitlement)
14 of all future capacity and energy supplied and delivered under the PPA.

15 Q. Does that mean that all increases in Palisades output inure to the benefit of Entergy?

16 A. No. The normal fluctuations in capacity and associated energy output and changes in
17 electrical efficiency that may impact energy output, including increases that result from
18 O&M and normal capital expenditures and electrical efficiency improvements are
19 captured under the PPA for Consumers and its customers.

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1 Q. How will the sale of the Palisades plant to Entergy and the purchase of capacity and
2 energy under the PPA (i.e., “Sale and Buyback”) affect Consumers’ capacity and energy
3 rights relative to such rights prior to the sale?

4 A. Consumers retains all of the current capacity and energy associated with Palisades.
5 Except for Uprates as discussed above, Consumers will be able to continue to claim all
6 the capacity available from the plant and receive all the energy generated by the plant in
7 the same manner and to the same extent as it did prior to the Sale and Buyback.

8 To the extent an Uprate is implemented by the new owner, it is likely that Entergy
9 would offer this additional power to Consumers, at least initially, simply as a matter of
10 expediency. Consumers is a likely buyer since the facility is located inside Consumers'
11 sub-control area, and if a mutually agreeable arrangement can be negotiated, there is
12 nothing precluding Consumers from purchasing the potential additional capacity and
13 energy if it is prudent and economic to do so.

14 Q. If “normal fluctuations” in capacity level are permissible under the PPA, is Consumers at
15 risk of Entergy not maintaining plant capacity?

16 A. Since Entergy’s only revenue stream is based on delivered energy, it has every reason to
17 maximize capacity and capacity factor under the PPA.

18 Q. Please explain the components of “delivered energy.”

19 A. Delivered Energy is defined as the sum of Buyer’s Entitlement of Net Energy Output of
20 the Palisades facility plus Replacement Energy, and is the basis for the payment of
21 capacity and energy charges at PPA rates. Net Energy Output is defined as the total
22 energy output of the facility, less station service load, measured at the Delivery Point.
23 The Delivery Point under the PPA is the MISO commercial pricing node (“CPNode”) for

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1 the Palisades plant (MISO operations, station service and the interconnection aspects of
2 the PPA are discussed in the third section of my testimony). When the Palisades plant is
3 not operating or is derated, Entergy can under certain circumstances and subject to certain
4 restrictions, elect to provide replacement power from another source or sources at the
5 rates set in the PPA. Replacement power is discussed in more detail below.

6 Q. Is it possible under the PPA, for Entergy to sell the power to another party if it determines
7 that the market price is higher than the PPA prices?

8 A. No. The PPA is very explicit relating to the purchase and sale obligations of both
9 Entergy and Consumers. Sections 2.1 and 2.2 of the PPA make it quite clear that for each
10 product the Seller shall sell and supply to Buyer and Buyer shall accept and purchase
11 from Seller the power from Palisades. Except with respect to an Uprate, all energy and
12 capacity from Palisades must be sold to Consumers by Entergy. Similarly the Company
13 must take and pay for all the power delivered.

14 Q. Please describe the Replacement Capacity and Energy provisions under the PPA.

15 A. During Summer Maintenance Outages, Entergy is required to provide Replacement
16 Capacity and Energy for the duration of the outage. During other periods, Entergy has
17 the option of providing Replacement Capacity and Energy whenever the Palisades plant
18 suffers a Derate of more than 5% of Buyer's Capacity Amount. Notice of Entergy's
19 election is required within two business days after a forced or unexpected outage and two
20 business days prior to any scheduled outage. With respect to forced outages during
21 months other than July and August, Entergy has the further option of providing
22 Replacement Capacity and Energy on a weekly basis or for the expected duration of the
23 outage. During July and August, Replacement Capacity and Energy must be provided for

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1 the expected duration of the outage. If Entergy is required to provide Replacement
2 Capacity and Energy or elects to do so at its option as provided under the PPA, and then
3 fails to perform, Entergy will be obligated to pay liquidated damages to Consumers. In
4 the event that Entergy provides replacement energy to an alternate delivery point, the
5 PPA requires that Entergy also pay any increased costs (incremental transmission costs,
6 congestion charges, ancillary service charges, etc.) associated with that replacement
7 energy, thereby keeping Consumers cost neutral as compared with power generated at
8 Palisades.

9 Q. Since there are conditions in which Entergy has the option of providing or not providing
10 Replacement Capacity and Energy, what inducements does Entergy have to prevent it
11 from only supplying replacement power when market prices are low (i.e., below the PPA
12 rates)?

13 A. The PPA provides that Replacement Capacity and Energy must be provided either
14 weekly or for the duration of the outage or Derate. Consequently, Entergy will not be
15 able to select only off-peak periods (e.g., nights or weekends) to provide replacement
16 power during a Derate, and the weekly minimum requirement will make it difficult to
17 predict market prices that far in advance.

18 Q. Can Entergy elect to provide only Replacement Capacity or Replacement Energy; i.e., as
19 individual products?

20 A. No. Although Entergy may provide Replacement Capacity from an accredited generation
21 resource that differs from the source of the delivered energy, both Replacement Capacity
22 and Replacement Energy must be provided simultaneously for Entergy to receive
23 payment under the PPA.

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1 Q. Will Consumers retain the rights to ancillary services from Palisades and any revenues
2 associated with ancillary services?

3 A. Yes. Consumers' purchase of capacity and energy under the PPA will also include the
4 purchase of all ancillary services associated with that capacity and energy. Consumers
5 does not pay any charge specifically for ancillary services but rather these services are
6 included within the capacity and energy pricing in the PPA. Ancillary services are
7 defined as those available from the Palisades Plant today, specifically, reactive power,
8 regulation and frequency response service. If Entergy fails to provide Consumers with
9 the ancillary services associated with the Palisades plant, Entergy is required to reimburse
10 Consumers for any cost or penalty incurred as a result of such failure. In addition, if an
11 ancillary services market exists at the time of such failure, Entergy must reimburse
12 Consumers for the market value of such ancillary service that exceeds such cost or
13 penalty.

14 Additionally, if during the term of the PPA a change in law or regulation causes
15 any other capability or attribute of Palisades to have a market value, Consumers is
16 entitled to 100% of the value of those future attributes for the first ten years of the PPA.
17 For the remaining term of the PPA Consumers and Entergy will share 50/50 in the value
18 of such "future attributes." These provisions ensure that Consumers' customers will
19 enjoy the operational and economic benefits of all attributes that Palisades is capable of
20 producing today through the first ten years of the PPA and have the opportunity to share
21 equally in the value of any future attributes for the remaining term of the PPA.

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1 Q. How do the billing and payment provisions of the PPA compare to other Consumers'
2 power purchase agreements?

3 A. The billing and payment provisions of the PPA are very similar to those of the PURPA
4 PPAs that Consumers has with non-dispatchable Qualifying Facilities ("QFs"). Both
5 have capacity and energy products that are priced on a \$/MWh basis and paid on a
6 delivered energy basis. Both rely on billing statements issued shortly after the end of
7 each billing cycle and both provide for billing on an estimated basis in the event of meter
8 malfunctions. The primary differences, which are not significant, are (1) the PURPA
9 PPAs require the QFs to pay an administrative charge, while the Palisades PPA does not,
10 (2) the Palisades PPA includes a Peak Adjustment Payment related to summer capacity
11 factor performance, while the PURPA PPAs do not have any comparable provision,
12 (3) the Palisades PPA includes provisions for billing disputes, while the PURPA PPAs do
13 not, and (4) the Palisades PPA includes a two-year limit on challenges to billing
14 statements, while the PURPA PPAs do not.

15 **Customer Benefits of the Power Purchase Agreement**

16 Q. Please summarize the economic benefits of the PPA pricing provisions.

17 A. Over the fifteen-year term, we estimate that the PPA pricing will provide approximately
18 \$199 million in present value savings to our customers compared to what costs are
19 expected to be if Consumers continued to own and Nuclear Management Company
20 ("NMC") continued to operate the plant. This represents a total nominal dollar savings of
21 approximately \$702 million over the fifteen-year term.

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1 Q. Please explain how these estimated savings were calculated.

2 A. The Company calculated its estimated cost of continued ownership (“CCO”) assuming no
3 degradation of NMC or plant performance. Both a “raw” CCO, which is the actual CCO
4 projected for each individual year, and a “smooth” CCO, which smoothes variations in
5 the CCO over the fifteen-year period to absorb cost spikes and eliminate the volatility of
6 the “raw” CCO³, were calculated. The detailed derivation of the CCO is discussed in
7 Mr. Reed’s testimony. The present value of annual costs under the PPA is \$199 million
8 less than the present value of the annual costs under the CCO, which represents
9 \$199 million in customer savings. The result of the calculation is the same whether the
10 “raw” or “smooth” CCO is used since both CCOs have the same present value. The
11 yearly PPA prices in \$/MWh are contained in Exhibit 1 of the PPA. The annual PPA unit
12 prices and CCO unit values are shown graphically in Exhibit A-2 (WEG-2).

13 Q. Please explain Exhibit A-2 (WEG-2).

14 A. Exhibit A-2 (WEG-2) shows four trend lines expressed in \$/MWh over the fifteen-year
15 term of the PPA: the “raw” CCO, the “smooth” CCO, the PPA price, and the Company’s
16 median market price projection.. As the chart shows, the PPA prices for four of the
17 fifteen years are higher than the “raw” CCO, but are always below the “smooth” CCO.
18 The PPA prices are also below the Company’s median market price projections
19 (discussed later in my testimony).

³ The “smooth” CCO is a real levelized value for the continued cost of ownership. It is calculated by setting the 2007 price (in \$/MWh) to a level which, when escalated at an annual rate of inflation of 2.5% per year yields a present value (using a pre-tax cost of capital discount rate of 9.17%) equal to the present value of the “raw” CCO over the 15-year term of the PPA discounted at the same rate.

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1 Q. Could the CCO be higher than the projection you are showing?

2 A. Yes. As I mentioned, the CCO has been developed assuming no degradation of NMC or
3 plant performance from the levels achieved over the past few years. With the uncertainty
4 in NMC's future viability and the issues that could arise if Consumers were to operate
5 Palisades on its own, there is clearly a risk that the CCO could be significantly higher
6 under a continued ownership scenario. The sale of Palisades and the PPA transfers that
7 risk from Consumers' customers to Entergy.

8 Q. Does the CCO include both capacity and energy components, and is therefore directly
9 comparable to the PPA price?

10 A. Yes. The CCO includes the all-in cost of continued operation per MWh delivered. This
11 includes all fixed costs, O&M expenses and fuel costs and reflects all of the components
12 that would encompass capacity and energy.

13 Q. Please provide an overview of the pricing provisions of the PPA that provide benefits to
14 customers.

15 A. The PPA pricing structure locks in prices that are lower than the levelized projected
16 continued cost of ownership and shifts to a "pay for performance" based contract.
17 During the term of the PPA, Entergy is obligated to supply, and Consumers is obligated
18 to take, all capacity and energy from the Palisades Plant, exclusive of certain Uprates
19 above the Plant's presently specified physical capacity. When the plant is not operating
20 or is derated, Entergy can, under certain circumstances and restrictions, elect to provide
21 replacement power from another source at the rates set in the PPA. However, Consumers
22 is only obligated to pay Entergy for capacity and energy actually delivered by Entergy
23 either from the Plant or from an allowable replacement source arranged by Entergy. If

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1 Entergy schedules a plant outage in June, July or August, Entergy is required to provide
2 replacement power at PPA rates. There are significant monetary penalties incurred by
3 Entergy if the delivered energy fails to achieve a minimum 95% capacity factor level
4 during July and August. These pay-for-performance mechanisms incorporate economic
5 incentives and penalties that will motivate Entergy to maintain and improve Plant
6 performance and energy levels, and thus provide benefits to customers.

7 Q. Please review and highlight the most significant customer benefits of the PPA within the
8 context of the overall transaction.

9 A. First, the PPA transfers virtually all ownership and operating risk from customers and
10 Consumers Energy to Entergy, offering price protection from under-performance or long-
11 term outages. Second, Consumers and its customers reap the benefits of stable and
12 predictable power costs, and of potential improved performance at Palisades based on
13 Entergy's fleet performance and national reputation as one of the premier operators of
14 nuclear power plants in the country.

15 Q. What happens if Palisades is not running at full capacity?

16 A. In that event, either Entergy will replace the capacity and energy (at PPA rates) or
17 Consumers avoids the shaped payment it otherwise would make to Entergy, and
18 Consumers replaces the power. In addition, if delivered energy from Palisades and
19 allowable replacement sources fails to meet a 95% capacity factor threshold level for July
20 and August, Entergy pays a penalty of \$20/MWh for the shortfall.

21 Q. Please explain more fully what you mean by the term "shaped" payment.

22 A. Exhibit C of the PPA specifies shaping factors that apply to the total \$/MWh charge and
23 its components. These shaping factors generally reflect the market value of power and

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1 are designed to achieve two goals. First, by shaping the revenue stream for the new
2 owner, Consumers has provided significant economic incentives for Entergy to ensure
3 top performance when the Company most needs the power; the peak months and hours
4 when both the demand and market prices tend to be high. Second, the shaped payment
5 means that Consumers' "avoided cost," (i.e., revenue not paid when Palisades fails to
6 produce), provides a better offset to likely replacement power costs.

7 Q. Can you give an example?

8 A. Yes. During 2014, the eighth year of the contract the average price per MWh delivered is
9 \$50. However, because of the shaping factors for each MWh that Entergy delivers during
10 an off-peak hour of an off-peak month such as March, Consumers only pays
11 \$33.75/MWh. Conversely, for an on-peak hour during an on-peak month such as July
12 Consumers pays (or avoids if the power is not delivered) \$75/MWh.

13 Q. Does this mechanism provide beneficial incentives for short-duration maintenance
14 outages?

15 A. Yes. If, for example, the Plant needs to take a short maintenance outage or derate for
16 minor repairs and there is discretion as to exact timing of the repair, the shaping factors
17 will incent Entergy to schedule the maintenance to occur as much as possible during the
18 most beneficial off-peak periods (nights and weekends and the months with the lowest
19 off-peak shaping factors).

20 Q. Does the PPA provide additional protection against failure to deliver on-peak?

21 A. Yes. As mentioned previously the contract also includes a "Peak Adjustment Payment",
22 defined in Exhibit G of the PPA, which provides the Company with a supplemental
23 payment if Entergy does not meet a 95% performance level (referred to as the Target

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1 Capacity Factor in Exhibit G of the PPA) in July and August. The payment is equal to
2 \$20/MWh applied to the total shortfall. The 95% performance level was chosen to
3 accommodate minor derates and Plant output fluctuations due to extremely warm weather
4 conditions. In addition, all replacement power provided by Entergy during July and
5 August is subject to liquidated damages for non-delivery.

6 Q. How was this level of damages developed and does it provide sufficient protection?

7 A. Besides the fact that customers will not pay PPA rates for power not delivered by Entergy
8 during July and August, the Peak Adjustment Payment is an additional contract term
9 designed to ensure economic alignment between the parties and provide a partial offset to
10 any replacement power costs. It reinforces the financial determination that strong
11 performance in summer months is important to the Company and its customers.

12 Q. Can you provide a real world example of how these protections might help Consumers
13 and its customers?

14 A. Yes. The most recent vivid example would be the seven-month forced outage Palisades
15 experienced from June 20, 2001 through January 21, 2002 to make control rod drive
16 repairs. If that same outage were to occur today, customers would pay Palisades fixed
17 costs in current rates (exclusive of incremental costs associated with the outage) plus
18 replacement power costs. Replacement power costs have been estimated based on
19 average MISO Locational Marginal Prices for the Michigan Hub⁴. If the Company had
20 this PPA in place, either: (1) Entergy would replace the power, or (2) Consumers would
21 pay only for delivered MWh (which would be zero for the outage period) plus
22 replacement power costs, and would receive a credit for the July and August shortfall

⁴ The average day-ahead MISO LMP for the Michigan Hub from April 2005 (the start of the Midwest Energy Market) through July 2006 is \$50.21/MWh.

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1 under the peak adjustment payment provisions. The resulting cost savings to customers
2 under the PPA structure compared to current rates is shown in the following table:

3

Customer Impact for a Seven-Month Palisades Outage (\$ Millions)					
Scenario	Fixed Cost	Replacement Power Cost	PPA Cost	Total Cost	Savings From Current Rates
Current Rates	\$99	\$205	\$0	\$304	\$0
<u>PPA in Place</u>					
Entergy Provides Replacement Power	\$0	\$0	\$177	\$177	\$126
Entergy Does Not Provide Replacement Power	\$0	\$205	(\$22)	\$183	\$121

4
5
6
7
8

9 Depending on whether Entergy chooses to replace the power or not, customer savings
10 with the PPA would be approximately \$120 million compared to current rates, or about a
11 40% reduction. Customers would also be insulated from the incremental O&M and
12 capital costs incurred during and as a result of the outage.

13 Q. How do Consumers' capacity rights and Entergy's capacity obligations differ from
14 Consumers' current situation as owner of Palisades?

15 A. The terms of sale affecting capacity provide Consumers' customers with full rights to
16 Palisades' base capacity just as the Company has today. However, since Entergy must
17 deliver and sell all energy to Consumers, and since Consumers only pays for that
18 delivered energy if it also has accredited capacity, the PPA offers significant economic
19 protection against the loss of accredited capacity. Today, if Palisades' accredited
20 capacity is reduced for any reason, Consumers and its ratepayers must still bear all of
21 Palisades' fixed costs and additionally the Company needs to acquire replacement
22 resources. This results in a risk of "paying twice" for that capacity under the Palisades
23 ownership model, which is eliminated through the PPA.

WILLIAM E. GARRITY
DIRECT TESTIMONY

1 Q. Please describe some of the other features of the PPA which provide operational
2 advantages to Consumers' customers?

3 A. In addition to the pay for performance structure, the shaped payment and Peak
4 Adjustment Payment, the PPA contains a number of other provisions which provide
5 specific performance standards and protection, including:

6 • Protections on scheduled maintenance such that it cannot be scheduled for the
7 peak summer months of June, July and August unless Entergy replaces all potential output at
8 PPA rates. If Entergy fails to schedule or deliver the required replacement power, Entergy is
9 subject to paying liquidated damages to Consumers.

10 • Entergy is required to pay any taxes applicable to the PPA sale of capacity,
11 energy and ancillary services prior to the delivery point.

12 • Consumers is entitled to all Financial Transmission Rights or other rights and
13 benefits from the transmission provider associated with the products provided under the PPA.

14 • Economic protection and PPA preservation during events of Force Majeure.
15 Entergy can provide replacement power if it so chooses during a Force Majeure event.
16 Otherwise, Consumers would have to purchase replacement capacity and energy on its own
17 just like it would today. A Force Majeure event cannot be grounds for termination of the
18 PPA or to extend the term of the PPA. Suspension of performance due to a Force Majeure
19 event is limited to one year, unless Entergy provides a detailed plan for the remedy of the
20 Force Majeure.

WILLIAM E. GARRITY
DIRECT TESTIMONY

1 Q. Are there other features of the PPA, which provide protection for Consumers' customers?

2 A. Yes. The PPA contains a number of other provisions that provide specific contractual
3 protections including:

- 4 • Default Provisions (PPA Section 7.1)
- 5 • Seller's Security (PPA Section 7.2(a))
- 6 • Insurance (PPA Section 15.1)

7 Q. Under what conditions can the PPA be terminated prior to the full fifteen-year term?

8 A. There are three conditions that can result in early termination of the PPA:

- 9 1. The occurrence of certain default events as specified in PPA Section 7.1.
- 10 2. If the Nuclear Regulatory Commission does not grant the application for extension of
11 the Palisades Plant's operating license, in which case the PPA terminates upon
12 expiration of the existing license.
- 13 3. If Entergy determines that operation of the Plant has become materially and
14 economically adverse such that continued operation is no longer feasible, prudent
15 and/or sustainable and provides Consumers with twelve-months written notice.

16 Q. Please explain the last condition.

17 A. This condition is in effect no different than what Consumers would face if it continued to
18 own the Plant and encountered similar highly adverse conditions to continuing
19 operations. For example, this could occur as the result of serious generic problems or
20 events at other nuclear plants resulting in new and onerous regulatory requirements.

21 Q. How would power from Palisades be replaced if the contract is terminated early?

22 A. It would initially be replaced from a combination of other internal resources and market
23 sources and then from a comprehensive capacity and energy resource plan.

WILLIAM E. GARRITY
DIRECT TESTIMONY

1 Q. What will happen after the PPA is concluded at the end of the planned fifteen-year term?

2 A. There are a number of potential options. It may be possible to re-contract with Entergy,
3 contract with other power suppliers, rely on MISO (or the then existing market
4 mechanism), utilize new generating resources, or a combination of these alternatives.
5 We expect to be able to provide capacity and energy from new resources or existing
6 market resources at competitive rates.

7 Q. How do the PPA rates compare with market prices?

8 A. As illustrated in Exhibit A-2 (WEG-2), our median projection of future market prices
9 exceeds the PPA prices in all years of the agreement by between approximately \$8/MWh
10 and \$15/MWh.

11 Q. How was the median market price projection developed?

12 A. Our median market price projection was developed based on the June 2006 release of the
13 Platts Power Outlook, in conjunction with NYMEX prices for natural gas and electricity
14 and the cost of capacity.

15 Q. How does Consumers intend to recover the costs incurred under the PPA from
16 customers?

17 A. As described in more detail in the testimony of Mr. Torrey, these costs will be recovered
18 through the Power Supply Cost Recovery ("PSCR") process in the same manner that all
19 other power purchase agreement costs are recovered. As part of the PSCR process, a
20 credit will be given to customers for the costs attributable to Palisades that are currently
21 embedded in customer base rates. This will also be addressed in the 2007 PSCR plan
22 case and reflected in the recommended PSCR factor in that case. This ratemaking

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DIRECT TESTIMONY

1 treatment is similar to how transmission costs were treated when they became approved
2 PSCR expenses as a result of the Consumers' sale of the transmission system.

3 Q. Mr. Torrey identifies several potential uses for some of the proceeds from the Palisades
4 transaction. One of those potential uses is to "buy-down" PPA costs during the initial
5 years of the contract. Do you have a specific proposal to implement this suggestion?

6 A. Yes. I suggest that the Commission consider utilizing \$100 million of the proceeds from
7 the transaction (i.e., from the "net proceeds available at close" shown on Mr. Torrey's
8 Exhibit A-12 (MAT-4)) to reduce PSCR costs during the 2007-2009 period. This amount
9 would be returned to customers over this three year period in the following amounts.

2007	\$44 Million
2008	\$41 Million
2009	<u>\$15 Million</u>
Total	\$100 Million

14 This would be the rough equivalent of reducing the \$/MWh charge specified in Exhibit A
15 of the PPA in the manner shown in the following table:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
PPA Rate		\$43.50	\$44.00	\$44.50	\$45.75
Customer Rate	\$33.45 ⁵	\$34.25	\$37.75	\$41.75	\$45.75

⁵ From Exhibit A-11 (MAT-3) Line 7, 2006 Rates.

WILLIAM E. GARRITY
DIRECT TESTIMONY

1 Q. Mr. Wawro testifies that the CCO model was based upon an assumed capacity factor of
2 86.42%. If Entergy is able to operate Palisades at a higher capacity factor, would
3 Consumers be disadvantaged?

4 A. No. If under the PPA more power is available to Consumers at the fixed and reasonable
5 prices that have been established under the PPA, our market price projections show that
6 the PPA price would be considerably below market. This would provide a capacity and
7 energy benefit compared to other power purchases from the market.

8 Q. Can you provide another example of this market comparison?

9 A. Yes. Since the MISO Energy Market was established in April 2005, the overall average
10 to-date day-ahead LMP for the Michigan Hub has been approximately \$50 per MWh.
11 The initial 2007 PPA price of \$43.50/MWh is 13% below this MISO market price and
12 provides not only energy at that price but accredited capacity and ancillary services as
13 well. I would also note that when performance drops today, Consumers is at risk for
14 market price swings, as well as congestion and losses associated with replacement power.
15 Increased deliveries under the PPA would help to mitigate this risk.

16 Q. Are you concerned that the PPA does not cap Entergy's total potential revenue at the
17 CCO?

18 A. No. Among the risks that Consumers intends to eliminate through this transaction are the
19 risks associated with unforeseeable and unexpected increases in the cost of fuel, the costs
20 associated with O&M expenses, the cost of unplanned capital repairs and improvements
21 and some portion of the cost of replacement capacity and energy related to
22 unplanned/forced outages, as well as the specific risks associated with nuclear power
23 generation in general. Consumers wishes to avoid unforeseeable volatility in its costs

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DIRECT TESTIMONY

1 associated with nuclear generation, and believes that customers are also benefited by
2 protections from this volatility and uncertainty as well. As a result, long-term fixed
3 pricing for both capacity and energy and the associated performance protections
4 incorporated into the PPA are benefits to Consumers and its customers, not a detriment.
5 Under the PPA, Entergy is assuming nearly all of the risk that Consumers and its
6 customers are no longer assuming at a cost that is significantly lower than the Company's
7 projected cost of continued operation. If Entergy is able to extract incremental benefits
8 through superior operating performance, this represents a prudent and mutually beneficial
9 contractual arrangement.

10 Q. Can Entergy supply Consumers replacement power only in those hours when the PPA
11 price is above the market and leave Consumers to replace during the highly volatile peak
12 hours of the day?

13 A. No, not on an hourly basis. As defined more particularly in Section 2.4 of the PPA,
14 Entergy must elect to replace or not replace on a weekly basis (or shorter if the shorter
15 period represents the entire outage or derate period). This contract feature was developed
16 to avoid just this type of gaming and to allow the Company a reasonable period for
17 planning its replacement resources.

18 **Operation in MISO, Interconnection and Other Factors Associated with the PPA**

19 Q. What is the purpose of this section of your testimony?

20 A. This section is intended to address how Palisades and the PPA will operate in the MISO
21 Energy Market, describe various interconnection and interconnection-related aspects of
22 the PPA and overall sale transaction, and summarize other factors associated with the
23 PPA not covered in the previous two sections of my testimony.

WILLIAM E. GARRITY
DIRECT TESTIMONY

1 Q. Please describe how the PPA will function in the MISO Energy Market.

2 A. Under the PPA structure, Entergy will offer the unit each day into the MISO Day-Ahead
3 market as a must-run resource with its minimum dispatch level set no lower than the
4 unit's expected output (PPA Exhibit H specifies the current MISO scheduling
5 procedures). In order to qualify as Accredited Capacity, Module E of the MISO Tariff
6 requires that the capacity be offered into the market. As a result, Consumers can claim
7 the Palisades Plant as a Designated Network Resource ("DNR") under MISO's Tariff and
8 transmit the power to Consumers' customer load using network transmission service. In
9 addition, the PPA requires that Consumers and Entergy enter into a Financial Bilateral
10 Transaction ("FBT") under MISO's Tariff to effect delivery of the Plant's net energy
11 output (and/or replacement energy, if applicable) to Consumers at the MISO commercial
12 pricing node ("CPNode") for the Palisades Plant. An FBT transfers the financial
13 responsibility for energy between buyers and sellers for the transfer of energy within and
14 across MISO. In this particular case, financial responsibility with respect to receiving
15 LMP payments from MISO for energy injected at the Palisades' CPNode is transferred
16 from Entergy to Consumers.

17 Because MISO allows FBTs to be submitted up to six days after the transaction
18 day, the parties will be able to use actual meter readings to create the delivery schedule
19 under the FBT. As a result, Consumers will be paid the day-ahead Locational Marginal
20 Price ("LMP") associated with the CPNode by MISO. This LMP payment to Consumers
21 will be offset with the LMP payment that Consumers is required to pay to MISO to serve
22 its load. Consumers will pay Entergy the capacity and energy charges specified under the

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DIRECT TESTIMONY

1 PPA based on actual meter readings. Thus, with respect to function under the MISO
2 Energy Market, the end result will be essentially the same situation that exists today.

3 Q. How does the transaction with Entergy differ with respect to MISO compared to
4 Consumers' Palisades obligations before the Sale and Buyback?

5 A. Currently, Consumers offers Palisades into MISO's Day-Ahead market as a must-run
6 facility. This offer includes Consumers' estimate of Palisades' net output for the
7 following day. As a result, Consumers is paid the Day-Ahead LMP associated with the
8 Palisades' CPNode and Consumers' energy estimate. If Consumers' estimate matches
9 the actual net output on the operating day, no further payments or charges result from
10 Palisades' operation for that day.

11 However, if Consumers' estimate differs from the actual net output, then
12 Consumers will either receive revenue or make a payment depending on the value of the
13 hourly Day-Ahead and Real-Time LMPs for the Palisades' CPNode and whether the
14 estimate is greater or lower than actual. After the Sale and Buyback, the market risks
15 associated with these differences will not apply to Consumers and Consumers'
16 customers.

17 Q. Please describe how the PPA shields customers from transmission-related cost risks if
18 Entergy provides replacement energy at a location other than at the Palisades' CPNode?

19 A. The PPA provides that Entergy may provide replacement energy at any of the following
20 alternate delivery points at its option: (1) a CPNode located within the Michigan Electric
21 Transmission Company's sub-control area, or (2) the CPNode corresponding to
22 Consumers' load zone. However, if Entergy chooses to deliver replacement energy at an
23 alternate delivery point, Entergy is responsible for any additional costs (including LMP

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DIRECT TESTIMONY

1 differentials, transmission costs, imbalance penalties, congestion charges, etc.) incurred
2 by Consumers relative to the costs that would have been incurred if the power had been
3 delivered at the Palisades CPNode.

4 In addition, the PPA provides that Consumers is entitled to all Financial
5 Transmission Rights or other rights and benefits provided by the transmission provider
6 (MISO) that are associated with the capacity, energy and ancillary services provided
7 under the PPA.

8 Q. What are the likely effects on Consumers' resource plan resulting from this PPA?

9 A. This PPA preserves Palisades as a fully viable capacity resource for Consumers and its
10 customers at the same capacity level that is utilized in current resource planning and
11 reserve margin assessments. For planning and assessment purposes, this capacity will be
12 treated no differently than other owned generating resources or other power purchase
13 agreements that include capacity.

14 Q. Please describe any impact to system reliability stemming from acquisition of the
15 Palisades output through a PPA rather than as the Plant owner.

16 A. There are no system reliability impacts. Consumers is entitled to all capacity and energy
17 from the Plant, exclusive of Uprates above the Plant's presently specified physical
18 capacity. While an Uprate is not something that Consumers was planning, or is counting
19 on, any additional generation would contribute to reliability and resource adequacy in the
20 region.

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DIRECT TESTIMONY

1 Q. What are the interconnection-related items that you intend to address in this section?

2 A. I will address interconnection to the transmission system, certain aspects of the Large
3 Generator Interconnection Agreement (“LGIA”) associated with this transaction, and
4 station power requirements.

5 Q. How does power from the Palisades Plant actually reach Consumers’ customers?

6 A. The Plant is connected to interconnection facilities on the Plant site which connect to the
7 transmission facilities owned by the Michigan Electric Transmission Company
8 (“METC”). The METC transmission system is connected to Consumers’ electric
9 distribution system for the ultimate distribution of power to our customers.

10 Q. Is the Plant connection to the transmission system governed by the PPA between Entergy
11 and Consumers?

12 A. No. Prior to closing the transaction, METC, MISO and Entergy will enter into an LGIA
13 for the purpose of interconnecting the Palisades Plant to the transmission system. Under
14 the MISO rules, the power delivered by Palisades to the transmission system can be
15 deemed delivered to and credited to the account of Consumers for the purposes of
16 meeting its capacity and load serving obligations.

17 Q. Are there ties between the PPA and LGIA?

18 A. Yes. The PPA is tied to the LGIA in three ways: (1) The Delivery Point in the PPA is
19 defined as the CPNode associated with the interconnection point specified in the LGIA;
20 (2) The Reactive Power capabilities of the Palisades Plant which belong to Consumers
21 pursuant to Section 2.8 of the PPA are identified in the LGIA; and (3) If the information
22 and supervisory, control and data acquisition (“SCADA”) requirements of the PPA are

WILLIAM E. GARRITY
DIRECT TESTIMONY

1 substantially similar to those required by the LGIA, then only those required by the LGIA
2 will be provided to Consumers.

3 Q. How is reactive power handled under the PPA, and is it different than how it is handled
4 today?

5 A. The PPA requires that (i) the Palisades Plant be operated in a manner that maintains the
6 output voltage or power factor at the interconnection point to the transmission as
7 provided in the LGIA, and (ii) Entergy maintain the reactive power capability at levels
8 specified in the LGIA. Entergy has no rights to the reactive power production or
9 absorption capabilities of the Plant, but Entergy may alter such capabilities if approved
10 by the applicable governing authority (e.g., MISO). The net effect of the PPA provisions,
11 however, is that the transmission provider controls the handling of reactive power from
12 the Plant, and that is no different than the situation today.

13 Q. How is station service load treated under the PPA?

14 A. Entergy may satisfy its station service requirements using energy generated by Palisades
15 when Palisades is operating and/or, under applicable MISO rules, when Palisades is net-
16 positive in a calendar month. As noted above in the calculation of net energy output,
17 station service load will be netted against total energy output. This “netting” of station
18 service load is consistent with FERC practice. When Palisades is neither operating nor
19 deemed net-positive by MISO for the applicable period, Entergy is responsible for
20 obtaining station service load, including transmission, at its cost. The LGIA also
21 specifies that Entergy will be responsible for obtaining station power and offsite power.

WILLIAM E. GARRITY
DIRECT TESTIMONY

1 Q. What commitments for station power and offsite power has Entergy made?

2 A. Entergy will make all arrangements necessary for the purchase of energy for the
3 operation of Palisades for station service, back-up and outage power when it is not self-
4 supplying such energy.

5 Q. How will black-start capability be supplied?

6 A. The LGIA requires that Entergy specify the specific unit or units designated to provide
7 black-start capability for Palisades. As a condition to closing the overall transaction,
8 Entergy and Consumers will enter into an agreement satisfying the applicable NRC
9 Licenses and operating requirements providing energy from the Consumers Energy
10 Ludington Pumped Storage Facility (“LPS”) to Entergy at the transmission
11 interconnection point for the LPS. In addition, under the LGIA, MISO and METC are
12 required to implement their black-start plan or system restoration plan in the event of a
13 transmission system interruption or disruption that affects Palisades’ receipt of offsite
14 power. This could involve other generating units besides the LPS as sources for black-
15 start capability for Palisades depending on the condition of the transmission system and
16 associated generating units.

17 Q. Please explain the assignment provisions contained in the PPA.

18 A. In general, neither party can assign the PPA without the prior written consent of the other
19 party. The PPA does allow assignment to an affiliate without the consent of the other
20 party if the assignee can demonstrate financial strength or credit support no worse than
21 that of the assignor and that any existing security requirements are maintained to the
22 satisfaction of the non-assigning party. In addition, if an assignment is made to an
23 affiliate, the assignor is not released from any obligations under the PPA.

WILLIAM E. GARRITY
DIRECT TESTIMONY

1 Q. Please explain the tax sharing provisions contained in the PPA.

2 A. The PPA contains a provision that addresses a situation that could arise if Entergy is
3 singled out for unfavorable tax treatment due to its acquisition of nuclear facilities in the
4 State of Michigan. To the extent Entergy is made subject to a tax that is not otherwise
5 generally imposed upon electric generating facilities, 50% of the tax can be flowed to
6 Consumers Energy. This same sharing provision applies with respect to 50% of any
7 incremental real property taxes on the Big Rock Independent Spent Fuel Storage
8 Installation, to the extent such taxes exceed \$50,000 (which is subject to an annual
9 escalation adjustment). The parties concluded that the PPA was a more convenient
10 vehicle to address this issue than creating another separate agreement. To the extent any
11 such costs are incurred by Consumers Energy under the PPA, the Company intends to
12 include them in its PSCR filings.

13 **Conclusion**

14 Q. Please summarize your perspective on the key aspects and benefits of the PPA.

15 A. The key aspects and benefits of the PPA are as follows:

- 16 • Maintains continued access to Palisades capacity and energy on a long-term, reliable
17 basis.
- 18 • Significantly reduces nuclear ownership and operating risks to customers.
- 19 • Obtains Entergy's significant experience with nuclear plants, fleet operations and
20 economies of scale to optimize performance.
- 21 • Provides long-term price certainty and stability under performance-based pricing such
22 that all capacity and energy payments are made only for delivered energy, protecting
23 customers during periods of poor performance, should they occur.

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DIRECT TESTIMONY

- 1 • Reduces power supply costs to customers by \$199 million present value compared to
- 2 the cost of continued ownership of Palisades by Consumers and operation by NMC.
- 3 • Firm replacement power requirements (including liquidated damages) for scheduled
- 4 outages in the peak summer months and penalty provisions for failure to provide
- 5 energy at a 95% capacity factor in July and August.
- 6 • Consumers and its customers retain any future tradable attributes that may become
- 7 available to the Palisades Plant through the tenth year of the PPA and 50% of such
- 8 attribute value for the remaining term of the PPA.
- 9 • Consumers and its customers retain all Financial Transmission Rights or other
- 10 transmission rights and benefits from MISO.

11 Q. What are your overall conclusions regarding the PPA?

12 A. The PPA will provide Consumers' customers with continued access to Palisades on
13 overall terms which are better than they have today. Further, by placing Palisades in the
14 hands of a well-qualified fleet operator with the economic resources and incentives to
15 optimize performance and the longevity of the asset, the transaction will benefit
16 Consumers' customers and significantly reduce risk.

17 Q. Do you recommend approval of the PPA?

18 A. Yes.

19 Q. Does this complete your testimony?

20 A. Yes.

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
CONSUMERS ENERGY COMPANY)
for approval of a Power Purchase)
Agreement and for other relief in)
connection with the sale of the Palisades)
Nuclear Power Plant and other assets.)
_____)

Case No. U-14992

EXHIBITS

OF

WILLIAM E. GARRITY

ON BEHALF OF

CONSUMERS ENERGY COMPANY

August, 2006

Case No.: U-14992
Exhibit: A-__ (WEG-1)
Witness: WEGarrity
Date: August, 2006
Page: 1 of 68

PALISADES NUCLEAR POWER PLANT
POWER PURCHASE AGREEMENT
BETWEEN
ENERGY NUCLEAR PALISADES, LLC
AND
CONSUMERS ENERGY COMPANY

DATED AS OF JULY 11, 2006

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Exhibits

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POWER PURCHASE AGREEMENT

This POWER PURCHASE AGREEMENT is made and entered into as of July 11, 2006, by and between ENTERGY NUCLEAR PALISADES, LLC, a Delaware limited liability company (“Seller”), and CONSUMERS ENERGY COMPANY, a Michigan corporation (“Buyer”) (hereinafter the parties hereto are sometimes referred to collectively as the “Parties,” or individually as a “Party”).

WITNESSETH:

WHEREAS, Buyer is a public utility which operates a system for generation and distribution of electric power in the State of Michigan; and

WHEREAS, Buyer intends to transfer to Seller all of its rights, title, and interests in and to the Palisades Nuclear Power Plant, an approximately 798 MW (net) nuclear-powered electric generating facility and related assets located in South Haven, Michigan, NRC Operating License No. DPR-20 (the “Facility”); and

WHEREAS, in order to continue serving its wholesale and retail customers following transfer of Buyer’s interests in the Facility to Seller, Buyer desires to purchase, and Seller desires to sell, Capacity, Energy, and all associated Ancillary Services, on a unit contingent basis, on the terms, and subject to the conditions, set forth below.

NOW THEREFORE, in consideration of the mutual agreements contained herein, the Parties agree as follows:

ARTICLE I: DEFINITIONS

1.1. Defined Terms

As used in this Agreement, the following terms shall have the following meanings:

1. “**Accredited Capacity**” shall mean Capacity or Replacement Capacity that (a) meets the resource adequacy requirements in Module E of the MISO Tariff, as amended or superseded (“Module E”), and (b) is measured in accordance with the “Criteria and Method For the Uniform Rating of Generating Equipment” set forth in ECAR 4; provided, however, that if either requirement in (a) or (b) is inapplicable, or if both are inapplicable, then Accredited Capacity shall mean Capacity or Replacement Capacity that meets the applicable requirements for Capacity (the “Effective Capacity Requirements”) of any Governing Authority having jurisdiction over Buyer, including any Capacity from the Facility that may be deemed available under the Effective Capacity Requirements even if the Facility is not operating.
2. “**Administrative Committee**” shall have the meaning set forth in Article XII.
3. “**Affiliate**” shall mean, with respect to any Person, any other Person (other than an individual) that, directly or indirectly, through one or more intermediaries, controls, or is

controlled by, or is under common control with, such Person. For this purpose, “control” means the direct or indirect ownership of fifty percent (50%) or more of the outstanding capital stock or other equity interests having ordinary voting power.

4. “**Agreement**” shall mean this Power Purchase Agreement entered into by Seller and Buyer, including all Exhibits and any and all subsequent modifications or amendments hereto made in accordance herewith.
5. “**Alternate Delivery Point**” shall have the meaning set forth in Section 2.5(b).
6. “**Ancillary Services**” shall mean those services during the Term that are necessary to support the transmission of electric capacity and energy, and support the generation or transmission of Energy from the Facility while maintaining reliable operation of the transmission system, associated with or otherwise corresponding to the Capacity of the Facility and/or output of Energy at such time, which Ancillary Services shall include but not be limited to Reactive Power, regulation, and frequency response service.
7. “**Asset Sale Agreement**” shall mean that certain Asset Sale Agreement between Buyer and Seller, dated as of the date hereof.
8. “**Authorization**” shall mean any license, permit, approval, consent, filing, waiver, exemption, variance, clearance, entitlement, allowance, franchise, or other authorization, whether corporate, governmental or otherwise.
9. “**Billing Cycle**” shall mean each calendar month during the Term and any partial calendar month at the beginning or end of the Term.
10. “**Billing Meters**” means the bi-directional metering devices designated on Exhibit D as meters numbered one through four.
11. “**Business Day**” shall mean any day other than Saturday, Sunday, or any NERC holiday.
12. “**Buyer**” shall have the meaning set forth in the preamble hereto.
13. “**Buyer’s Capacity Amount**” shall mean, for any given time, the applicable amount calculated in accordance with Exhibit B. The amount specified in the column entitled “Buyer’s Capacity Amount” in Exhibit B shall equal the product of (a) the Capacity rating of the Facility, which shall be set forth in the column entitled “Capacity of the Facility” in Exhibit B, and determined in accordance with the applicable requirements for Capacity of ECAR 4 (or with the Effective Capacity Requirements, if applicable), and (b) the Buyer’s Entitlement, which shall be set forth in the column entitled “Buyer’s Entitlement” in Exhibit B, and determined in accordance with Section 2.6. The Capacity of the Facility, and the associated amounts in the column in Exhibit B entitled “Capacity of the Facility,” shall be revised during the Term, upon written notice from Seller to Buyer providing the results of any net capability testing conducted of the Facility, whether or not conducted as part of an Uprate, in accordance with ECAR 4 (or with the Effective Capacity Requirements, if applicable).

14. **“Buyer’s Guarantor”** shall have the meaning set forth in Section 7.3.
15. **“Buyer’s Guaranty”** shall have the meaning set forth in Section 7.3.
16. **“Buyer’s Entitlement”** shall mean the percentage of Capacity, Net Energy Output and Ancillary Services allocated to Buyer pursuant to this Agreement, which as of the Effective Date is 100%, as may subsequently be reduced pursuant to Section 2.6.
17. **“Calendar Year”** shall mean a twelve-month period beginning January 1 and ending December 31.
18. **“Capacity”** shall mean, on or as of any date of determination, a power generation unit’s capability to generate a specific amount of electrical energy at a given point in time.
19. **“Capacity Payment”** shall have the meaning set forth in Section 3.1(a).
20. **“Claims”** shall mean all third party claims or actions, threatened or filed and, whether groundless, false, fraudulent or otherwise, that directly or indirectly relate to the subject matter of an indemnity, and the resulting losses, damages, expenses, reasonable attorneys’ fees and court costs.
21. **“CPNode”** shall have the meaning ascribed to such term by MISO in the applicable MISO Tariff or related documents, as such relevant meaning or relevant term may be modified from time to time.
22. **“Default Interest Rate”** shall mean, with respect to all obligations to pay sums due under this Agreement, other than cash collateral held as security, the Interest Rate plus 200 basis points.
23. **“Delivered Energy”** shall mean, for any period of time, the sum of Buyer’s Entitlement of Net Energy Output plus Replacement Energy.
24. **“Delivery Point”** shall have the meaning set forth in Section 2.5.
25. **“Derate”** shall mean an event or condition which causes the Buyer’s Entitlement of Net Energy Output to be less than ninety-five percent (95%) of the associated Buyer’s Capacity Amount.
26. **“Derate Notice”** shall have the meaning set forth in Section 4.2.
27. **“DNR”** shall mean a Designated Network Resource as defined under applicable MISO Tariffs and related documents, as amended or superseded. The term DNR shall apply to both the Facility and to the resource selected by Seller, and accepted by MISO, to provide Replacement Capacity for Buyer, in accordance with the terms and conditions of this Agreement.
28. **“Downgrade Event”** shall mean, with respect to the Seller’s Guarantor or the Buyer’s Guarantor, any period of time when such party’s unsecured, senior long-term debt

obligations (not supported by third-party credit enhancements) are rated below Baa3 by Moody's Investment Services, Inc. (or its successor), and rated below BBB- by Standard & Poor's Rating Group (or its successor).

29. **"ECAR 4"** shall mean ECAR Document No. 4, "Criteria and Method for the Uniform Rating of Generating Equipment," which is an Organizational Standard of ReliabilityFirst Corporation, the successor organization to the East Central Area Coordination Agreement organization, as such document may be amended, superseded or adopted in whole or in part by ReliabilityFirst Corporation.
30. **"Effective Date"** shall mean the Closing Date, as defined in the Asset Sale Agreement.
31. **"Energy"** shall mean electric energy expressed in MWh.
32. **"Energy Payment"** shall have the meaning set forth in Section 3.1(b).
33. **"EST"** shall mean Eastern Standard Time.
34. **"Facility"** shall have the meaning set forth in the second recital of this Agreement.
35. **"FERC"** shall mean the Federal Energy Regulatory Commission or any successor thereto.
36. **"Financial Bilateral Transaction"** shall have the meaning ascribed to such term by MISO in the applicable MISO Tariff or related documents, as such relevant meaning or relevant term may be modified from time to time.
37. **"Force Majeure"** shall mean an event or circumstance which prevents one Party from performing some or all of its obligations hereunder that (a) is not within the control of the Party relying thereon, and (b) could not have been prevented or avoided by such Party through the exercise of reasonable diligence. Subject to the foregoing, Force Majeure may include, without limitation, an act of God, war, insurrection, riot, terrorism or shutdowns or reductions in Facility output or capabilities required, caused by, or related to, directives, orders or requirements of any Governing Authority; provided, however, that the following acts, events or causes shall in no event constitute an event of Force Majeure: (i) any lack of profitability to a Party or any losses incurred by a Party or any other financial consideration of a Party; (ii) unavailability of funds or financing; (iii) an event caused by conditions of national or local economics or markets; and (iv) any failure of equipment which is not itself directly caused by an event which would otherwise independently constitute a Force Majeure.
38. **"Generation Offer"** shall have the meaning ascribed to such term by MISO in the applicable MISO Tariff or related documents, as such relevant meaning or relevant term may be modified from time to time.
39. **"Good Utility Practices"** shall mean any applicable practices, methods, and acts engaged in or approved by a significant portion of (a) as to Seller, the nuclear power electric generating industry, or (b) as to Buyer, the electric utility industry, during the relevant

time period, or the practices, methods, and acts which, in the exercise of reasonable judgment by a prudent nuclear operator (or prudent utility operator, if applicable to Buyer) in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety, expedition, and the requirements of any Governing Authority having jurisdiction. Without limitation of the foregoing, “Good Utility Practices” shall include the applicable operating policies, standards, criteria, and/or guidelines of NERC, MISO, METC, NRC, RFC and any other Governing Authority. “Good Utility Practices” is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather to the acceptable practices, methods, or acts generally accepted in (a) as to Seller, the nuclear power electric generating industry, or (b) as to Buyer, the electric utility industry.

40. “**Governing Authority**” shall mean the federal government of the United States, and any state, county or local government, and any regulatory department, body, political subdivision, commission, bureau, administration, agency, instrumentality, ministry, court, judicial or administrative body, taxing authority, or other authority of any of the foregoing (including, without limitation, any corporation or other entity owned or controlled by any of the foregoing), MISO, METC, NERC, RFC, NRC, and any other regional reliability council, the Transmission Provider and any other regional transmission organization, in each case having jurisdiction over either or both of the Parties, the Facility, or the Transmission Provider’s transmission system, whether acting under express or delegated authority.
41. “**Interconnection Agreement**” shall mean, with respect to the Facility, the interconnection agreement by and among Seller, MISO and METC, and any other agreement by and among Seller, MISO and METC, governing the interconnection of the Facility to the MISO or METC system and transmission of Energy from the Facility into the MISO or METC system, as amended or superseded.
42. “**Interconnection Point**” shall mean, with respect to the Facility, the Point(s) of Interconnection described in the Interconnection Agreement, unless the Parties specifically agree otherwise in writing.
43. “**Interest Rate**” shall mean, the one-month LIBOR rate as published in The Wall Street Journal for the then current month, or in a comparable publication.
44. “**Law**” shall mean any law, statute, rule, regulation, or ordinance issued or promulgated by a Governing Authority.
45. “**Letter(s) of Credit**” means one or more irrevocable, transferable standby Letters of Credit issued by a U.S. commercial bank or a foreign bank with a U.S. branch with such bank having a credit rating of at least A- from S&P or A3 from Moody’s, in a form acceptable to the Party in whose favor the Letter of Credit is issued. Costs of a Letter of Credit shall be borne by the applicant for such Letter of Credit.
46. “**LMP**” shall mean the Locational Marginal Price at the relevant CPNode for the relevant

- hour(s) and day(s), as posted by MISO.
47. **“Maintenance Schedule”** shall have the meaning set forth in Section 4.1(a).
 48. **“Merchant Operations Center”** shall mean that operations center responsible for monitoring, coordinating and scheduling the outages and dispatch of generation facilities.
 49. **“Metering Party”** shall have the meaning set forth in Section 5.1(a).
 50. **“METC”** shall mean the Michigan Electric Transmission Company, or any successor entity.
 51. **“MISO”** shall mean the Midwest Independent Transmission System Operator, Inc., or any successor entity.
 52. **“MISO Tariff”** shall mean the “Open Access Transmission and Energy Market Tariff for the Midwest Independent Transmission System Operator, Inc.,” as amended or superseded.
 53. **“MPSC”** shall have the meaning set forth in Section 10.1.
 54. **“MWh”** shall mean megawatt hours.
 55. **“NERC”** shall mean the North American Electric Reliability Council, or any successor entity.
 56. **“Net Energy Output”** shall mean, for any hour during a Billing Cycle and with respect to the Facility, (a) if the Facility is operating, total Energy output of the Facility as measured at the Delivery Point, less Station Power Service Load, which amounts shall be calculated at the applicable Billing Meters, and provided that Net Energy Output can in no event be less than zero, or (b) if the Facility is not operating, zero. In accordance with the foregoing, if the Facility is operating, Net Energy Output is equal to the sum of the Billing Meter data for "in" flows less the sum of the Billing Meter data for "out" flows; where "in" flows are those flows having a direction designated as being from the Facility to the transmission system and "out" flows are those flows having a direction designated as being from the transmission system to the Facility. The absolute value of the data from each Billing Meter shall be used to calculate Net Energy Output.
 57. **“NRC”** shall mean the Nuclear Regulatory Commission, or any successor entity.
 58. **“Off-Peak”** shall mean all hours that are not On-Peak hours.
 59. **“On-Peak”** shall mean hour ending 0700 EST through hour ending 2200 EST, Monday through Friday, excluding NERC holidays.
 60. **“Operating Day”** shall have the meaning ascribed to such term by MISO in the applicable MISO Tariff or related documents, as such relevant meaning or relevant term may be modified from time to time.

61. **“Party”** shall have the meaning set forth in the preamble hereto.
62. **“Peak Adjustment Payment”** shall have the meaning set forth in Section 3.2.
63. **“Person”** shall mean any legal or natural person, including any individual, corporation, partnership, limited liability company, joint stock company, association, joint venture, trust, Governing Authority or international body or agency, or other entity.
64. **“Reactive Power”** shall mean the capability of the Facility when operating to produce or absorb reactive power.
65. **“Regulatory Event”** shall have the meaning set forth in Section 17.10.
66. **“Replacement Capacity”** shall mean, at any time, Accredited Capacity supplied to Buyer by Seller from any DNR other than the Facility to fulfill, in whole or in part, Seller's obligation to supply Accredited Capacity under this Agreement. Replacement Capacity shall not exceed the Buyer's Capacity Amount. In addition, Replacement Capacity shall (a) not be committed for sale to any third party, and (b) be available at all times to serve Buyer's Capacity requirements.
67. **“Replacement Energy”** shall mean, at any time, Energy supplied to Buyer by Seller from any generation resource other than the Facility to fulfill, in part or in whole, Seller's obligation to deliver Energy which, when combined with Buyer's Entitlement of Net Energy Output, shall not exceed the Buyer's Capacity Amount applicable to Buyer at such time under this Agreement.
68. **“RFC”** shall mean the ReliabilityFirst Corporation, or any successor entity.
69. **“SCADA”** shall mean supervisory, control and data acquisition technology and equipment.
70. **“Scheduled”** or **“Scheduling”** means the actions of Seller, Buyer and/or their designated representatives, of notifying, requesting and confirming to each other and any third party the quantity and type of Energy to be delivered on any Operating Day (a) submitted to MISO by Seller as Seller's Generation Offer from the Facility for a relevant Operating Day during the Term pursuant to this Agreement, or (b) submitted to MISO by Seller and accepted by Buyer as a Financial Bilateral Transaction for a relevant Operating Day during the Term pursuant to this Agreement.
71. **“Scheduled Maintenance Outage”** shall have the meaning set forth in Section 4.1(a).
72. **“Seller”** shall have the meaning set forth in the preamble hereto.
73. **“Seller's Guarantor”** shall have the meaning set forth in Section 7.2.
74. **“Seller's Guaranty”** shall have the meaning set forth in Section 7.2.
75. **“Station Power Service Load”** shall mean, for the Facility and for any hour during a

Billing Cycle, the sum of the following items: (a) the station start-up transformer load for that hour; (b) the safeguard transformer load for that hour; and (c) the main transformer load for that hour.

76. **“Summer Maintenance Outage”** shall have the meaning set forth in Section 4.1(b)(i).
77. **“Target Capacity Factor”** shall mean 0.9500.
78. **“Tax”** shall mean all taxes, charges, fees, levies, penalties or other assessments imposed by any Governing Authority, including income, gross receipts, single business, excise, real or personal property, sales, transfer, customs, duties, franchise, payroll, withholding, social security, receipts, license, stamp, occupation, employment, or other taxes, including any interest, penalties or additions attributable thereto, and any payments to any state, local, provincial or foreign taxing authorities in lieu of any such taxes, charges, fees, levies or assessments.
79. **“Term”** shall mean the period from and after the Closing as defined in the Asset Sale Agreement to and including the date and time on which this Agreement is terminated in accordance with the terms hereof.
80. **“Termination Date”** shall have the meaning set forth in Section 10.1.
81. **“Transmission Owner”** shall mean METC.
82. **“Transmission Provider”** shall mean the MISO.
83. **“Uprate”** shall mean the increase in the maximum power level at which the Facility may operate (a) under its NRC license as such license may be amended after the date hereof and/or (b) any increase in the power level at which the Facility may operate as a result of the replacement or modification of the Facility’s moisture-separator reheaters.

1.2. Rules of Interpretation

- (a) Unless otherwise required by the context in which any term appears:
 - (i) Capitalized terms used in this Agreement shall have the meanings specified in this Article.
 - (ii) The singular shall include the plural, the plural shall include the singular, and the masculine shall include the feminine and neuter.
 - (iii) References to “Articles,” “Sections,” or “Exhibits” shall be to articles, sections, or exhibits of this Agreement, and references to “Paragraphs” or “Clauses” shall be to separate paragraphs or clauses of the section or subsection in which the reference occurs.
 - (iv) The words “herein,” “hereof” and “hereunder” shall refer to this Agreement as a whole and not to any particular section or subsection of

this Agreement; and the words “include,” “includes” or “including” shall mean “including, but not limited to.”

- (v) The term “day” shall mean a calendar day, commencing at 12:00 a.m. (EST). The term “week” shall mean any seven consecutive day period, and the term “month” shall mean a calendar month; provided that when a period measured in months commences on a date other than the first day of a month, the period shall run from the date on which it starts to the corresponding date in the next month and, as appropriate, to succeeding months thereafter. Whenever an event is to be performed or a payment is to be made by a particular date and the date in question falls on a day which is not a Business Day, the event shall be performed, or the payment shall be made, on the next succeeding Business Day; provided, however, that all calculations shall be made regardless of whether any given day is a Business Day and whether or not any given period ends on a Business Day.
- (vi) All references to a particular entity shall include such entity’s permitted successors and permitted assigns unless otherwise specifically provided herein.
- (vii) All references herein to any Law or to any contract or other agreement shall be to such Law, contract or other agreement as amended, supplemented or modified from time to time unless otherwise specifically provided herein.
- (b) The titles of the articles and sections herein have been inserted as a matter of convenience of reference only, and shall not control or affect the meaning or construction of any of the terms or provisions hereof.
- (c) This Agreement was negotiated and prepared by both Parties with advice of counsel to the extent deemed necessary by each Party; the Parties have agreed to the wording of this Agreement; and none of the provisions hereof shall be construed against one Party on the ground that such Party is the author of this Agreement or any part hereof.
- (d) The Exhibits hereto are incorporated in and are intended to be a part of this Agreement; provided, however, that in the event of a conflict between the terms of any Exhibit and the terms of the remainder of this Agreement, the terms of the remainder of this Agreement shall take precedence.

ARTICLE II: PURCHASE OF CAPACITY, ENERGY, AND ANCILLARY SERVICES

2.1. Capacity Sale and Purchase

Subject to the terms and conditions of this Agreement, Seller agrees to sell and supply to Buyer, and Buyer agrees to accept and purchase from Seller, Buyer's Entitlement of all Accredited Capacity that Seller has available from the Facility for the duration of the Term. Seller agrees to sell and supply, and Buyer agrees to accept and purchase from Seller, all Accredited Capacity associated with Replacement Capacity that Seller supplies to Buyer pursuant to the terms of this Agreement. Buyer's obligation to pay for Accredited Capacity sold and supplied by Seller to Buyer for any period of time shall be based on the aggregate amount of Delivered Energy for that period of time.

2.2. Energy Sale and Purchase

Subject to the terms and conditions of this Agreement, for the duration of the Term, Seller shall sell and deliver to Buyer at the Delivery Point, and Buyer shall accept and purchase, Buyer's Entitlement of the Net Energy Output of the Facility. Buyer also agrees to accept and purchase all Replacement Energy that Seller delivers to Buyer pursuant to the terms of this Agreement. The amount of all Energy sold and delivered by Seller and accepted and purchased by Buyer pursuant to this Section 2.2, for any period of time, shall be the aggregate amount of Delivered Energy for such period of time.

2.3. Ancillary Services

- (a) The sale of Capacity and Energy hereunder from the Facility to Buyer shall include the Ancillary Services associated with Buyer's Entitlement of such Capacity and Energy from the Facility. Seller agrees to provide and/or execute any documents or agreements necessary to transfer to Buyer any revenue in excess of revenues from the sale of Energy and Capacity under this Agreement, and any other benefits and rights, received by Seller in providing such Ancillary Services.
- (b) To the extent that Seller's unexcused failure to deliver Ancillary Services to Buyer results in any increased cost or penalty incurred by Buyer, Seller shall reimburse Buyer for any such increased cost or penalty. The amount of such cost or penalty to be reimbursed shall not exceed an amount equal to the increased costs or penalties actually incurred by Buyer. In the event that during the Term there exists a market for the purchase and sale of Ancillary Services, then (i) if Seller fails to provide an Ancillary Service required to be delivered hereunder from the Facility, Seller shall use commercially reasonable efforts to provide Buyer with a replacement for such Ancillary Service and (ii) if Seller is unsuccessful in satisfying its obligation under clause (i), Seller shall reimburse Buyer for the market-clearing price for such undelivered Ancillary Service to the extent such market-clearing price exceeds those amounts already due from Seller

pursuant to this Section 2.3(b).

2.4. Replacement Energy and Replacement Capacity

Subject to the provisions of this Agreement, Seller may provide Buyer with Replacement Energy and Replacement Capacity and/or Accredited Capacity from the Facility as set forth below in this Section 2.4 during a Derate with a duration of more than one (1) day, including a Derate caused by a Scheduled Maintenance Outage, a Summer Maintenance Outage, or any other scheduled outage of the Facility. If Seller supplies Replacement Capacity and/or Accredited Capacity from the Facility without also simultaneously delivering Replacement Energy, Seller shall be deemed as not having supplied Replacement Capacity and as not having delivered Replacement Energy. If Seller delivers Replacement Energy without also simultaneously supplying Replacement Capacity and/or Accredited Capacity from the Facility, Seller shall be deemed as not having supplied Replacement Capacity and as not having delivered Replacement Energy. Seller may provide Replacement Energy from a generation resource that differs from the DNR selected by Seller to supply Replacement Capacity, if any.

(a) Notices to Supply Replacement Capacity and Deliver Replacement Energy

If the event or condition constituting the Derate is an event or condition other than a Scheduled Maintenance Outage, Summer Maintenance Outage, or any other scheduled outage of the Facility, Seller shall notify Buyer's Merchant Operations Center of Seller's election in accordance with Section 2.4(b) below to provide or not to provide Replacement Capacity (to the extent not supplying Accredited Capacity from the Facility) and Replacement Energy no later than the second Business Day following the day that the Derate commenced.

If the event or condition constituting the Derate is a Scheduled Maintenance Outage, a Summer Maintenance Outage, or any other scheduled outage of the Facility, Seller shall notify Buyer's Merchant Operations Center of Seller's election in accordance with Section 2.4(b) below to provide or not to provide Replacement Capacity (to the extent not supplying Accredited Capacity from the Facility) and Replacement Energy no later than two (2) Business Days prior to the scheduled commencement of such Scheduled Maintenance Outage, Summer Maintenance Outage, or other scheduled outage of the Facility.

(b) Seller's Replacement Capacity and Replacement Energy Options

Seller shall have the option of electing to provide: (i) Replacement Capacity (to the extent not supplying Accredited Capacity from the Facility) and Replacement Energy on a weekly basis, (ii) Replacement Capacity (to the extent not supplying Accredited Capacity from the Facility) and Replacement Energy for the expected duration of the Derate, or (iii) no Replacement Capacity and Replacement Energy for the expected duration of the Derate; provided, however, that with respect to a Derate other than a Scheduled Maintenance Outage, a Summer Maintenance Outage, or another scheduled outage of the Facility, Replacement Capacity (to the extent not supplying Accredited Capacity from the Facility) and Replacement

Energy, if provided, must be provided for the remaining duration of the Derate commencing with the date that Buyer's Merchant Operations Center is notified in accordance with Section 2.4(a) above. Notwithstanding anything else in this Agreement to the contrary, if a Derate occurs in the month of July or August and is expected to have a duration in excess of one (1) week during any part of that two-month period, then Seller shall not have option (i) above with respect to Replacement Capacity and Replacement Energy but will have options (ii) and (iii) above. Notwithstanding the foregoing, Seller's only option with respect to a Summer Maintenance Outage is to provide Replacement Capacity (to the extent not supplying Accredited Capacity from the Facility) and Replacement Energy on a continuous basis for the duration of such an outage equal to the Buyer's Capacity Amount.

(c) Replacement Energy Scheduling

Any Replacement Energy Scheduled hereunder shall be Scheduled in accordance with Section 5.3, subject to the following:

- (i) Seller shall provide notice to Buyer of the proposed source and Delivery Point (or Alternate Delivery Point, as the case may be) of the Replacement Energy by the required time for notices to be provided to Buyer pursuant to Section 2.4(a) above; and,
- (ii) Replacement Energy may only be Scheduled and delivered on a continuous basis in either (A) a single fixed quantity or (B) a quantity varied to reflect expected changes in the Buyer's Entitlement of Net Energy Output of the Facility (e.g., changes in Facility output or ramp rates or expected resolution of outages) such that the aggregate of such Replacement Energy and Buyer's Entitlement of Net Energy Output of the Facility will result in a single, fixed quantity.

(d) Failure to Schedule/Deliver

If Seller fails to deliver or cause to be delivered all or part of the Replacement Energy that is Scheduled in accordance with Section 2.4(c) above, or fails to Schedule Replacement Energy in accordance with Section 2.4(c) above after providing the requisite notice under Section 2.4(a), and such failure is not excused under the terms of this Agreement, then Seller shall pay to Buyer, within ten (10) Business Days of invoice receipt therefore, an amount equal to the positive difference, if any, between (i) the cost incurred by Buyer acting in a commercially reasonable manner to replace the Replacement Energy not delivered or Scheduled by Seller, including the cost incurred by Buyer in purchasing Energy to replace, at the Delivery Point, the Replacement Energy not delivered or Scheduled by Seller in either a bilateral transaction or the market price at the Delivery Point, plus additional transmission charges, if any, reasonably incurred by Buyer for the delivery of the Energy to the Delivery Point, and (ii) the cost (using the Energy Charge) that Buyer would have incurred under this Agreement had the

Replacement Energy been delivered or Scheduled. Any invoice submitted by Buyer to Seller pursuant to this Section 2.4(d) shall include a written statement explaining in reasonable detail the calculation of the amount due from Seller.

If Buyer fails to Schedule, receive or cause to be received all or part of the Replacement Energy that is Scheduled by Seller in accordance with Section 2.4 herein, and such failure is not excused under the terms of this Agreement, then Buyer shall pay to Seller, within ten (10) Business Days of invoice receipt therefore, an amount equal to the negative difference, if any, between (i) the amount received by Seller acting in a commercially reasonable manner in the reselling at the Delivery Point any Replacement Energy not received by Buyer, including the amount received by Seller in reselling any Replacement Energy, at the Delivery Point, not received by Buyer in either a bilateral transaction or the market price at the Delivery Point, less additional transmission charges, if any, and (ii) the amount (using the Energy Charge) that Seller would have received under this Agreement had the Replacement Energy been received by Buyer. Any invoice submitted by Seller to Buyer pursuant to this Section 2.4(d) shall include a written statement explaining in reasonable detail the calculation of the amount due from Buyer.

(e) Failure to Supply

Seller shall have the option to supply Replacement Capacity to Buyer in accordance with this Agreement, provided that the combined amount of Capacity supplied from the Facility and the Replacement Capacity is equal to or less than the Buyer's Capacity Amount. If Seller fails to supply Replacement Capacity (to the extent it is not supplying Accredited Capacity from the Facility) after providing the requisite notice under Section 2.4(a), and such failure is not excused under the terms of this Agreement, then Seller shall pay Buyer, within ten (10) Business Days of invoice receipt therefore, an amount equal to the positive difference, if any, between (i) the cost incurred by Buyer acting in a commercially reasonable manner to replace the Replacement Capacity not supplied by Seller, including the cost incurred by Buyer in purchasing Capacity to replace the Replacement Capacity not supplied by Seller in either a bilateral transaction or the market price at the Delivery Point, and (ii) the cost (using the Capacity Charge) that Buyer would have incurred under this Agreement had the Replacement Capacity been supplied. Any invoice submitted by Buyer to Seller pursuant to this Section 2.4(e) shall include a written statement explaining in reasonable detail the calculation of the amount due from Seller.

- (f) When supplying Replacement Energy and Replacement Capacity, Seller shall not be required to supply Ancillary Services with respect thereto.

2.5. Delivery Point

- (a) If the Facility is the generation source of Energy to be delivered to Buyer hereunder, then the "Delivery Point" for such Energy is the CPNode that

corresponds to the Interconnection Point for the main transformer.

- (b) If the Facility is not the generation source of Energy to be delivered to Buyer hereunder (i.e., if Replacement Energy is being supplied), then the “Delivery Point” for the Replacement Energy shall be, pursuant to the Seller’s choice, any of: (i) the CPNode that corresponds to the Interconnection Point for the main transformer, (ii) any other CPNode located within the METC Sub-Control Area, or (iii) the CPNode that corresponds to the Buyer's Load Zone as defined by MISO ((ii) or (iii) being the “Alternate Delivery Point”).
- (c) In the event that Seller chooses to deliver Replacement Energy to an Alternate Delivery Point permitted by Section 2.5(b) above, Seller shall reimburse Buyer for any additional costs (net of any savings) incurred by Buyer (relative to that which would have been incurred by Buyer if such delivery had been made to the CPNode that corresponds to the Interconnection Point) as a result of the delivery of such Replacement Energy, including, but not limited to, LMP differentials, transmission costs, imbalance penalties or charges, scheduling penalties or fees, redispatch costs, cash out charges, congestion management fees, Ancillary Service costs associated with the incremental transmission, line losses and similar costs, regulation and frequency response charges, voltage support charges or any similar penalties, fees or charges assessed by Transmission Provider for failure to satisfy the Transmission Provider’s balance, nomination and/or scheduling requirements.

2.6. Entitlement Due to Uprate

In the event of an Uprate, Seller shall be entitled to sell, and Buyer shall have no right to, all additional Capacity, Energy and Ancillary Services attributed to the Uprate. In the event of an Uprate, Seller will arrange for a net capability test (the "Uprate Capability Test") in accordance with ECAR 4 (or with the Effective Capacity Requirements, if applicable) to be conducted, after the Uprate is completed, tested and operational as determined by Seller, to calculate the actual net increase in the Capacity of the Facility attributable to the Uprate. Once the Uprate Capability Test is completed, the Buyer's Entitlement and the associated percentages in the column in Exhibit B entitled "Buyer's Entitlement" shall be revised, upon written notice from Seller to Buyer, to equal the quotient, stated as a percentage, resulting from (a) the Capacity of the Facility amount from Exhibit B (without taking into account the effect of the Uprate) corresponding to the month in which the Uprate is completed, tested and operational as determined by Seller, divided by (b) the Capacity rating of the Facility resulting from the Uprate Capability Test. Buyer shall be entitled under this Agreement to the Buyer's Entitlement of all Capacity made available, or capable of being made available, from the Facility (except for Capacity from the Facility attributable to an Uprate), and Seller shall not sell or commit to sell such Capacity to any party other than Buyer.

2.7. Capacity Accreditation

Seller shall, at its cost and expense, (a) on an annual basis (or more frequently as Seller may be directed by any Governing Authority), perform a Capacity test of the Facility, in

accordance with ECAR 4 and Module E, and (b) take all other actions reasonably required to cause the Capacity of the Facility and the Replacement Capacity to be Accredited Capacity, including the satisfaction of all applicable requirements to establish and maintain the DNR status (as defined under applicable MISO Tariffs) of the Facility or the source of the Replacement Capacity for Buyer.

2.8. Reactive Power

- (a) Seller agrees that it shall not have any rights to the production or absorption of the Reactive Power capabilities of the Facility existing as of the time of closing of the transactions contemplated by the Asset Sale Agreement (which capabilities are identified in the Interconnection Agreement), and that Seller shall not operate the Facility to produce real power at a level or in a manner that compromises its ability to operate the Facility to produce or absorb Reactive Power to maintain the output voltage or power factor at the Interconnection Point as specified in the Interconnection Agreement or, if the Interconnection Agreement is not applicable, any other applicable agreement governing Seller's obligation to provide Reactive Power from the Facility. In addition, Seller shall maintain the Reactive Power capability of the Facility at the levels set forth in the Interconnection Agreement as the same may be amended by the parties thereto. Notwithstanding the foregoing, in no event shall Seller be required by Buyer to reduce its real power output below the Buyer's Capacity Amount for the purpose of producing Reactive Power.
- (b) Notwithstanding Section 2.8(a), Seller may alter the Facility's ability to absorb or produce Reactive Power or otherwise change the amount or nature of Reactive Power if such alteration is approved by the applicable Governing Authority.

2.9. Station Power Service

During any period in which the Facility is operating, Seller shall be entitled to satisfy the Station Power Service Load using Energy generated by the Facility. Seller shall be solely responsible for obtaining, at its cost, Energy to serve the Station Power Service Load, including any transmission charges (if applicable) associated with such Energy, during any period of time in which the Facility is not operating, or is not generating sufficient Energy to meet the Station Power Service Load. In the event that any fees, penalties, or transmission charges are assessed against Buyer by any Governing Authority in connection with Seller's consumption of Energy to serve the Station Power Service Load or any Energy obtained by Seller to serve the Station Power Service Load, Seller shall reimburse Buyer for such fees, penalties, or transmission charges or Energy.

ARTICLE III: PAYMENTS

3.1. Purchase Payments

The amounts to be paid to the Seller by the Buyer for purchases of Capacity, Energy and Ancillary Services under this Agreement shall be determined as follows:

- (a) Capacity Payment. With respect to each Billing Cycle, Buyer shall make a payment to Seller equal to the product of: (i) the applicable “Capacity Charge” set forth in Exhibit A; (ii) the applicable Capacity Charge Shaping Factor set forth in Exhibit C; and (iii) the number of MWhs of Delivered Energy for the Billing Cycle (each, a “Capacity Payment”).
- (b) Energy Payment. With respect to each Billing Cycle, Buyer shall make a payment to Seller equal to the product of: (i) the applicable “Energy Charge” set forth in Exhibit A; (ii) the applicable Energy Charge Shaping Factor set forth in Exhibit C; and (iii) the number of MWhs of Delivered Energy for the Billing Cycle (each, an “Energy Payment”).
- (c) Ancillary Services. The Capacity Payment and the Energy Payment include payment for any and all Ancillary Services received by Buyer, and no additional payment in respect thereof shall be due at any time. Without limiting the generality of the foregoing, Seller specifically agrees that it shall not be entitled to any payment for Reactive Power under this Agreement, notwithstanding its obligation to operate the Facility in accordance with Section 2.8.

3.2. Peak Adjustment Payment

If applicable, Seller shall make a payment to Buyer as determined in accordance with Exhibit G (each, a “Peak Adjustment Payment”).

ARTICLE IV: MAINTENANCE AND OPERATION

4.1. Scheduled Maintenance

(a) Scheduling Procedure

Seller shall submit to Buyer a schedule of maintenance of the Facility (each, a “Maintenance Schedule” and each item thereon a “Scheduled Maintenance Outage”) for each Calendar Year during the Term no later than twelve (12) months before the beginning of such year (or no later than three (3) months prior to the deadline for submittal of any such schedule to the Transmission Provider or any other applicable Governing Authority, if earlier); except that within thirty (30) days following the Effective Date, Seller shall submit to Buyer a Maintenance Schedule for the Calendar Year in which the Effective Date occurs and for the following Calendar Year. Each Maintenance Schedule shall meet the requirements set forth in Section 4.1(b) and shall be deemed confidential information and shall be treated accordingly as provided in Article XIV of this Agreement; provided, however, that Buyer shall have the right, consistent with Section 14.2(a), to submit the Maintenance Schedule to the MPSC. Seller shall also submit to Buyer any schedule of maintenance provided to the Transmission Provider, any Governing Authority or other entity.

(b) Limitations on Scheduled Maintenance Outages

- (i) If Seller plans a Scheduled Maintenance Outage during the period from June 1st through August 31st (a “Summer Maintenance Outage”), Seller must comply with the notice and Scheduling provisions of Section 2.4 and the following terms and conditions:
- (A) Seller shall supply Replacement Capacity (if and to the extent Accredited Capacity from the Facility is not provided), and Schedule and deliver Replacement Energy, on a continuous basis to the Delivery Point (or Alternate Delivery Point) for each hour of such Summer Maintenance Outage in an amount equal to the Buyer’s Capacity Amount; and
 - (B) If Seller fails to deliver or cause to be delivered, or fails to Schedule, all or part of the Replacement Energy required by subsection (i)(A) above, and such failure is not excused under the terms of this Agreement, then Seller shall pay to Buyer, within ten (10) Business Days of invoice receipt therefore, an amount equal to the positive difference, if any, between (1) the cost incurred by Buyer acting in a commercially reasonable manner to replace the Replacement Energy not delivered or Scheduled by Seller, including the cost incurred by Buyer in purchasing Energy to replace, at the Delivery Point, the Replacement Energy not delivered or Scheduled by Seller in either a bilateral transaction or the market price at the Delivery Point, plus additional transmission charges, if any, reasonably incurred by Buyer for the delivery of the Energy to the Delivery Point, and (2) the cost (using the Energy Charge) that Buyer would have incurred under this Agreement had the Replacement Energy been delivered or Scheduled. Any invoice submitted by Buyer to Seller pursuant to this subsection (i)(B) shall include a written statement explaining in reasonable detail the calculation of the amount due from Seller.
 - (C) If Buyer fails to Schedule, receive or cause to be received all or part of the Replacement Energy that is Scheduled by Seller in accordance with subsection (i)(A) above and such failure is not excused under the terms of this Agreement, then Buyer shall pay to Seller, within ten (10) Business Days of invoice receipt therefore, an amount equal to the negative difference, if any, between (1) the amount received by Seller acting in a commercially reasonable manner in the reselling at the Delivery Point any Replacement Energy not received by Buyer, including the amount received by Seller in reselling any Replacement Energy, at the Delivery Point, not received by Buyer in either a bilateral transaction or the market price at the Delivery Point, less additional transmission charges, if any, and (2) the amount (using the Energy Charge) that Seller would have received under this Agreement had the Replacement Energy been received by Buyer. Any invoice submitted by Seller

to Buyer pursuant to this subsection (i)(C) shall include a written statement explaining in reasonable detail the calculation of the amount due from Buyer.

(D) If Seller fails to supply Replacement Capacity in accordance with subsection (i)(A) above and such failure is not excused under the terms of this Agreement, then Seller shall pay Buyer, within ten (10) Business Days of invoice receipt therefore, an amount equal to the positive difference, if any, between (1) the cost incurred by Buyer to replace the Replacement Capacity not supplied by Seller, including the cost incurred by Buyer in purchasing Capacity to replace the Replacement Capacity or the market price paid by Buyer for Replacement Capacity not supplied by Seller, and (2) the cost (using the Capacity Charge) that Buyer would have incurred under this Agreement had the Replacement Capacity been supplied. Any invoice submitted by Buyer to Seller pursuant to this subsection (i)(D) shall include a written statement explaining in reasonable detail the calculation of the amount due from Seller.

(ii) The conditions set forth in Section 4.1(b)(i) shall not apply to (x) the Scheduled Maintenance Outage which includes the Facility's reactor head replacement, (y) the Scheduled Maintenance Outage, if any, during which the Facility's steam generator is replaced, or (z) any unexpected maintenance outage (i.e., a maintenance outage which is scheduled in less than three months).

4.2. Derate Notices

In the event of any Derate, other than a Scheduled Maintenance Outage, any Summer Maintenance Outage, or any other scheduled outage of the Facility, Seller must notify Buyer's Merchant Operations Center telephonically of such Derate as soon as practicable after Seller becomes aware of the necessity or occurrence thereof (each, a "Derate Notice"), with written confirmation within 24 hours. During any ongoing Derate, Seller shall provide daily or more frequent updates to Buyer's Merchant Operations Center of the nature and expected duration of such Derate. During the course of development of a Derate, Seller shall provide frequent updates as to the magnitude and timing of actual and expected output changes of the Facility and such other information as may assist Buyer in assessing the reliability of output from the Facility.

4.3. Other Operations Obligations

(a) Permits, Licenses and Approvals; Compliance with Laws

Seller shall, at its expense, acquire and maintain in effect throughout the Term of this Agreement all permits, licenses, approvals and other Authorizations of any Governing Authority required for the lawful operation and maintenance of the Facility.

(b) Information Requirements

Seller shall provide Buyer with the following real-time telemetered data (scanned no less frequently than once every four seconds) for the duration of the Term: (i) net output (megawatts and megaVARs), (ii) status (i.e., open or closed) of the applicable breaker, (iii) operating limits, and (iv) such additional information as may be required from time to time by the Transmission Provider or any Governing Authority, or Buyer's control area operator, or by Good Utility Practices. Seller shall provide Buyer with copies of any scheduling notices or requests submitted to the Transmission Provider, concurrently with the submission thereof. In addition, Seller shall provide Buyer with any other information Buyer may reasonably request regarding the operation of the Facility. Seller shall advise Buyer and provide information regarding events, ongoing work or Facility status which may create a risk of Derates. In no event shall the provisions of this Section 4.3(b) require Seller to provide Buyer with any information that Seller believes in good faith, based on established precedent or reasonable inquiry, violates the rules or regulations on transfer of information promulgated by any Governing Authority or Transmission Provider.

(c) SCADA Data

Seller shall provide and make available to Buyer, on a real-time basis, all data generated by the SCADA system at the Facility, including, without limitation, all four-second meter data.

(d) Quality of Energy

All Energy delivered hereunder shall be three-phase, 60 Hertz (plus or minus variations as may be required or allowed by the Transmission Provider), alternating current, at a voltage acceptable to the Transmission Provider, or shall otherwise comply with such other specifications of the Transmission Provider, regional reliability council or other Governing Authority responsible for the safety and reliability of the electric grid with authority over the Delivery Point (or Alternate Delivery Point, if applicable) as may be in effect at the time of delivery.

(e) Compliance with Interconnection Agreement

To the extent the Interconnection Agreement requires delivery to Buyer of information and data substantially similar to that referred to in Sections 4.3(b) and (c), the information and data required by the Interconnection Agreement shall be delivered to Buyer in lieu of that required under Sections 4.3(b) and (c).

ARTICLE V: METERING, BILLING AND PAYMENT

5.1. Metering

(a) The Billing Meters shall at all times during the Term meet the requirements set by

the Transmission Provider and all applicable Governing Authorities. Seller shall arrange with Transmission Owner for Transmission Owner to own, operate, test, maintain, and replace the Billing Meters at the main transformer (Meters #2 and #3 on Exhibit D). Transmission Owner shall be the metering party ("Metering Party") as to such Billing Meters. As between Seller and Buyer following the Effective Date, Seller shall bear all reasonable, documented costs associated with the operation, testing, maintenance, or replacement of the Billing Meters at the main transformer. Seller shall use reasonable efforts to cause the Transmission Owner to provide metering quantities, in analog and/or digital form, to Buyer upon Buyer's request.

- (b) Buyer shall own, operate, test, maintain, and replace the Billing Meters at the start-up transformer and the safeguard transformer (Meters #1 and #4 on Exhibit D) in accordance with Good Utility Practices. Buyer shall be the Metering Party as to such Billing Meters. Following the Effective Date, Seller shall bear all reasonable, documented costs associated with the operation, testing, maintenance, or replacement of the Billing Meters at the start-up transformer or the standby transformer. Buyer shall provide metering quantities, in analog and/or digital form, to Seller upon Seller's request.
- (c) The Transmission Owner's and Buyer's Billing Meters, which are shown on Exhibit D, shall be used for measurements under this Agreement and shall be sufficient to permit an accurate determination of the quantity and time of delivery of Energy delivered to Buyer. Buyer shall calibrate, and Seller shall use reasonable efforts following the Effective Date to cause the Transmission Owner to calibrate, their respective Billing Meters at least annually, and otherwise in accordance with applicable Governing Authority standards. Seller or Seller's representative shall have the right to be present during any calibration of the Billing Meters owned by Buyer, and Buyer shall provide reasonable notice to Seller of any such calibration. Seller agrees, and shall use reasonable efforts to cause the Transmission Owner to agree in writing, that upon reasonable notice, Transmission Owner (and Seller) shall provide Buyer access to the Billing Meters owned by Buyer and Transmission Owner during normal business hours for the purpose of reading, inspecting, calibrating, and testing such equipment, or witnessing the reading, inspecting, calibrating, and testing of such equipment by another party.
- (d) Check Meters. Seller, at its option and expense, may install and operate on its premises and on its side of the Interconnection Points, one or more check meters to check the Billing Meters owned by Buyer. Seller is responsible for any separate arrangements to install check meters with respect to the Billing Meters owned by Transmission Owner. All such check meters shall be for check purposes only and shall not be used for the measurement of Energy flows for purposes of this Agreement, except as provided in Section 5.1(e) below. The check meters shall be subject at all reasonable times to inspection and examination by Transmission Provider, Buyer or their designees. The installation, operation and maintenance thereof shall be performed entirely by

Seller in accordance with Good Utility Practice.

- (e) Testing of Metering Equipment. Seller and Buyer agree, and Seller shall use reasonable efforts to cause the Transmission Owner to agree in writing to the following: the Metering Party shall inspect and test its Billing Meters upon installation and at least once every two (2) years thereafter. If requested to do so by a Party, the Metering Party shall, at the requesting Party's expense, inspect and test Billing Meters more frequently than once every two (2) years. The Metering Party shall give reasonable notice to the other Party of the time when any inspection or test shall take place, and the other Party may have representatives present at the test or inspection. In addition, Seller shall have the right to inspect Buyer's Billing Meters from time to time at its discretion. If at any time a Billing Meter is found to be inaccurate or defective, it shall be adjusted, repaired or replaced at Seller's expense, in order to provide accurate metering, unless the inaccuracy or defect is due to the Metering Party's failure to maintain, then the Metering Party shall pay. If a Billing Meter fails to register, or if the measurement made by a Billing Meter during a test varies by more than one-half of one percent (0.5%) from the measurement made by the standard meter used in the test, the Metering Party shall adjust the measurements by correcting all measurements for the period during which the Billing Meter was in error by using Seller's check meters, if installed and if, when tested, varied less than the Billing Meter. If no such check meters are installed, the Parties shall use the best available data for the period in question. If no other data are available, or if the period cannot be reasonably ascertained, the adjustment shall be for the period immediately preceding the test of the Billing Meter equal to one-half the time from the date of the previous test of the Billing Meter.
- (f) Seller and Buyer agree, and Seller shall use reasonable efforts to cause the Transmission Owner to agree in writing, to the following: at Seller's expense, the metered data shall be telemetered by the Metering Party to one or more locations, designated by Transmission Owner and one or more locations designated by Buyer.

5.2. Billing and Payment

- (a) Seller shall send a billing statement to Buyer on or before the tenth (10th) day after the end of each Billing Cycle. If any net amount is due to Seller pursuant to any such billing statement, Buyer shall pay such amount to Seller by the later of (i) ten (10) Business Days after receipt of such billing statement, or (ii) the 20th day of the month in which the billing statement was received. If any net amount is due to Buyer pursuant to any such billing statement, Seller shall pay such amount to Buyer by the later of (i) ten (10) Business Days after receipt of such billing statement, or (ii) the 20th day of the month in which the billing statement was received. The billing statement shall show the kilowatt-hours of Delivered Energy for such Billing Cycle; the amounts due Seller for that Billing Cycle in respect of (i) the Capacity Payment and the Energy Payment, and (ii) any other amounts due to Seller hereunder; the amounts due Buyer for that Billing Cycle in

respect of (iii) the Peak Adjustment Payment, and (iv) any other amounts due to Buyer hereunder; and the data reasonably pertinent to the calculation of the payments due to Seller or Buyer. If meter readings cannot be made during such Billing Cycle (or any portion thereof), the Buyer shall estimate deliveries to it for such period, tender payment accordingly, and make an adjustment for actual purchases in the next Billing Cycle's statement. For purposes of billing for Replacement Capacity and Replacement Energy, the Capacity of the resources providing Replacement Capacity and Replacement Energy shall be determined in accordance with Module E of the MISO Tariff, such determination to be submitted by Seller and Buyer and the Schedule(s) submitted in accordance with Section 2.4 to determine the amount of Replacement Capacity and Replacement Energy supplied and delivered to Buyer. Any amounts not paid by the due date shall be deemed delinquent and shall accrue interest at the Default Interest Rate, such interest to be calculated from and including the due date to but excluding the date the delinquent amount is paid in full.

- (b) In the event of a dispute as to the amount of any bill, the disputing Party shall notify the other Party of the amount in dispute and Buyer or Seller, as applicable, shall pay to the other Party the undisputed portion of the bill on or prior to the due date therefor, as identified in Section 5.2(a). Buyer or Seller, as applicable, shall pay, with an interest charge computed at the Default Interest Rate, from and including the date payment was due to but excluding the date payment is made, any portion of the disputed amount ultimately found to be proper. In the event of a refund, Buyer or Seller, as applicable, shall pay, with an interest charge computed at the Default Interest Rate, from and including the date the disputed payment was made to but excluding the date the refund payment is made, any refund amount ultimately found to be due to the other Party.
- (c) Neither the Buyer nor Seller shall have the right to challenge any billing statement rendered or received hereunder after a period of two (2) years from the date such statement was rendered. In the event that any such billing statement depends in whole or in part upon estimated data, this two (2) year limitation period shall be deemed to begin on the first day of the Billing Cycle in which such estimated data is adjusted to actual.

5.3. Scheduling

Seller shall submit its Generation Offers and Financial Bilateral Transactions in accordance with applicable MISO rules and procedures, as the same may be amended or superseded, and consistent with offering the Facility in the MISO day-ahead market for dispatch as a must-run generation unit. The current version of such rules and procedures are attached hereto as Exhibit H.

ARTICLE VI: FORCE MAJEURE

6.1. Conditions of Excuse from Performance

If and to the extent resulting from a Force Majeure a Party hereto is rendered unable to perform any of its obligations under this Agreement (other than obligations of such Party to pay money when such money is due), that Party shall be excused, except as specifically provided elsewhere in this Agreement, from whatever performance is prevented by the Force Majeure to the extent so prevented, provided that:

- (a) The Party claiming excuse gives the other Party prompt written notice describing how the event qualifies as a Force Majeure;
- (b) The permitted suspension of performance is of no greater scope and of no longer duration than is required by the Force Majeure; provided, however, that performance under this Agreement shall only be excused for longer than one (1) year by reason of any particular Force Majeure if Seller first complies with subsection (e) below;
- (c) No obligations of a Party hereto under this Agreement which arose and accrued before the Force Majeure are excused as a result of the Force Majeure;
- (d) A Party's performance may be excused due to Force Majeure only for so long as such Party claiming Force Majeure is exercising commercially reasonable efforts consistent with Good Utility Practices to eliminate or ameliorate the Force Majeure condition; and
- (e) Seller shall, within sixty (60) days of the occurrence of a Force Majeure affecting Seller's performance under this Agreement that Seller reasonably anticipates will last more than twelve (12) months after the commencement thereof, deliver to Buyer a detailed plan for the remedy of the Force Majeure condition, which plan shall include: (i) a detailed specification of Seller's proposal (including a timetable) to remedy the Force Majeure condition and restore the Facility to maximum attainable operating status, and (ii) Seller's decision as to whether it will commence supplying and delivering Replacement Capacity and Replacement Energy after the sixth (6th) month of the Force Majeure if the Force Majeure condition has not been remedied; provided, however, that, if Seller decides to provide Replacement Capacity and Replacement Energy after the sixth (6th) month of the Force Majeure, Seller must provide both Replacement Capacity and Replacement Energy on a continuous basis until the event that previously constituted the Force Majeure has been remedied.

6.2. No Termination; Extension of Term

In no event shall a condition of Force Majeure be grounds for termination of this Agreement, or extend the Term of this Agreement.

6.3. Adjustment Payments

No Peak Adjustment Payment shall be calculated or accrue in favor of Buyer while performance of the Seller is excused pursuant to Section 6.1.

ARTICLE VII: EVENTS OF DEFAULT; REMEDIES

7.1. List of Default Events

Except as otherwise provided in this Agreement and subject to the limitations contained in this Section 7.1, Section 7.2 and Section 7.3, a Party shall be entitled to pursue any remedies available to it under generally applicable Laws or under this Agreement upon the occurrence of any of the following events (except as to the event described in Section 7.1(f), for which only Seller shall be entitled to pursue any remedies available to it under generally applicable Laws or under this Agreement):

- (a) The failure of the other Party to make any undisputed payment due hereunder and such failure shall continue for ten (10) Business Days after written notice demanding such payment is received;
- (b) In the event the other Party shall cease doing business as a going concern, shall generally not pay its debts as they become due or admit in writing its inability to pay its debts as they become due, shall file a voluntary petition in bankruptcy or shall be adjudicated as bankrupt or insolvent, or shall file any petition or answer seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under the present or any future federal bankruptcy code or any other present or future applicable Law, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver, custodian or liquidator of said Party or of all or any substantial part of its properties, or shall make an assignment for the benefit of creditors, or said Party shall take any corporate action to authorize or that is in contemplation of the actions set forth above in this Section 7.1(b);
- (c) In the event that within thirty (30) days after the commencement of any proceeding against either Party seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under the present or any future federal bankruptcy code or any other statute or Law, such proceeding shall not have been dismissed, or if, within thirty (30) days after the appointment without the consent or acquiescence of said Party of any trustee, receiver, custodian or liquidator of said Party or of all or any substantial part of its properties, such appointment shall not have been vacated or stayed on appeal or otherwise, or if, within thirty (30) days after the expiration of any such stay, such appointment shall not have been vacated;
- (d) Any of the other Party's representations and warranties contained in Article VIII hereof was false or misleading in any material respect when made, unless the fact, circumstance or condition that is the subject of such representation or warranty is

made true within thirty (30) days after the defaulting Party has received notice thereof from the non-defaulting Party;

- (e) A default in performance by a Party of any agreement, undertaking, covenant or other obligation contained in Section 7.2 and Section 7.3, and such default shall continue for ten (10) Business Days after written notice demanding such performance is received;
- (f) The failure of either Party to provide the other Party's employees, agents, and other representatives reasonable access to test or examine the other Party's Billing Meters after receiving notice to do so by the applicable Party as required under this Agreement;
- (g) A material default in performance or observance of any other agreement, undertaking, covenant or other material obligation contained in this Agreement by a Party unless, within thirty (30) days after written notice from the non-defaulting Party specifying the nature of such material default, the defaulting Party cures such default or, if such cure cannot reasonably be completed within thirty (30) days and if the defaulting Party within such thirty (30) day period commences, and thereafter proceeds with all due diligence, to cure such default, said period shall be extended for such further period as shall be necessary for the defaulting Party to cure such default with all due diligence, provided that the extended cure period shall not exceed ninety (90) days from the date of the original notice; or
- (h) Seller or Buyer shall permanently or persistently fail to perform under the terms of this Agreement, such persistent failure continues for a period of thirty (30) days following notice to Seller or Buyer (as appropriate) of such persistent failure and such failure is not due to Force Majeure.

If an event of default under Sections 7.1(a), (b), (c) or (e) occurs, the other Party (the "Non-Defaulting Party") shall have (in addition to any remedies available to under generally applicable Laws or under this Agreement) the right (i) to terminate this Agreement and/or (ii) to suspend performance hereunder including without limitation the delivery of Energy; provided, however, that with respect to the circumstances described in Sections 7.1(a) and 7.1(e), Seller's right to suspend performance hereunder, including without limitation the delivery of Energy (but not the right to terminate this Agreement) shall become effective upon the expiration of five (5) Business Days after (iii) written notice demanding payment is received under Section 7.1.(a), or (iv) written notice demanding performance is received under Section 7.1(e), as applicable.

7.2. Seller's Security

- (a) Seller shall provide on the Effective Date, and maintain thereafter throughout the remainder of the Term, security for compliance with its payment obligations under this Agreement, which shall consist of (1) a cash deposit in the amount of \$30,000,000, which deposit shall earn interest at the Interest Rate, (2) a corporate guaranty (the "Seller's Guaranty") in the form attached hereto as Exhibit E, from Entergy Corporation, or its Affiliate or successor ("Seller's Guarantor") whose

unsecured, senior long-term debt obligations (not supported by third-party credit enhancements) are rated Baa3 or better by Moody's Investment Services, Inc. (or its successor), or BBB- or better by Standard & Poor's Rating Group (or its successor) in the amount of \$30,000,000, or (3) a Letter or Letters of Credit in the amount of \$30,000,000.

- (b) A default specified in Section 7.1(a) may not be cured by drawing, or permitting a draw on, the cash deposit, Seller's Guaranty or Letter of Credit, unless the cash deposit, Seller's Guaranty or Letter of Credit is immediately replenished up to the required amount of the cash deposit, Seller's Guaranty or Letter of Credit under Section 7.2(a).
- (c) If at any time there shall occur a Downgrade Event with respect to Seller's Guarantor or if the rating of the Letter of Credit issuing bank falls below the minimum acceptable level as set forth in the definition of Letter of Credit, then Buyer may require Seller to replace the Seller's Guaranty or Letter of Credit with a Letter of Credit acceptable to the beneficiary in the amount of \$30,000,000, and shall be subject to all terms and conditions of this Agreement applicable to a Letter of Credit. In the event Seller shall fail to provide such security within ten (10) Business Days of receipt of written notice, then a breach of this Agreement shall be deemed to have occurred; provided, however, that Seller's obligation to provide a Letter of Credit due to a Downgrade Event with respect to Seller's Guarantor shall be suspended if the unsecured, senior long-term debt obligations (not supported by third-party credit enhancements) of the Seller's Guarantor are restored to a rating of Baa3 or better by Moody's Investment Services, Inc. (or its successor), or BBB- or better by Standard & Poor's Rating Group (or its successor).

7.3. Buyer's Security

- (a) Buyer shall provide on the Effective Date, and maintain thereafter throughout the remainder of the Term, security for compliance with its payment obligations under this Agreement, which shall consist of (1) a cash deposit in the amount of \$30,000,000, which deposit shall earn interest at the Interest Rate, (2) a corporate guaranty (the "Buyer's Guaranty") in the form attached hereto as Exhibit F, from CMS Energy Corporation, or its Affiliate or successor ("Buyer's Guarantor") whose unsecured, senior long-term debt obligations (not supported by third-party credit enhancements) are rated Baa3 or better by Moody's Investment Services, Inc. (or its successor), or BBB- or better by Standard & Poor's Rating Group (or its successor) in the amount of \$30,000,000, or (3) a Letter or Letters of Credit in the amount of \$30,000,000.
- (b) A default specified in Section 7.1(a) may not be cured by drawing, or permitting a draw on, the cash deposit, Buyer's Guaranty or Letter of Credit, unless the cash deposit, Buyer's Guaranty or Letter of Credit is immediately replenished up to the required amount of the cash deposit, Buyer's Guaranty or Letter of Credit under Section 7.3(a).

- (c) If at any time there shall occur a Downgrade Event with respect to Buyer's Guarantor or if the rating of the Letter of Credit issuing bank falls below the minimum acceptable level as set forth in the definition of Letter of Credit, then Seller may require Buyer to replace the Buyer's Guaranty or Letter of Credit with a Letter of Credit acceptable to the beneficiary in the amount of \$30,000,000, and shall be subject to all terms and conditions of this Agreement applicable to a Letter of Credit. In the event Buyer shall fail to provide such security within ten (10) Business Days of receipt of written notice, then a breach of this Agreement shall be deemed to have occurred; provided, however, that Buyer's obligation to provide a Letter of Credit due to a Downgrade Event with respect to Buyer's Guarantor shall be suspended if the unsecured, senior long-term debt obligations (not supported by third-party credit enhancements) of the Buyer's Guarantor are restored to a rating of Baa3 or better by Moody's Investment Services, Inc. (or its successor), or BBB- or better by Standard & Poor's Rating Group (or its successor).

7.4. No Consequential Damages

In actions arising under Section 7.1 of this Agreement, and in all other claims arising under this Agreement by either Party against the other Party, neither Seller nor the Buyer shall be liable to the other for indirect, special, incidental, or consequential damages, except as to the indemnification obligations of the Parties under Article IX for the indirect, special, or consequential damages of third parties.

ARTICLE VIII: REPRESENTATIONS AND WARRANTIES

8.1. Representations and Warranties of Buyer

Buyer makes the following representations and warranties to Seller, each of which is true and correct as of the Effective Date:

- (a) Buyer is a corporation duly organized and in active status under the Laws of the State of Michigan.
- (b) Buyer has all corporate power and authority to enter into and perform this Agreement and to carry out the transactions contemplated herein.
- (c) Buyer's execution, delivery and performance of this Agreement have been duly authorized by, and are in accordance with, its articles of incorporation and by-laws; this Agreement has been duly executed and delivered for it by the signatory so authorized; and this Agreement constitutes its legal, valid, and binding obligation, enforceable against it in accordance with the terms hereof.
- (d) Buyer's execution, delivery and performance of this Agreement (i) will not result in a breach or violation of, or constitute a default under, any Authorization, or any contract, lease or other agreement or instrument to which it is a party, or by which it or its properties may be bound or affected; and (ii) does not require any

Authorization, or the consent, authorization or notification of any other Person, or any other action by or with respect to any other Person (except for Authorizations and consents or authorizations of other Persons already obtained, notifications already delivered, or other actions already taken).

- (e) No suit, action or arbitration, or legal, administrative or other proceeding is pending or has been threatened against Buyer that would affect the validity or enforceability of this Agreement or the ability of Buyer to perform its obligations hereunder in any material respect, or that would, if adversely determined, have a material adverse effect on the business or financial condition of Buyer. There are no bankruptcy, insolvency, reorganization, receivership or other arrangement proceedings pending against or being contemplated by Buyer, or, to Buyer's knowledge, threatened against it.
- (f) Buyer is not in breach of, in default under, or in violation of, any applicable Law, or the provisions of any Authorization, or in breach of, in default under, or in violation of, any provision of any promissory note, indenture or any evidence of indebtedness or security therefor, lease, contract, or other agreement by which it is bound, except for any such breaches, defaults or violations which, individually or in the aggregate, could not reasonably be expected to have a material adverse effect on the business or financial condition of Buyer or its ability to perform its obligations hereunder.

8.2. Representations and Warranties of Seller

Seller makes the following representations and warranties to Buyer, each of which is true as of the Effective Date:

- (a) Seller is a limited liability company duly organized and in good standing under the Laws of the State of Delaware and qualified to do business in the State of Michigan.
- (b) Seller has all limited liability company power and authority to enter into and perform this Agreement and to carry out the transactions contemplated herein.
- (c) Seller's execution, delivery and performance of this Agreement have been duly authorized by, and are in accordance with, its certificate of formation and operating agreement; this Agreement has been duly executed and delivered for it by the signatory so authorized; and this Agreement constitutes Seller's legal, valid and binding obligation, enforceable against it in accordance with the terms hereof.
- (d) Seller's execution, delivery and performance of this Agreement (i) will not result in a breach or violation of, or constitute a default under, any Authorization, or any contract, lease or other agreement or instrument to which it is a party, or by which it or its properties may be bound or affected; and (ii) does not require any Authorization, or the consent, authorization or notification of any other Person, or any other action by or with respect to any other Person (except for Authorizations and consents or authorizations of other Persons already obtained, notifications

already delivered, or other actions already taken).

- (e) No suit, action or arbitration, or legal, administrative or other proceeding is pending or has been threatened against Seller that would affect the validity or enforceability of this Agreement or the ability of Seller to perform its obligations hereunder in any material respect, or that would, if adversely determined, have a material adverse effect on the business or financial condition of Seller. There are no bankruptcy, insolvency, reorganization, receivership or other arrangement proceedings pending against or being contemplated by Seller, or, to Seller's knowledge, threatened against it.
- (f) Seller is not in breach of, in default under, or in violation of, any applicable Law, or the provisions of any Authorization, or in breach of, in default under, or in violation of, any provision of any promissory note, indenture or any evidence of indebtedness or security therefor, lease, contract, or other agreement by which it is bound, except for any such breaches, defaults or violations which, individually or in the aggregate, could not reasonably be expected to have a material adverse effect on the business or financial condition of Seller or its ability to perform its obligations hereunder.

ARTICLE IX: INDEMNITY AND LIMITATION OF LIABILITY

9.1. Title and Risk of Loss

Title to and risk of loss related to the Capacity, Energy or Ancillary Services shall transfer from Seller to Buyer at the Delivery Point (or Alternate Delivery Point, if applicable). Seller warrants that it will deliver to Buyer the Capacity, Energy and Ancillary Services free and clear of all liens, security interests, claims and encumbrances or any interest therein or thereto by any Person arising prior to the Delivery Point (or Alternate Delivery Point, if applicable).

9.2. Indemnification

- (a) Each Party shall indemnify, defend and hold harmless the other Party from and against any Claims related to, or arising under, this Agreement and arising from or out of any event, circumstance, act or incident first occurring or existing during the period when control and title to Energy, Capacity and Ancillary Services is vested in such Party as provided in Section 9.1. Each Party shall indemnify, defend and hold harmless the other Party against any charges imposed by Governing Authority for which such Party is responsible.
- (b) Notwithstanding any language to the contrary in this Agreement, neither Party shall have liability to the other Party with respect to provision of advice, consultation, proposals or recommendations by the first Party's personnel or representatives to the second Party whether occasioned by comments or requests of or by the second Party or by the negligent acts or omissions of employees or representatives of the first Party or otherwise, and the second Party shall

indemnify the first Party and hold harmless the first Party from and against losses, damages, costs or liabilities arising therefrom.

- (c) Each Party shall promptly notify the other Party of the assertion of any Claim against which such other Party may be required to provide indemnity hereunder and shall give such other Party an opportunity to defend such Claim. These indemnification provisions are for the protection of the Parties hereto only and shall not establish, of themselves, any liability to third parties.

9.3. No Partnership

The Parties do not by this Agreement effect a joint undertaking and do not intend to create any joint or several obligations to third parties. Neither this Agreement nor any transaction hereunder, shall be construed to create a new entity, such as a partnership or a joint venture, or constitute an agency or employment relationship. Neither Party shall be under the control of or be deemed to control the other Party, and no Party shall have the right or power to bind any other Party.

9.4. Responsibility for Employees

The Parties agree that, as between themselves, each Party shall be responsible for the acts and omissions of, and any claims by and compensation to, its employees and agents, irrespective of any limitation on the amount or type of damages, compensation or benefits payable by or for such Party under workers' or workmen's compensation acts, disability benefit acts or other employee benefit acts; provided, however, that the foregoing is not intended to create third-party beneficiary rights in any Person not a Party to this Agreement. Each Party shall indemnify the other Party from and against all liabilities, Claims, damages, suits, fines or judgments, including reasonable attorneys' fees and defense fees, disbursements and expenses, for injury or death to third persons and damage to or destruction of property of third persons, to the extent caused by such Party's employees or agents.

ARTICLE X: TERM

10.1. Term

Subject to the terms and conditions of this Agreement, including the final approval of the Michigan Public Service Commission ("MPSC"), this Agreement shall commence on the Effective Date and, unless terminated earlier as expressly provided herein, shall continue in effect until 11:59:59 p.m. (EST) on the Fifteenth (15th) anniversary of the Effective Date (the "Termination Date").

10.2. Termination

If the NRC does not grant the application for renewal of Operating License No. DPR-20 for the Facility for an additional twenty years as set forth in NRC Docket No. 50-255, the Termination Date shall be March 24, 2011 and neither Party shall have any further

obligations hereunder except for those obligations which survive such termination.

Promptly following Seller's determination that operation of the Facility has become materially and economically adverse such that continued operation of the Facility is no longer feasible, prudent and/or sustainable, Seller shall provide twelve (12) months' written notice to Buyer (or longer notice if commercially feasible under the circumstances) that Seller will permanently retire the Facility at the expiration of that notice period (unless twelve (12) months' notice is not commercially feasible under the circumstances, in which case Seller shall provide such notice as is commercially feasible under the circumstances). This Agreement will terminate at the time specified in such notice which will become the Termination Date, and neither Party shall have any further obligations hereunder except for those obligations which survive such termination.

10.3. Effect of Termination

Termination of this Agreement shall not terminate the rights or duties of either Party hereunder with respect to any obligations due to be performed on or before the effective date of termination. Without limitation of the foregoing, Article IX, Article XI and Article XIV shall survive the termination of this Agreement.

ARTICLE XI: RECORDS

11.1. Inspection of Records

Buyer and Seller shall maintain, to the extent applicable, for a period of not less than seven (7) years from the date of preparation thereof complete and accurate records of: (a) all measurements by Billing Meters of Delivered Energy pursuant to this Agreement, (b) real and reactive power production for each hour, changes in operating status, scheduled outages and any unusual conditions found during inspections, and (c) all other data and information necessary to calculate payments as provided in this Agreement, including invoices, receipts, charts, printouts, and other materials and documents. Subject to limitations imposed by applicable Law, Seller or Buyer, or their respective representatives shall be permitted to inspect such records upon request during normal business hours and copies of such records shall be provided, if requested, at the requesting Party's expense, within thirty (30) days of such request.

ARTICLE XII: ADMINISTRATIVE COMMITTEE

12.1. Purpose

From time to time various administrative and technical matters may arise in connection with the terms and conditions of this Agreement which will require the cooperation and consultation of the Parties and the exchange of information. As a means of providing for such cooperation, consultation and exchange, an Administrative Committee is hereby established with the functions described in Section 12.4. However, the Administrative Committee shall not (a) have the authority to amend this Agreement, or (b) diminish in

any manner the authority or responsibility of either Party as set forth in the various sections of this Agreement.

12.2. Membership

The Administrative Committee shall have two (2) members. Within sixty (60) days after execution of this Agreement, each Party shall designate its representative on the Administrative Committee and shall promptly give written notice thereof to the other Party. Thereafter, each Party shall promptly give written notice to the other Party of any change in the designation of its representative on the Administrative Committee. All actions taken by the Administrative Committee must be approved by both members.

12.3. Meetings

Meetings as are reasonably required may be called by either member with as much advance notice as is practicable. Meetings may be attended by other representatives of the Parties.

12.4. Functions

The Administrative Committee shall have the following functions:

1. Provide liaison between the Parties at the management level and exchange information with respect to significant matters arising under this Agreement.
2. Appoint ad hoc committees, the members of which need not be members of the Administrative Committee, as necessary to perform detailed work and conduct studies regarding matters requiring investigation.
3. Review, discuss and attempt to resolve disputes arising under this Agreement; provided, nothing herein shall limit the provisions of Section 17.1.
4. Provide liaison between the Parties concerning the status of and operation of the Facility.

12.5. Expenses

Each Party shall be responsible for the salary and out-of-pocket expenses of its representative and its other attendees. All other expenses incurred in connection with the performance by the Administrative Committee of its functions shall be allocated and paid as determined by the Administrative Committee.

ARTICLE XIII: NOTICES

13.1. Notices in Writing

All notices or other communications which are required or permitted under this Agreement shall be effective if they are in writing and delivered personally or by certified mail (postage prepaid and return receipt requested), reputable overnight delivery service,

or telecopy or other confirmable form of electronic delivery, to the following address (except as to notices which are required by this Agreement to be delivered to a Party's Administrative Committee representative or to Buyer's Merchant Operations Center, which shall be delivered to such Party's Administrative Committee representative or the Buyer's Merchant Operations Center, as the case may be):

(a) if to Seller: c/o Entergy Northeast
440 Hamilton Avenue
White Plains, NY 10601

With a copy to: c/o ENTERGY
100 First Stamford Place
Stamford, CT 06902

(b) if to the Buyer: Consumers Energy Company
1945 W. Parnall Road
Jackson, MI 49201
Attention: William E. Garrity

(c) or to such other person or address as the addressee may have specified in a notice duly given to the sender as provided herein.

13.2. Date of Notification

All notices or communications duly delivered or mailed and postmarked to a Party hereto as provided in Section 13.1 shall be effective as of the date of receipt.

13.3. Oral Notice in Emergency

Notwithstanding the provisions of Section 13.1, any notice required hereunder with respect to an occurrence or event requiring immediate attention may be made orally, by telephone or otherwise, provided such notice shall be confirmed in writing promptly thereafter. Each Party shall make any such oral notice directly to the Administrative Committee representative of the other Party.

ARTICLE XIV: CONFIDENTIALITY

14.1. Non-Disclosure to Third Parties

Except in any proceeding to approve or enforce this Agreement, Seller and Buyer will not disclose to any third person (including any of Seller's personnel engaged in electricity market related activity, but excluding each Party's employees, lenders, counsel, accountants or advisors who have a need to know such information and have agreed to keep such items confidential) without the prior written consent of the other Party which shall not be unreasonably withheld: (a) the terms or conditions of this Agreement or any other agreement between the Parties required hereby or referred to herein; or (b) any confidential or proprietary information or data, whether oral or written, received from the

other Party.

14.2. Disclosure Permitted

Notwithstanding Section 14.1, Seller or Buyer may disclose: (a) such information as may be required by any applicable Law, regulation, or governmental order, including a requirement, regulation or order of the MPSC; (b) such information as may reasonably be required by any operator of the Facility, or by independent accountants, attorneys, credit rating agency representatives, other professional consultants, or prospective lenders or investors, subject to reasonable procedures and other safeguards to protect the confidentiality of the information disclosed; (c) any information which is or becomes publicly known, other than by breach of this Agreement by the receiving Party; (d) information which becomes available to the receiving Party hereunder without restriction from a third party; (e) information which is at any time developed by the receiving Party independently of any disclosures hereunder; or (f) such information regarding the terms of this Agreement as such Party deems necessary to enable it to comply with the Securities Exchange Act of 1934, as amended, or the rules, regulations and forms of the Securities and Exchange Commission issued thereunder, the rules of the New York Stock Exchange, or the rules, regulations or orders of the FERC. In addition, the Buyer or Seller may use the confidential information in connection with their respective dealings with Governing Authorities of competent jurisdiction. In connection with any such use, the Buyer or Seller, as applicable, agrees to request confidential treatment of the information.

14.3. Survival of Confidentiality

The provisions of this Article XIV shall survive the Termination Date (or any earlier termination of this Agreement) for a period of five (5) years.

ARTICLE XV: INSURANCE

15.1. Coverage and Amounts of Seller and Buyer. During the Term, Seller and Buyer shall procure, pay premiums for and maintain in full force and effect the insurance coverages described below.

- (a) Worker's Compensation Insurance as required by the Laws of the State of Michigan, and employer's liability insurance with limits established by state or federal Law, if applicable. This policy is to be endorsed to include a Waiver of Subrogation in favor of the Buyer or Seller, as the case may be.
- (b) Commercial General Liability Insurance, including coverage for: (i) premises/operations, (ii) independent contractor, (iii) products and completed operations, (iv) broad form contractual liability, (v) broad form property damage, (vi) explosion, collapse and underground damage exclusion deletion, and (vii) personal injury, all with limits of not less than \$25,000,000 each occurrence and in the aggregate. Such coverage can be made up of a combination of primary (or

in lieu thereof, self-insurance of no more than \$10,000,000) and excess coverage policies.

- (c) Comprehensive Vehicle Liability Insurance, covering all vehicles and automobiles whether owned, leased, or rented when used by such Party in connection with performance of this Agreement and including coverage for bodily injury and property damage in an amount not less than \$1,000,000 per accident.
- (d) Notwithstanding the foregoing, Seller or Buyer may self-insure to meet the minimum insurance requirements of Sections 15.1(a) through 15.1(c) to the extent it maintains a self-insurance program; provided that Seller's or Buyer's, as the case may be (or the Seller's Guarantor or Buyer's Guarantor, as the case may be) senior secured debt meets the rating specified in Section 7.2(a)(2) or 7.3(a)(2) and that its self-insurance program meets minimum insurance requirements under Sections 15.1(a) through 15.1(c). For any period of time that Seller or Buyer, as the case may be (or Seller's Guarantor or Buyer's Guarantor, as the case may be) senior secured debt is unrated, the Party shall comply with the insurance requirements applicable to it under Sections 15.1(a) through 15.1(c). In the event that a Party is permitted to self-insure pursuant to this Section 15.1(d), it shall notify the other Party that it meets the minimum insurance requirement in a manner consistent with that specified in this Article XV.
- (e) On the Effective Date, and thereafter from time to time at the request of a Party, the other Party shall provide certificates of insurance from insurance companies having a Best rating of A minus or better confirming that the insurance coverages required herein are maintained. Such certificates shall provide that the other Party be given thirty (30) days' prior written notice by the insurer, or its authorized representative, of any cancellation and ten (10) days' prior written notice due to cancellation for non-payment of premiums in any required coverage provided by such insurer as evidenced by the certificates. In addition, each Party agrees to provide notice to the other Party of any material change in the insurance coverages or policies required hereby.

15.2. Coverage for Full Term

All required coverages shall remain in full force and effect during the Term. Buyer's and Seller's liability under this Agreement shall not be limited to or by the insurance coverage required in this Article XV.

ARTICLE XVI: ASSIGNMENT

16.1. Binding Effect

This Agreement shall be binding upon and shall inure to the benefit of the Parties and their respective successors and permitted assignees.

16.2. General

Except as provided in this Article XVI, neither Party shall assign or otherwise convey any of its right, title, or interest under this Agreement without the prior written consent of the other Party hereto (which consent shall not be unreasonably withheld or delayed). Seller shall not be permitted to assign this Agreement to any Person unless such Person also acquires all or substantially all of Seller's interest in the Facility. Any assignment or delegation made without required consent shall be null and void.

16.3. Assignment to an Affiliate

Notwithstanding Section 16.2, each Party shall have the right to assign all or a portion of its rights or obligations under this Agreement to an Affiliate without the consent of the other Party, and such Affiliate to which this Agreement has been assigned shall have the right to further assign the Agreement back to assigning Party without the consent of the other Party; provided, however that (a) the assigning Party shall provide written notice of such assignment to the other Party and the assuming Affiliate agrees in writing to assume all obligations under this Agreement, (b) the assignee can document its financial strength is no worse than that of the assignor, or the assignee will provide credit support from an entity with financial strength no worse than that of the assignor, and (c) any security requirements then in effect pursuant to Article VII remain effective following the assignment, or are replaced with equivalent security to the reasonable satisfaction of the non-assigning Party. In the event of an assignment to an Affiliate pursuant to this section, the Parties agree that the assignor is not released from any and all further obligations under this Agreement.

16.4. Assignment to Lenders

Seller shall have the right to assign all or a portion of its rights or obligations under this Agreement to any lender providing financing for Seller's acquisition of the Facility as collateral security for obligations under the financing documents entered into with such lenders provided that: (a) Seller first provides Buyer with written notice of not less than sixty (60) days of such collateral assignment; and (b) Buyer consents to the form of collateral assignment and related documentation.

ARTICLE XVII: MISCELLANEOUS

17.1. Dispute Resolution

If a dispute arises between the Parties relating to this Agreement except with respect to the matters set forth in Sections 7.1(a), (b), (c) or (e), the following procedure shall be followed except that either Party may seek injunctive relief from a court where appropriate in order to maintain the status quo while this procedure is being followed.

- (a) The Parties shall promptly hold a meeting, attended by persons with decision-making authority regarding the dispute, to attempt in good faith to negotiate a

resolution of the dispute; provided, however, that no such meeting shall be deemed to vitiate or reduce the obligations or liabilities of the Parties hereunder or be deemed a waiver of a Party hereof of any remedies to which such Party would otherwise be entitled hereunder.

- (b) If, within thirty (30) days following such meeting, the Parties have not succeeded in negotiating a resolution of the dispute, they agree to submit the dispute to binding arbitration in accordance with the Center for Public Resources Rules for Non-Administered Arbitration of Business Disputes, by a neutral arbitrator to be mutually selected by the Parties. The cost of the arbitrator shall be borne by the Parties, and the Parties shall equally bear the costs of such arbitration. If the Parties are unable to agree upon an arbitrator within thirty (30) days, the Parties may then petition the Circuit Court of Jackson County, Michigan to appoint the arbitrator.
- (c) In the event the Circuit Court appoints an arbitrator, arbitration shall take place in a mutually acceptable location in the State of Michigan. Otherwise the location for arbitration shall be mutually agreed to by the Parties. In either case the substantive and procedural law of the State of Michigan shall apply to the proceedings. Equitable remedies shall be available in any arbitration. Punitive damages shall not be awarded. The written decision of the arbitrator shall be binding on the Parties and the Parties hereby agree to execute all necessary documents, including releases and subrogation agreements as necessary in order to conclude the matter upon the arbitrator rendering a final award. This Section is subject to the Federal Arbitration Act, 9 USCA §1 et seq. and judgment upon the award, if any, may be entered by any court having jurisdiction thereof.

17.2. Recording Telephone Conversations

Each Party agrees that the other Party or its representatives may record any or all telephone conversations between representatives of the two Parties pursuant to or relating to this Agreement and will advise the other Party that the conversation is being recorded. Seller is hereby advised that telephone conversations with Buyer's personnel relating to Articles II, IV and V are routinely recorded. Each Party further agrees that such recorded telephone conversations shall not be deemed inadmissible in any arbitration proceeding or court of law by virtue of the recorded nature of the conversations or any authority or lack of authority to make such recording. Each Party hereby waives any objection to the introduction of such recorded telephone conversations as evidence in any arbitration proceeding or court of law to the extent such objections are based on the recorded nature of such conversations or the authority or lack of authority to make such recording.

17.3. Compliance with Laws

Each Party shall at all times conform to all applicable Laws. Each Party shall give all required notices, shall procure and maintain all necessary Authorizations, governmental permits, licenses and inspections necessary for its performance of this Agreement, and shall pay all charges and fees in connection therewith.

17.4. Taxes and Other Charges

(a) Seller's Taxes.

Seller is liable for and shall pay, or cause to be paid, or reimburse Buyer if Buyer has paid, all Taxes applicable to any transaction arising out of this Agreement prior to the Delivery Point on the sale of Energy, Capacity or Ancillary Services to Buyer. Seller shall indemnify, defend and hold harmless Buyer from any Claims for such Taxes applicable prior to the Delivery Point.

(b) Buyer's Taxes.

Buyer is liable for and shall pay, or cause to be paid, or reimburse Seller if Seller has paid, all Taxes applicable to any transaction arising out of this Agreement at or after the Delivery Point on the purchase by Buyer of Energy, Capacity or Ancillary Services. Buyer shall indemnify, defend and hold harmless Seller from any Claims for such Taxes applicable at or after the Delivery Point.

(c) Certificate of Tax Exemption.

Either Party, upon written request of the other, shall provide a certificate of exemption or other reasonably satisfactory evidence of exemption if either Party is exempt from Taxes.

17.5. Future Attributes

In the event that, at any time during the Term, a change in Law occurs that causes capability of the Facility as in existence on the date hereof to become a tradable attribute (e.g., emission credit, renewable energy credit, environmental credit, "Green" credit, etc.) or otherwise to have a market value, Buyer shall be entitled to one hundred percent (100%) of such tradable attribute and the benefits of such attribute until the tenth (10th) anniversary of the Effective Date and thereafter fifty percent (50%) until the Termination Date (with the other fifty percent (50%) belonging to Seller), and the Parties shall in good faith negotiate to reflect such allocation to Buyer at no additional cost to Buyer. Seller agrees to execute a separate agreement to transfer to Buyer any revenue, or any other benefit received by Seller for Buyer's tradable attributes and to execute all documents and agreements and take all steps necessary to permit Buyer to market Buyer's tradable attributes. Seller shall be entitled to all attributes and benefits arising from an Uprate.

17.6. Financial Transmission Rights

Buyer shall be entitled to all financial transmission rights or other rights and benefits with the Transmission Provider associated with the Capacity, Energy and Ancillary Services being purchased hereunder. Seller shall cooperate in good faith with Buyer to ensure that such financial transmission rights and other rights and benefits are assigned and transferred to Buyer at no additional cost to Buyer.

17.7. Governing Law; Venue

This Agreement shall be governed by and construed in accordance with the law of the State of Michigan (without giving effect to conflict of law principles) as to all matters, including but not limited to matters of validity, construction, effect, performance and remedies. THE PARTIES HERETO AGREE THAT VENUE IN ANY AND ALL ACTIONS AND PROCEEDINGS RELATED TO THE SUBJECT MATTER OF THIS AGREEMENT SHALL BE IN THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF MICHIGAN. THE FOREGOING COURT SHALL HAVE EXCLUSIVE JURISDICTION FOR SUCH PURPOSES, AND THE PARTIES HERETO IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT AND IRREVOCABLY WAIVE THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF ANY SUCH ACTION OR PROCEEDING. SERVICE OF PROCESS MAY BE MADE IN ANY MANNER RECOGNIZED BY SUCH COURT. EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

17.8. Entire Agreement; Amendment

This Agreement constitutes the entire agreement between the Parties pertaining to the subject matter of this Agreement, and supersedes and terminates any letters of intent and all prior and contemporaneous agreements, understandings, negotiations and discussions with the Parties, whether oral or written, regarding said subject matter, and there are no warranties, representations or other agreements between the Parties in connection with the subject matter of this Agreement, except as specifically set forth in this Agreement. NEITHER PARTY TO THIS AGREEMENT MAKES ANY REPRESENTATION, WARRANTY OR INDEMNITY, EXPRESS OR IMPLIED, TO THE OTHER PARTY TO THIS AGREEMENT EXCEPT FOR THE REPRESENTATIONS, WARRANTIES AND INDEMNITIES EXPRESSLY SET FORTH IN THIS AGREEMENT. No amendment, supplement, modification, waiver or termination of this Agreement shall be binding unless executed in writing by the Party to be bound thereby. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision of this Agreement, whether or not similar, nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

17.9. No Implied Waiver

The failure or delay of any Party hereto to enforce at any time any of the provisions of this Agreement, or to require at any time performance of the other Party hereto of any of the provisions hereof, shall neither be construed to be a waiver of such provisions nor affect the validity of this Agreement or any part hereof or the right of such Party thereafter to enforce each and every such provision.

17.10. Severability

Any provision of this Agreement declared or rendered unlawful by any Governing Authority or deemed unlawful because of a statutory change (individually or collectively, such events referred to as a “Regulatory Event”) will not otherwise affect the remaining lawful obligations that arise under this Agreement; provided, however, that if a Regulatory Event occurs, the Parties shall use their best efforts to reform this Agreement in order to give effect to the original intention of the Parties. Additionally, in the event any Governing Authority imposes on Seller, the Facility or any Energy, Capacity or Ancillary Services delivered to Buyer by Seller pursuant to this Agreement any Tax or other payment obligation related to the ownership or operation of the Facility and not otherwise generally imposed on electric generation facilities under the jurisdiction of such Governing Authority, or energy, capacity or ancillary services produced thereby, then in such case the Energy Payment applicable to a Billing Cycle shall be increased to reflect fifty percent (50%) of such Tax or other payment obligation to the extent paid by Seller in such Billing Cycle. The Energy Payment applicable to a Billing Cycle shall be increased to reflect one-twelfth of 50% of any incremental real property Taxes paid with respect to any spent nuclear fuel storage facility located in Charlevoix County, Michigan owned by Seller, to the extent such Taxes with respect to such facility exceed \$50,000 in the year of the Effective Date, or in subsequent years, \$50,000 plus 4% per year.

17.11. No Exclusivity/Dedication of Assets

This Agreement is not intended to be an exclusive arrangement between Buyer and Seller. No undertaking by a Party hereto to the other Party hereto under any provision of this Agreement shall constitute the dedication of that Party’s assets or any portion thereof to the other Party or to the public.

17.12. Expenses

Each Party shall pay the fees and expenses of its respective counsel, accountants, brokers, consultants, investment bankers and other experts incident to the negotiation and preparation of this Agreement.

17.13. Counterparts

This Agreement may be executed simultaneously in two (2) or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

17.14. Survival

The applicable provisions of this Agreement shall continue in effect after the termination of this Agreement, to the extent necessary to provide for final billing and adjustment, and to make other appropriate settlements hereunder. Those provisions hereof that by their express terms are intended to survive this Agreement shall so survive for the periods indicated.

17.15. Third-Party Beneficiary

Nothing expressed or referenced in this Agreement shall be construed to give any Person other than the Parties hereto any legal or equitable right, remedy or claim under or with respect to this Agreement or any provision of this Agreement. This Agreement and the provisions and conditions hereof are for the sole and exclusive benefit of the Parties hereto, and their permitted successors and permitted assigns.

17.16. Mobile-Sierra

It is the intent of the Parties that the rates and all other terms and conditions of the services provided hereunder shall not be subject to change under Sections 205 or 206 of the Federal Power Act of 1935, as amended, 16 U.S.C. § 791 *et seq.* (or any successor legislation), without the consent of both Parties. Each of the Parties hereto agrees not to unilaterally file with the FERC a change in the rates, terms or conditions of this Agreement. Moreover, absent agreement of all Parties to a proposed change, the standard of review for changes to any rate, term or condition of this Agreement proposed by a non-Party or the FERC or any other Governing Authority acting *sua sponte* shall be the “public interest” standard of review set forth in *United Gas Pipe Line Co. v. Mobile Gas Services Corp.*, 350 U.S. 332 (1956) and *Federal Power Commission v. Sierra Pacific Power Co.*, 350 U.S. 348 (1956). To the extent that the FERC adopts specific language that parties must incorporate into agreements in order to bind FERC, third parties and themselves to a public interest standard of review, the Parties hereby incorporate such language herein by reference.

17.17. Forward Contract

The Parties acknowledge and agree that this Agreement, the transactions contemplated hereby, and any security instrument that may be provided by either Party under Article VII shall each, and together, constitute one and the same “forward contract” within the meaning of the United States Bankruptcy Code (the “Code”), and Seller, Seller's Guarantor, Buyer, and the Buyer's Guarantor shall each constitute a “forward contract merchant” under the Code.

IN WITNESS WHEREOF, each of the Parties hereto has caused this Agreement to be executed on its behalf by its duly authorized officer as of the date first set forth above.

ENERGY NUCLEAR PALISADES, LLC

By: _____
Gary J. Taylor
President

CONSUMERS ENERGY COMPANY

By: _____
Robert A. Fenech
Senior Vice President
Nuclear, Fossil & Hydro Operations

EXHIBIT A

Capacity and Energy Charges¹

<u>Year</u>	<u>Capacity Charge (in \$/MWh)</u>	<u>Energy Charge (in \$/MWh)</u>	<u>Total (in \$/MWh)</u>
2007	[to be inserted]	[to be inserted]	\$43.50
2008	[to be inserted]	[to be inserted]	\$44.00
2009	[to be inserted]	[to be inserted]	\$44.50
2010	[to be inserted]	[to be inserted]	\$45.75
2011	[to be inserted]	[to be inserted]	\$47.00
2012	[to be inserted]	[to be inserted]	\$48.25
2013	[to be inserted]	[to be inserted]	\$49.00
2014	[to be inserted]	[to be inserted]	\$50.00
2015	[to be inserted]	[to be inserted]	\$51.00
2016	[to be inserted]	[to be inserted]	\$52.50
2017	[to be inserted]	[to be inserted]	\$54.00
2018	[to be inserted]	[to be inserted]	\$55.50
2019	[to be inserted]	[to be inserted]	\$57.00
2020	[to be inserted]	[to be inserted]	\$58.50
2021	[to be inserted]	[to be inserted]	\$60.00
2022	[to be inserted]	[to be inserted]	\$61.50
2023	[to be inserted]	[to be inserted]	\$63.00

For each month during the Term, the Capacity Charge and the Energy Charge set forth above shall be adjusted by multiplying the amount of such charge by the applicable Shaping Factor for such month as set forth on Exhibit C hereto.

¹ Within three weeks of the execution of this Agreement, Buyer shall provide a notice to Seller that shall allocate the Total value for each year in the above table as between the Capacity Charge and the Energy Charge, and this Exhibit A shall be modified accordingly.

EXHIBIT B

Buyer's Capacity Amount

For any given month during the Term, the Buyer's Capacity Amount shall be as set forth in the table below:

Column A	Column B	Column C	Column D
<u>Month</u>	<u>Capacity of the Facility</u>	<u>Buyer's Entitlement</u>	<u>Buyer's Capacity Amount</u>
January	813 MW	100%	813 MW
February	811 MW	100%	811 MW
March	809 MW	100%	809 MW
April	801 MW	100%	801 MW
May	794 MW	100%	794 MW
June	786 MW	100%	786 MW
July	781 MW	100%	781 MW
August	778 MW	100%	778 MW
September	783 MW	100%	783 MW
October	800 MW	100%	800 MW
November	809 MW	100%	809 MW
December	810 MW	100%	810 MW

Column A – Depicts the month of the year.

Column B – Will be updated over the Term of this Agreement to reflect the Capacity of the Facility, as determined in accordance with ECAR 4 (or with the Effective Capacity Requirements, if applicable).

Column C – Indicates the Buyer's Entitlement of the output of the Facility. This value will be updated only after an Uprate (as defined in 1.1 (83)). The Buyer's Entitlement shall be determined in accordance with Section 2.6 as follows (both values shall be determined or measured for the same month):

$$\frac{\text{Capacity of the Facility before the Uprate Capability Test}}{\text{Capacity of the Facility resulting from the Uprate Capability Test}}$$

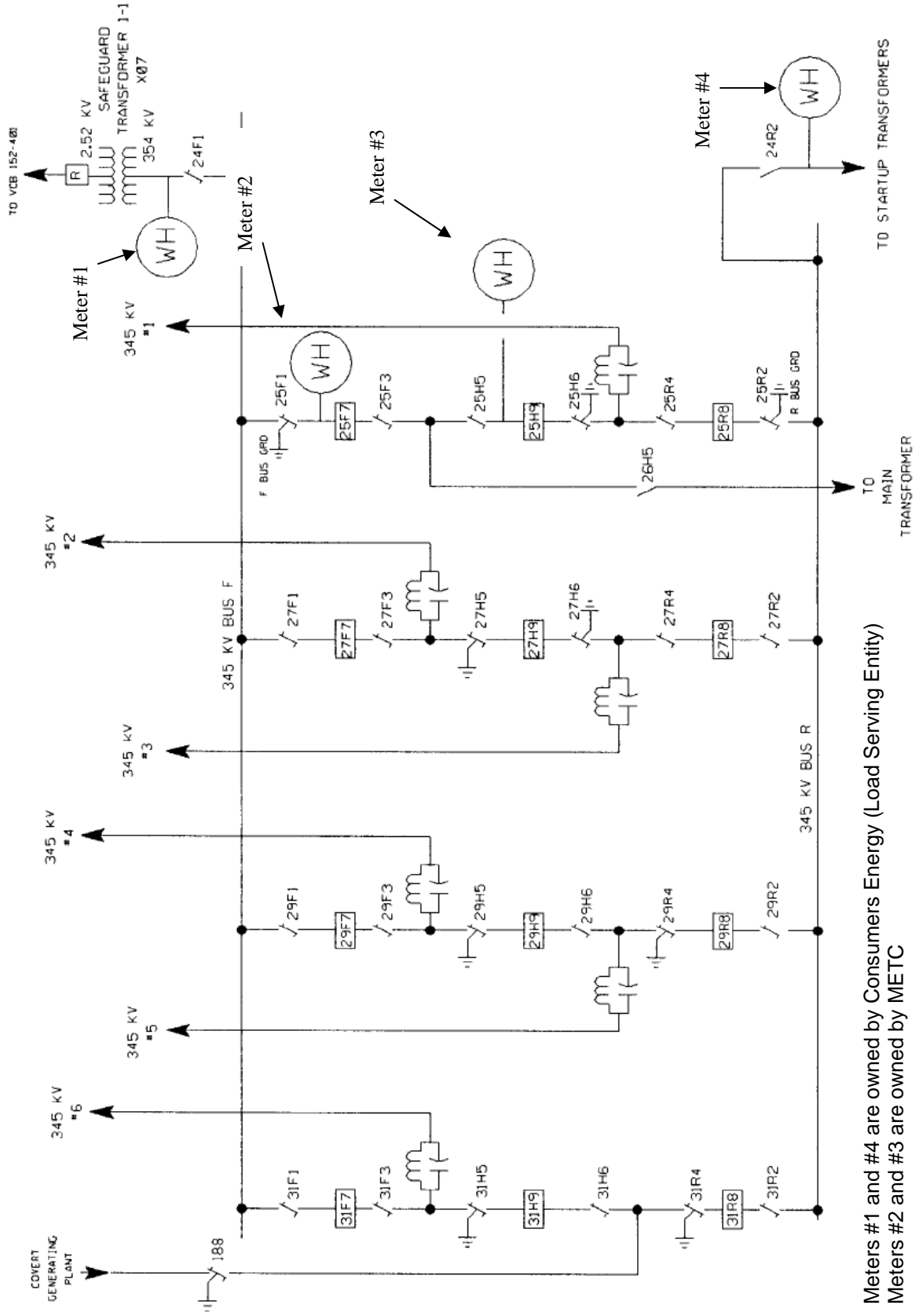
Column D - Shall be the product of Column B and Column C, as those values may be revised over the Term of this Agreement.

EXHIBIT C

Capacity and Energy Charge Shaping Factors

Month	On-Peak Hours	Off-Peak Hours
January	1.350	0.8275
February	1.200	0.6750
March	1.140	0.6750
April	1.140	0.6750
May	1.200	0.6750
June	1.400	0.8250
July	1.500	0.9500
August	1.500	0.9500
September	1.400	0.8275
October	1.140	0.6750
November	1.140	0.6750
December	1.200	0.6750

EXHIBIT D
Diagram of Billing Meters



Meters #1 and #4 are owned by Consumers Energy (Load Serving Entity)
Meters #2 and #3 are owned by METC

EXHIBIT E

FORM OF SELLER'S GUARANTY

This Guaranty is made and given as of the ___ day of _____ 200_, by _____, a corporation ("Guarantor"), in favor of Consumers Energy Company, a Michigan corporation ("Consumers").

WHEREAS, ENTERGY NUCLEAR PALISADES, LLC ("Seller") an Affiliate of Guarantor, has entered into a Power Purchase Agreement dated as of _____, 2006 (the "Power Purchase Agreement"), pursuant to which Consumers has agreed to purchase and Seller has agreed to sell, Capacity, Energy and Ancillary Services in accordance with the Power Purchase Agreement, and the parties have undertaken certain duties, responsibilities and obligations as set forth in the Power Purchase Agreement; and

WHEREAS, Guarantor has agreed to guarantee the payment obligations of Seller under the Power Purchase Agreement; and

WHEREAS, it is a condition to the obligations of Consumers under the Power Purchase Agreement that the Guarantor execute and deliver this Guaranty or that Seller otherwise provide security; and

WHEREAS, the Guarantor will benefit from the transactions contemplated by the Power Purchase Agreement.

NOW, THEREFORE, the Guarantor agrees as follows:

Section 1. Definitions. Capitalized terms used herein shall have the meanings assigned to them herein or, if not defined herein, then such terms shall have the meanings assigned to them in the Power Purchase Agreement.

Section 2. Guaranty. As an inducement to Consumers, for and in consideration of Consumers entering into the Power Purchase Agreement, Guarantor hereby absolutely, unconditionally, and irrevocably guarantees to Consumers and its successors, endorsees and assigns, as primary obligor and not merely as a surety, the full and prompt payment, when due, of all sums payable by Seller under the Power Purchase Agreement (the "Guaranteed Obligations"). The Guaranteed Obligations shall include all reasonable costs and expenses (including reasonable attorneys' fees), if any, incurred in enforcing Consumers' rights under this Guaranty, but only to the extent that Consumers is successful in enforcing its rights under this Guaranty. This is a guaranty of payment and not of performance or collection. Notwithstanding any other provision of this Guaranty, the maximum recovery from the Guarantor which may be collected pursuant to the provisions of this Guaranty shall in no event exceed in the aggregate an amount equal to thirty million (\$30,000,000) dollars plus the expenses set forth in this Section 2.

Section 3. Guaranty Absolute. Subject to the last sentence of Section 2, the liability of Guarantor under this Guaranty shall be absolute, unconditional and irrevocable, and nothing whatever except actual full payment to Consumers of the Guaranteed Obligations (and all other debts, obligations and liabilities of Guarantor under this Guaranty) shall operate to discharge

Guarantor's liability hereunder. Without limiting the generality of the foregoing, Guarantor's liability hereunder shall be unaffected by:

- (a) The occurrence or continuance of any event of bankruptcy, reorganization or insolvency with respect to Seller or any disallowance of all or any portion of any claim by Consumers, its successors or permitted assigns in connection with any such proceeding or in the event that all or any part of any payment is recovered from Consumers as a preference payment or fraudulent transfer under the Federal Bankruptcy Code or any applicable law, or the dissolution, liquidation or winding up of Guarantor or Seller;
- (b) Any amendment, supplement, reformation or other modification of the Power Purchase Agreement;
- (c) The exercise, non-exercise or delay in exercising, by Consumers or any other Person, of any of their rights under this Guaranty or the Power Purchase Agreement;
- (d) Any change in time, manner or place of payment of, or in any other terms of, all or any of the Guaranteed Obligations or any other amendment or waiver of, or any consent to depart from, the Power Purchase Agreement or any other agreement, document or instrument relating thereto;
- (e) Any permitted assignment or other transfer of rights under this Guaranty by Consumers, or any permitted assignment or other transfer of the Power Purchase Agreement, including any assignment as security for financing purposes;
- (f) Any merger or consolidation into or with any other entity, or other change in the corporate existence or cessation of existence of, Seller or Guarantor;
- (g) Any change in ownership or control of Guarantor or Seller;
- (h) Any sale, transfer or other disposition by Guarantor of any direct or indirect interest it may have in Seller;
- (i) The inaccuracy of any of the representations and warranties of Seller under the Power Purchase Agreement;
- (j) The absence of any notice to, or knowledge by, Guarantor of the existence or occurrence of any of the matters or events set forth in the foregoing clauses;
- (k) The failure to create, preserve, validate, perfect or protect any security interest granted to, or in favor of, any Person;
- (l) Any substitution, modification, exchange, release, settlement or compromise of any security or collateral for or guaranty of any of the Guaranteed Obligations or failure to apply such security or collateral or failure to enforce such guaranty;

- (m) The existence of any claim, set-off, or other rights which Guarantor or any Affiliate thereof may have at any time against Consumers or any Affiliate thereof;
- (n) The genuineness, validity, regularity, or enforceability of this Guaranty, the Power Purchase Agreement or any other agreement, document or instrument related to the transactions contemplated hereby or thereby; and
- (o) Any other circumstances which might otherwise constitute a defense to, or discharge of, Guarantor or Seller in respect of the Guaranteed Obligations or a legal or equitable discharge of Seller in respect thereof, including, a discharge as a result of any bankruptcy or similar law.

Section 4. Waiver. In addition to waiving any defenses to which clauses (a) through (o) of Section 3 may refer:

- (a) Guarantor hereby irrevocably, unconditionally and expressly waives, and agrees that it shall not at any time insist upon, plead or in any manner whatsoever claim or take the benefit or advantage of, any appraisal, valuation, stay, extension, marshaling of assets or redemption laws, or exemption, whether now or at any time hereafter in force, which may delay, prevent or otherwise affect the performance by Guarantor of its obligations under, or the enforcement by Consumers of, this Guaranty;
- (b) Guarantor hereby irrevocably, unconditionally and expressly waives all notices, diligence, presentment and demand of every kind (whether for nonpayment or protest or of acceptance, maturity, extension of time, change in nature or form of the Guaranteed Obligations, acceptance of security, release of security, composition or agreement arrived at as to the amount of, or the terms of, the Guaranteed Obligations, notice of adverse change in Seller's financial condition, or any other fact which might materially increase the risk to Guarantor hereunder) with respect to the Guaranteed Obligations which are not specifically required to be given by Consumers to Guarantor in the Power Purchase Agreement, and any other demands whatsoever which are not specifically required to be given by Consumers to Guarantor in the Power Purchase Agreement, and waives the benefit of all provisions of law which are in conflict with the terms of this Guaranty; provided, however, Consumers agrees that all payment demands under this Guaranty shall be in writing and shall specify in what manner and what amount Seller has failed to pay and an explanation of why such payment is due, with a specific statement that Consumers is calling upon Guarantor to pay under this Guaranty. The payment demand shall also include the bank account and wire transfer information to which the funds should be wire transferred;
- (c) The Guarantor hereby irrevocably, unconditionally and expressly waives promptness, diligence, notice of acceptance and any other notice with respect to any of the Guaranteed Obligations and the delivery, acceptance, performance, default or enforcement of this Guaranty and any requirement that Consumers

protect, secure or perfect any security interest or exhaust any right or first proceed against Seller or any other person or entity or any other security; and

- (d) Until payment and satisfaction in full of all Guaranteed Obligations, Guarantor irrevocably, unconditionally and expressly waives (i) any right it may have to bring in a case or proceeding against Seller by reason of Guarantor's performance under this Guaranty or with respect to any other obligation of Seller to Guarantor, under any state or federal bankruptcy, insolvency, reorganization, moratorium or similar laws for the relief of debtors or otherwise; (ii) any subrogation to the rights of Consumers against Seller and any other claim against Seller which arises as a result of payments made by Guarantor pursuant to this Guaranty, until the Guaranteed Obligations have been paid in full and such payments are not subject to any right of recovery; and (iii) any setoffs or counterclaims against Consumers which would otherwise impair Consumers' rights against Guarantor hereunder. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time when all the Guaranteed Obligations shall not have been paid in full, such amount shall be held in trust for the benefit of Consumers and shall forthwith be paid to Consumers to be applied to the Guaranteed Obligations.

Section 5. Representations and Warranties. Guarantor hereby represents and warrants as follows:

- (a) Guarantor is a corporation duly organized and validly existing under the laws of [].
- (b) Guarantor has full corporate power, authority and legal right to execute and deliver this Guaranty and to perform its obligations hereunder.
- (c) This Guaranty has been duly authorized, executed and delivered by Guarantor.
- (d) This Guaranty constitutes the legal, valid and binding obligation of Guarantor enforceable against Guarantor in accordance with its terms.
- (e) The execution and delivery by Guarantor of this Guaranty and the performance by Guarantor of its obligations hereunder will not (i) conflict with or result in any breach of any provisions of Guarantor's certificate of incorporation or bylaws (or other similar governing documents); (ii) conflict with or result in any breach of any provision of any law applicable to Guarantor or the transactions contemplated hereby; (iii) result in a breach of or constitute a default (or give rise to any right of termination, cancellation or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, agreement or other instrument or obligation to which Guarantor is a party or by which it or its assets or property are bound; or (iv) require any consent, approval, permit or authorization of, or filing with or notification to, any governmental or regulatory authority.
- (f) No action, suit or proceeding at law or in equity or by or before any governmental authority or arbitral tribunal is now pending or, to the best knowledge of

Guarantor, threatened against Guarantor that would reasonably be expected to have a material adverse effect on Guarantor's ability to pay and perform its obligations under this Guaranty.

- (g) Guarantor's obligations under this Guaranty are not subject to any offsets or claims of any kind against Consumers, Seller or any of their Affiliates.
- (h) It is not and shall not be necessary for Consumers to inquire into the powers of Seller or the officers, directors, partners, trustees or agents acting or purporting to act on Seller's behalf pursuant to the Power Purchase Agreement, and any Guaranteed Obligations made or created in reliance upon the professed exercise of such powers shall be guaranteed hereunder to the extent made or created in accordance with the terms of the Power Purchase Agreement.

Section 6. Continuing Guaranty. This Guaranty is a continuing guaranty and shall remain in full force and effect until the earlier of (i) all Guaranteed Obligations have been paid in full or Seller's obligations to make payment to Consumers have been terminated pursuant to the terms of the Power Purchase Agreement and (ii) the replacement of this Guaranty with a cash deposit or Letter of Credit pursuant to Section 7.2 of the Power Purchase Agreement. This Guaranty shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part thereof, of any of the Guaranteed Obligations by Guarantor is rescinded and returned by Consumers to Guarantor upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of Seller or Guarantor, or upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for, Seller, Guarantor or any substantial part of their respective properties, or otherwise, all as though such payments had not been made. Guarantor agrees, upon the written request of Consumers, to execute and deliver to Consumers any additional instruments or documents necessary or advisable from time to time, in the reasonable and good faith opinion of Consumers, to cause this Guaranty to be, become or remain valid and effective in accordance with its terms

Section 7. Amendments; Waivers; Etc. Neither this instrument nor any terms hereof may be changed, waived, discharged or terminated orally, but only by an instrument in writing signed by Consumers and Guarantor. Upon such termination of this Guaranty, this Guaranty shall continue in effect thereafter with respect to all Guaranteed Obligations which arise or are committed for prior to such termination (including all subsequent extensions and renewals thereof, including extensions and renewals at increased rates, and all subsequently accruing interest and other charges thereon) until all such Guaranteed Obligations and all obligations of Guarantor hereunder shall be paid in full and such payments are not subject to any right of recovery. No delay or failure by Consumers to exercise any remedy against Seller or Guarantor shall be construed as a waiver of that right or remedy. No failure on the part of Consumers to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by any applicable law.

Section 8. Severability. In the event that the provisions of this Guaranty are claimed or held to be inconsistent with any other instrument evidencing or securing the Guaranteed

Obligations, the terms of this Guaranty shall remain fully valid and effective. If any one or more of the provisions of this Guaranty should be determined to be illegal or unenforceable, all other provisions shall remain effective.

Section 9. Assignment.

- (a) Assignability. Guarantor shall not have the right to assign any of Guarantor's rights or obligations or delegate any of its duties under this Guaranty without the prior written consent of Consumers. Guarantor shall remain liable under this Guaranty, notwithstanding assumption of this Guaranty by a successor or assign, unless and until released in writing from its obligations hereunder by Consumers. Consumers may, at any time and from time to time, assign, in whole or in part, its rights hereunder to any Person to whom Consumers has the right to assign its rights or obligations under and pursuant to the terms of the Power Purchase Agreement, whereupon such assignee shall succeed to all rights of Consumers hereunder.
- (b) Successors and Assigns. Subject to Section 9(a) hereof, all of the terms of this instrument shall be binding upon and inure to the benefit of the parties hereof and their respective permitted successors and assigns.

Section 10. Address for All Notices. All notices and other communications provided for hereunder shall be given and effective in accordance with the notice requirements of the Power Purchase Agreement and if to Guarantor, at the following address:

Attn: [Guarantor]

Telecopy: Attn: Chief Financial Officer

with a copy to: [Guarantor]

Telecopy: Attn: General Counsel

Section 11. Governing Law. This Guaranty shall be governed by and construed in accordance with the law of the State of Michigan (without giving effect to conflict of law principles) as to all matters, including but not limited to matters of validity, construction, effect, performance and remedies. THE PARTIES HERETO AGREE THAT VENUE IN ANY AND ALL ACTIONS AND PROCEEDINGS RELATED TO THE SUBJECT MATTER OF THIS GUARANTY SHALL BE IN THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF MICHIGAN. THE FOREGOING COURT SHALL HAVE

EXCLUSIVE JURISDICTION FOR SUCH PURPOSES, AND THE PARTIES HERETO IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT AND IRREVOCABLY WAIVE THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF ANY SUCH ACTION OR PROCEEDING. SERVICE OF PROCESS MAY BE MADE IN ANY MANNER RECOGNIZED BY SUCH COURT. EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS GUARANTY OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 12. Entire Agreement. This writing is the complete and exclusive statement of the terms of this Guaranty and supersedes all prior oral or written representations, understandings, and agreements between Consumers and Guarantor with respect to the subject matter hereof. Guarantor agrees that there are no conditions to the full effectiveness of this Guaranty.

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IN WITNESS WHEREOF, Guarantor has duly caused this Guaranty to be executed and delivered as of the date first written above.

[GUARANTOR]

By: _____

Name: _____

Title: _____

EXHIBIT F

FORM OF BUYER'S GUARANTY

This Guaranty is made and given as of the ___ day of _____ 200_, by [to be inserted], in favor of ENTERGY NUCLEAR PALISADES, LLC ("Seller").

WHEREAS, Consumers Energy Company ("Consumers") an Affiliate of Guarantor, has entered into a Power Purchase Agreement dated as of _____, 2006 (the "Power Purchase Agreement"), pursuant to which Consumers has agreed to purchase and Seller has agreed to sell, Capacity, Energy and Ancillary Services in accordance with the Power Purchase Agreement, and the parties have undertaken certain duties, responsibilities and obligations as set forth in the Power Purchase Agreement; and

WHEREAS, Guarantor has agreed to guarantee the payment obligations of Consumers under the Power Purchase Agreement; and

WHEREAS, it is a condition to the obligations of Seller under the Power Purchase Agreement that the Guarantor execute and deliver this Guaranty or that Consumers otherwise provide security; and

WHEREAS, the Guarantor will benefit from the transactions contemplated by the Power Purchase Agreement.

NOW, THEREFORE, the Guarantor agrees as follows:

Section 1. Definitions. Capitalized terms used herein shall have the meanings assigned to them herein or, if not defined herein, then such terms shall have the meanings assigned to them in the Power Purchase Agreement.

Section 2. Guaranty. As an inducement to Seller, for and in consideration of Seller entering into the Power Purchase Agreement, Guarantor hereby absolutely, unconditionally, and irrevocably guarantees to Seller and its successors, endorsees and assigns, as primary obligor and not merely as a surety, the full and prompt payment, when due, of all sums payable by Consumers under the Power Purchase Agreement (the "Guaranteed Obligations"). The Guaranteed Obligations shall include all reasonable costs and expenses (including reasonable attorneys' fees), if any, incurred in enforcing the Seller's rights under this Guaranty, but only to the extent that Seller is successful in enforcing its rights under this Guaranty. This is a guaranty of payment and not of performance or collection. Notwithstanding any other provision of this Guaranty, the maximum recovery from the Guarantor which may be collected pursuant to the provisions of this Guaranty shall in no event exceed in the aggregate an amount equal to thirty million (\$30,000,000) dollars plus the expenses set forth in this Section 2.

Section 3. Guaranty Absolute. Subject to the last sentence of Section 2, the liability of Guarantor under this Guaranty shall be absolute, unconditional and irrevocable, and nothing whatever except actual full payment to Seller of the Guaranteed Obligations (and all other debts, obligations and liabilities of Guarantor under this Guaranty) shall operate to discharge

Guarantor's liability hereunder. Without limiting the generality of the foregoing, Guarantor's liability hereunder shall be unaffected by:

- (a) The occurrence or continuance of any event of bankruptcy, reorganization or insolvency with respect to Consumers, or any disallowance of all or any portion of any claim by Seller, its successors or permitted assigns in connection with any such proceeding or in the event that all or any part of any payment is recovered from Seller as a preference payment or fraudulent transfer under the Federal Bankruptcy Code or any applicable law, or the dissolution, liquidation or winding up of Guarantor or Consumers;
- (b) Any amendment, supplement, reformation or other modification of the Power Purchase Agreement;
- (c) The exercise, non-exercise or delay in exercising, by Seller or any other Person, of any of their rights under this Guaranty or the Power Purchase Agreement;
- (d) Any change in time, manner or place of payment of, or in any other terms of, all or any of the Guaranteed Obligations or any other amendment or waiver of, or any consent to depart from, the Power Purchase Agreement or any other agreement, document or instrument relating thereto;
- (e) Any permitted assignment or other transfer of rights under this Guaranty by Seller, or any permitted assignment or other transfer of the Power Purchase Agreement, including any assignment as security for financing purposes;
- (f) Any merger or consolidation into or with any other entity, or other change in the corporate existence or cessation of existence of, Consumers or Guarantor;
- (g) Any change in ownership or control of Guarantor or Consumers;
- (h) Any sale, transfer or other disposition by Guarantor of any direct or indirect interest it may have in Consumers;
- (i) The inaccuracy of any of the representations and warranties of Consumers under the Power Purchase Agreement;
- (j) The absence of any notice to, or knowledge by, Guarantor of the existence or occurrence of any of the matters or events set forth in the foregoing clauses;
- (k) The failure to create, preserve, validate, perfect or protect any security interest granted to, or in favor of, any Person;
- (l) Any substitution, modification, exchange, release, settlement or compromise of any security or collateral for or guaranty of any of the Guaranteed Obligations or failure to apply such security or collateral or failure to enforce such guaranty;

- (m) The existence of any claim, set-off, or other rights which Guarantor or any Affiliate thereof may have at any time against Seller or any Affiliate thereof;
- (n) The genuineness, validity, regularity, or enforceability of this Guaranty, the Power Purchase Agreement or any other agreement, document or instrument related to the transactions contemplated hereby or thereby; and
- (o) Any other circumstances which might otherwise constitute a defense to, or discharge of, Guarantor or Consumers in respect of the Guaranteed Obligations or a legal or equitable discharge of Consumers in respect thereof, including, a discharge as a result of any bankruptcy or similar law.

Section 4. Waiver. In addition to waiving any defenses to which clauses (a) through (o) of Section 3 may refer:

- (a) Guarantor hereby irrevocably, unconditionally and expressly waives, and agrees that it shall not at any time insist upon, plead or in any manner whatsoever claim or take the benefit or advantage of, any appraisal, valuation, stay, extension, marshaling of assets or redemption laws, or exemption, whether now or at any time hereafter in force, which may delay, prevent or otherwise affect the performance by Guarantor of its obligations under, or the enforcement by Seller of, this Guaranty;
- (b) Guarantor hereby irrevocably, unconditionally and expressly waives all notices, diligence, presentment and demand of every kind (whether for nonpayment or protest or of acceptance, maturity, extension of time, change in nature or form of the Guaranteed Obligations, acceptance of security, release of security, composition or agreement arrived at as to the amount of, or the terms of, the Guaranteed Obligations, notice of adverse change in Consumers' financial condition, or any other fact which might materially increase the risk to Guarantor hereunder) with respect to the Guaranteed Obligations which are not specifically required to be given by Seller to Guarantor in the Power Purchase Agreement, and any other demands whatsoever which are not specifically required to be given by Seller to Guarantor in the Power Purchase Agreement, and waives the benefit of all provisions of law which are in conflict with the terms of this Guaranty; provided, however, Seller agrees that all payment demands under this Guaranty shall be in writing and shall specify in what manner and what amount Consumers has failed to pay and an explanation of why such payment is due, with a specific statement that Seller is calling upon Guarantor to pay under this Guaranty. The payment demand shall also include the bank account and wire transfer information to which the funds should be wire transferred;
- (c) The Guarantor hereby irrevocably, unconditionally and expressly waives promptness, diligence, notice of acceptance and any other notice with respect to any of the Guaranteed Obligations and the delivery, acceptance, performance, default or enforcement of this Guaranty and any requirement that Seller protect,

secure or perfect any security interest or exhaust any right or first proceed against Consumers or any other person or entity or any other security; and

- (d) Until payment and satisfaction in full of all Guaranteed Obligations, Guarantor irrevocably, unconditionally and expressly waives (i) any right it may have to bring in a case or proceeding against Consumers by reason of Guarantor's performance under this Guaranty or with respect to any other obligation of Consumers to Guarantor, under any state or federal bankruptcy, insolvency, reorganization, moratorium or similar laws for the relief of debtors or otherwise; (ii) any subrogation to the rights of Seller against Buyer and any other claim against Consumers which arises as a result of payments made by Guarantor pursuant to this Guaranty, until the Guaranteed Obligations have been paid in full and such payments are not subject to any right of recovery; and (iii) any setoffs or counterclaims against Seller which would otherwise impair Seller's rights against Guarantor hereunder. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time when all the Guaranteed Obligations shall not have been paid in full, such amount shall be held in trust for the benefit of Seller and shall forthwith be paid to Seller to be applied to the Guaranteed Obligations.

Section 5. Representations and Warranties. Guarantor hereby represents and warrants as follows:

- (a) Guarantor is a corporation duly organized and validly existing under the laws of [].
- (b) Guarantor has full corporate power, authority and legal right to execute and deliver this Guaranty and to perform its obligations hereunder.
- (c) This Guaranty has been duly authorized, executed and delivered by Guarantor.
- (d) This Guaranty constitutes the legal, valid and binding obligation of Guarantor enforceable against Guarantor in accordance with its terms.
- (e) The execution and delivery by Guarantor of this Guaranty and the performance by Guarantor of its obligations hereunder will not (i) conflict with or result in any breach of any provisions of Guarantor's certificate of incorporation or bylaws (or other similar governing documents); (ii) conflict with or result in any breach of any provision of any law applicable to Guarantor or the transactions contemplated hereby; (iii) result in a breach of or constitute a default (or give rise to any right of termination, cancellation or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, agreement or other instrument or obligation to which Guarantor is a party or by which it or its assets or property are bound; or (iv) require any consent, approval, permit or authorization of, or filing with or notification to, any governmental or regulatory authority.
- (f) No action, suit or proceeding at law or in equity or by or before any governmental authority or arbitral tribunal is now pending or, to the best knowledge of

Guarantor, threatened against Guarantor that would reasonably be expected to have a material adverse effect on Guarantor's ability to pay and perform its obligations under this Guaranty.

- (g) Guarantor's obligations under this Guaranty are not subject to any offsets or claims of any kind against Consumers, Seller or any of their Affiliates.
- (h) It is not and shall not be necessary for Seller to inquire into the powers of Consumers or the officers, directors, partners, trustees or agents acting or purporting to act on Consumers' behalf pursuant to the Power Purchase Agreement and any Guaranteed Obligations made or created in reliance upon the professed exercise of such powers shall be guaranteed hereunder to the extent made or created in accordance with the terms of the Power Purchase Agreement.

Section 6. Continuing Guaranty. This Guaranty is a continuing guaranty and shall remain in full force and effect until the earlier of (i) all Guaranteed Obligations have been paid in full or Consumers' obligations to make payment to Seller have been terminated pursuant to the terms of the Power Purchase Agreement and (ii) the replacement of this Guaranty with a cash deposit or Letter of Credit pursuant to Section 7.3 of the Power Purchase Agreement. This Guaranty shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part thereof, of any of the Guaranteed Obligations by Guarantor is rescinded and returned by Seller to Guarantor upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of Consumers or Guarantor, or upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for, Consumers, Guarantor or any substantial part of their respective properties, or otherwise, all as though such payments had not been made. Guarantor agrees, upon the written request of Seller, to execute and deliver to Seller any additional instruments or documents necessary or advisable from time to time, in the reasonable and good faith opinion of Seller, to cause this Guaranty to be, become or remain valid and effective in accordance with its terms.

Section 7. Amendments; Waivers; Etc. Neither this instrument nor any terms hereof may be changed, waived, discharged or terminated orally, but only by an instrument in writing signed by Seller and Guarantor. Upon such termination of this Guaranty, this Guaranty shall continue in effect thereafter with respect to all Guaranteed Obligations which arise or are committed for prior to such termination (including all subsequent extensions and renewals thereof, including extensions and renewals at increased rates, and all subsequently accruing interest and other charges thereon) until all such Guaranteed Obligations and all obligations of Guarantor hereunder shall be paid in full and such payments are not subject to any right of recovery. No delay or failure by Seller to exercise any remedy against Consumers or Guarantor shall be construed as a waiver of that right or remedy. No failure on the part of Seller to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by any applicable law.

Section 8. Severability. In the event that the provisions of this Guaranty are claimed or held to be inconsistent with any other instrument evidencing or securing the Guaranteed

Obligations, the terms of this Guaranty shall remain fully valid and effective. If any one or more of the provisions of this Guaranty should be determined to be illegal or unenforceable, all other provisions shall remain effective.

Section 9. Assignment.

- (a) Assignability. Guarantor shall not have the right to assign any of Guarantor's rights or obligations or delegate any of its duties under this Guaranty without the prior written consent of Seller. Guarantor shall remain liable under this Guaranty, notwithstanding assumption of this Guaranty by a successor or assign, unless and until released in writing from its obligations hereunder by Seller. Seller may, at any time and from time to time, assign, in whole or in part, its rights hereunder to any Person to whom Seller has the right to assign its rights or obligations under and pursuant to the terms of the Power Purchase Agreement, whereupon such assignee shall succeed to all rights of Seller hereunder.
- (b) Successors and Assigns. Subject to Section 9(a) hereof, all of the terms of this instrument shall be binding upon and inure to the benefit of the parties hereof and their respective permitted successors and assigns.

Section 10. Address for All Notices. All notices and other communications provided for hereunder shall be given and effective in accordance with the notice requirements of the Power Purchase Agreement and if to Guarantor, at the following address:

Attn:

Telecopy:

with a copy to:

Telecopy:

Section 11. Governing Law. This Guaranty shall be governed by and construed in accordance with the law of the State of Michigan (without giving effect to conflict of law principles) as to all matters, including but not limited to matters of validity, construction, effect, performance and remedies. THE PARTIES HERETO AGREE THAT VENUE IN ANY AND ALL ACTIONS AND PROCEEDINGS RELATED TO THE SUBJECT MATTER OF THIS GUARANTY SHALL BE IN THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF MICHIGAN. THE FOREGOING COURT SHALL HAVE EXCLUSIVE JURISDICTION FOR SUCH PURPOSES, AND THE PARTIES HERETO IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT AND IRREVOCABLY WAIVE THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF ANY SUCH ACTION OR PROCEEDING. SERVICE OF PROCESS MAY BE MADE IN ANY MANNER RECOGNIZED BY SUCH COURT. EACH OF THE

PARTIES HERETO IRREVOCABLY WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS GUARANTY OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 12. Entire Agreement. This writing is the complete and exclusive statement of the terms of this Guaranty and supersedes all prior oral or written representations, understandings, and agreements between Seller and Guarantor with respect to the subject matter hereof. Guarantor agrees that there are no conditions to the full effectiveness of this Guaranty.

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IN WITNESS WHEREOF, Guarantor has duly caused this Guaranty to be executed and delivered as of the date first written above.

By: _____

Name: _____

Title: _____

EXHIBIT G

PEAK ADJUSTMENT PAYMENT

During the months of July and August for each Calendar Year of the Term (the “Peak Period”), Seller must achieve a specified capacity factor for the Facility as set forth in this Exhibit G. If Seller fails to achieve such a capacity factor for the specified period, Seller shall be responsible for a payment to Buyer (the “Peak Adjustment Payment”) calculated in accordance with the following formula:

$$(\text{TEM} - \text{DEM}) \times \$20/\text{MWh}$$

where

TEM = Targeted Energy for the month, which shall be the product of: (i) the applicable Buyer’s Capacity Amount for the month; (ii) the number of hours in the month; and (iii) the Target Capacity Factor.

DEM = Delivered Energy for the month.

If the resulting product of the above formula is positive, then such positive amount shall equal the Peak Adjustment Payment for the month in question and Seller shall pay that Peak Adjustment Payment in accordance with this Exhibit G. If the resulting product is zero or negative, then Seller shall owe no Peak Adjustment Payment to Buyer for the month. For purposes of calculating the TEM and DEM, the determination of the applicable number of hours in a month and the Delivered Energy for a month shall exclude (a) hours within an Summer Maintenance Outage that occurs in that month and Energy delivered during those outage hours, and (b) hours for which a damages amount has been paid by, or is due from, Seller pursuant to Section 2.4(d) or Section 4.1(b).

If it is determined that Seller owes Buyer a Peak Adjustment Payment for a particular month, Buyer shall have the right to either (a) demand payment of that Peak Adjustment Payment in writing, in which case Seller shall make such payment to Buyer within five (5) Business Days after the written demand for payment is received, or (b) reduce the payments otherwise due to Seller under this Agreement for the Billing Cycle that includes the month in question by the amount of the Peak Adjustment Payment.

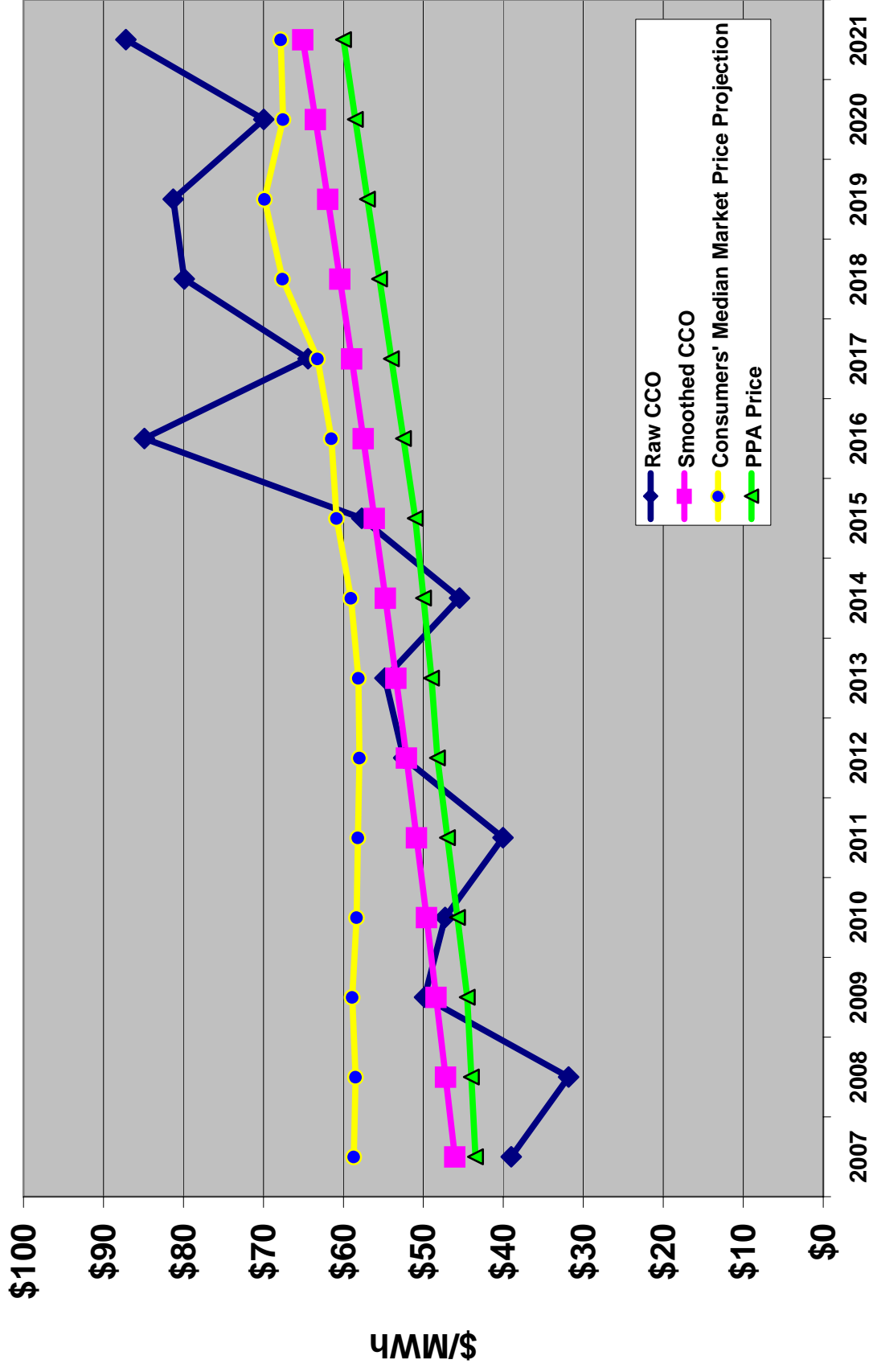
EXHIBIT H

SCHEDULING PROCEDURES

- (a) Scheduling of Generation Offers. Seller shall submit its Generation Offer for the Facility into the MISO day-ahead market for dispatch as a must-run generation unit with a dispatch minimum for each hour of the Operating Day equal to no less than Seller's reasonable estimate of the Buyer's Entitlement of Net Energy Output, provided, however, that during any Derate in which the entire Facility is not available for the generation of Energy, Seller shall have no obligation to schedule Generation Offers under Section 5.3 and this Exhibit H.
- (b) Scheduling of Financial Bilateral Transactions. Seller shall Schedule each Financial Bilateral Transaction relating to the delivery to Buyer of Energy generated at the Facility or the Replacement Energy and Buyer shall accept each such Financial Bilateral Transaction Schedule no later than the deadline established by MISO for such acceptance, with each utilizing the appropriate MISO electronic scheduling system and protocols in accordance with the following Scheduling parameters:
- (i) Seller shall submit a Financial Bilateral Transaction Schedule or Schedules for settlement in the day-ahead market for the actual quantity of Delivered Energy for the relevant Operating Day; and
 - (ii) Buyer shall confirm such Financial Bilateral Transaction Schedule submitted by Seller in accordance with paragraph (i) above, provided that if Buyer disputes any component of any such Financial Bilateral Transaction Schedule submitted by Seller, Buyer shall immediately notify Seller and Buyer and Seller shall cooperate to resolve any discrepancies in a timely manner;

provided, however, that during a Scheduled Maintenance Outage, Seller may Schedule Financial Bilateral Transactions under Section 5.3 and this Exhibit H with respect to the Replacement Energy or the Parties may mutually agree to an alternative settlement procedure.

PALISADES POWER PURCHASE AGREEMENT PRICING



STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
CONSUMERS ENERGY COMPANY)
for approval of a Power Purchase)
Agreement and for other relief in)
connection with the sale of the Palisades)
Nuclear Power Plant and other assets.)
_____)

Case No. U-14992

DIRECT TESTIMONY

OF

DAVID W. JOOS

ON BEHALF OF

CONSUMERS ENERGY COMPANY

August, 2006

DAVID W. JOOS
DIRECT TESTIMONY

1 Q. Please state your name and business address.

2 A. David W. Joos, One Energy Plaza, Jackson, Michigan 49201.

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

4 A. I am the Chief Executive Officer of both CMS Energy Corporation and Consumers
5 Energy Company. I also serve on the Board of Directors of both companies.

6 Q. Please describe your responsibilities in this position.

7 A. As Chief Executive Officer, I am the senior officer with overall management
8 responsibility for all staff and operational functions, as well as the financial performance
9 and strategic direction of both companies. These responsibilities cover both the electric
10 and gas utility operations of Consumers Energy and the various businesses of CMS
11 Enterprises.

12 Q. Please describe your responsibilities prior to assuming your current position.

13 A. Prior to assuming my current position in October 2004, I was President and Chief
14 Operating Officer of both CMS Energy and Consumers Energy, positions I held from
15 October 2001 to October 2004. In that position, I had operational responsibility for all
16 aspects of the energy businesses of both companies, including the Michigan jurisdictional
17 utility operations of Consumers Energy, and the domestic and foreign electric and natural
18 gas businesses of CMS Enterprise.

19 A further summary of my prior positions with Consumers Energy and CMS
20 Energy is listed below. I will specifically note that, over the course of my career, I have
21 had significant involvement with the operation and management of the Palisades Nuclear
22 Plant.

DAVID W. JOOS
DIRECT TESTIMONY

1 Project Manager for the Palisades Nuclear Plant Steam Generator Replacement
2 Project, Manager of Nuclear Operations Projects, and Plant Administrative and Planning
3 Manager, Consumers Energy (1984-1989): My responsibilities in these roles included
4 administrative and planning support of Palisades operations, and the management of
5 Palisades and off-site organizations during refueling and maintenance outages.

6 Vice President of Energy Supply Services, Consumers Energy (December 1989-
7 December 1992): In this role, I had overall responsibility for several departments which
8 provided services to the Company's generating plants (including Palisades and Big Rock
9 Point). These included Equipment Services; Projects, Engineering and Construction;
10 Technical Services; Environmental; Management and Budget; and Field Maintenance
11 Services. During this period, I also continued in the role of Project Manager for the
12 Palisades Steam Generator Replacement Project, having overall responsibility for
13 planning and executing the removal of the plant's steam generators and the replacement
14 with new steam generators.

15 Vice President of Marketing, Consumers Energy (December 1992-January 1994):
16 In this position, I had overall responsibility for the Company's strategic marketing and
17 sales efforts. The specific departments involved in these efforts were Natural Gas Vehicle
18 Programs, Customer Program Services, Market Services, and Wholesale Power
19 Transactions and Planning.

20 Senior Vice President of Nuclear, Rates and Marketing, Consumers Energy
21 (January 1994-December 1994): In this position, I was responsible for the management
22 of all aspects of Consumers Energy's nuclear operations, including the operation of the
23 Palisades and Big Rock Point nuclear generating plants. I was also responsible for the

DAVID W. JOOS
DIRECT TESTIMONY

1 management of the Company's retail and wholesale rates areas, including the preparation
2 and presentation of rate filings before the Michigan Public Service Commission and the
3 Federal Energy Regulatory Commission. I was responsible for wholesale and interchange
4 power planning, which includes overseeing the Company's generation requirements
5 planning. I was also responsible for overseeing Consumers Energy's marketing activities,
6 and the demand side management program.

7 Executive Vice President and Chief Operating Officer, Consumers Energy—
8 Electric (December 1994-August 1997): In this position, I was responsible for all aspects
9 of the Company's electric utility operations, including nuclear operations, fossil and
10 hydroelectric plants, electric transmission and distribution, and business support
11 activities.

12 President and Chief Executive Officer, Consumers Energy--Electric (August
13 1997-October 2001): In this capacity, I was the senior officer of the Electric Business
14 Unit of Consumers Energy, with full management responsibilities for all staff and
15 operational functions.

16 Executive Vice President and Chief Operating Officer, CMS Energy--Electric
17 (December 2000-October 2001): With this position, I added management responsibility
18 for the non-Consumers Energy electric businesses of CMS Energy, including domestic
19 and foreign independent power projects and foreign electric distribution companies.

20 President and Chief Operating Officer, CMS Energy and Consumers Energy,
21 October 2001—October 2004: In this dual capacity at CMS Energy and Consumers
22 Energy, I had operational responsibility for all of both companies' energy businesses,
23 including the domestic and foreign electric and natural gas utility businesses, natural gas

DAVID W. JOOS
DIRECT TESTIMONY

1 pipelines, processing and gathering facilities, oil and gas exploration and production,
2 independent power production, international energy distribution, and marketing.

3 Q. Do you have professional experience outside of Consumers Energy Company?

4 A. Yes. Though I started with Consumers Energy Company in 1976 following graduation
5 from college, I had a break in service between 1979 and 1983. During that time I worked
6 for Black & Veatch Engineers & Architects of Overland Park, Kansas, performing
7 engineering analyses and design studies for nuclear and fossil generating facilities.

8 Q. Please describe your educational background.

9 A. I was graduated from Iowa State University in 1975 with a bachelor of science degree in
10 Engineering Science. During the summer of 1975, I worked for Westinghouse Electric
11 Corporation in its Nuclear Safety Department in Monroeville, Pennsylvania. I then
12 returned to Iowa State University and received a master of science degree in Nuclear
13 Engineering in September 1976.

14 Q. Are you a member of any professional associations?

15 A. I am a member of the American Society of Mechanical Engineers and a registered
16 professional engineer in the States of Michigan and Kansas.

17 Q. Have you testified in previous cases before the MPSC?

18 A. Yes. I have testified in several MPSC cases, including electric rate cases, PSCR plan
19 cases, and electric industry restructuring cases.

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

21 A. On July 11, 2006, Consumers Energy entered into an agreement to sell the Palisades
22 Nuclear Power Plant (“Palisades”) to Entergy Nuclear Palisades, LLC (“Entergy”), a
23 wholly owned subsidiary of Entergy Corporation. At the same time, Consumers Energy

DAVID W. JOOS
DIRECT TESTIMONY

1 entered into a 15 year Power Purchase Agreement (“PPA”) with Entergy for the output
2 from Palisades. Consumers Energy is seeking Commission approval of the PPA and
3 approval of the use of a portion of the proceeds from the transaction. My testimony will
4 provide some general background on the sale, describe the reasons Consumers Energy
5 decided to sell Palisades at this time, identify the policy objectives that underlie the Asset
6 Sales Agreement and the Power Purchase Agreement, and describe the benefits of selling
7 Palisades versus continued ownership of the plant. I will also provide an outline of
8 certain issues that are discussed in more detail by other witnesses on behalf of Consumers
9 Energy. My testimony also addresses the Big Rock Independent Spent Fuel Storage
10 Installation (“Big Rock ISFSI”), and why this facility is included in this transaction.

11 Q. Please describe Palisades.

12 A. Palisades is a single unit pressurized water reactor with an average net capacity of
13 798 MW located on a 469 acre site south of the City of South Haven. The unit
14 commenced commercial operation in 1971. The current operating license for Palisades
15 expires in 2011. In March 2005, Consumers Energy filed an application with the Nuclear
16 Regulatory Commission (“NRC”) to extend the operating license to 2031. A more
17 complete description of Palisades, including its recent operating history, is set forth in
18 Chapters 1 and 2 of the Confidential Offering Memorandum (“COM”). The COM is
19 included in the Company’s filing as Exhibit A-5 (JJR-3).

20 Q. Who currently operates Palisades?

21 A. Since May 2001, Palisades has been operated by the Nuclear Management Company
22 (“NMC”). Prior to that time, Consumers Energy operated the plant. NMC holds the

DAVID W. JOOS
DIRECT TESTIMONY

1 Palisades operating license, which will be transferred to Entergy upon closing. Chapter 5
2 of the COM contains a detailed description of NMC.

3 Q. Please describe Palisades' current workforce.

4 A. The Palisades workforce consists of approximately 357 NMC employees and
5 115 Consumers Energy employees. The Consumers Energy employees are members of
6 the Utility Workers Union of America, Local 150, and are subject to a Collective
7 Bargaining Agreement ("CBA") that has a term that continues through May 2010. All of
8 these employees, along with an additional approximately 20 NMC employees, are
9 expected to transfer to the new owner. Chapter 4 of the COM contains a detailed
10 discussion of the Palisades workforce.

11 Q. How is energy from Palisades currently dispatched?

12 A. As is the case with all of Consumers Energy's generating units, the Midwest Independent
13 Transmission System Operator ("MISO") dispatches Palisades in the MISO day-ahead
14 energy market and real-time energy market based upon locational marginal cost pricing
15 ("LMP") principles. MISO has been doing so since April 1, 2005. Additional details
16 concerning MISO are contained in Chapter 8 of the COM and in Mr. Garrity's testimony.

17 Q. Why did Consumers Energy decide to sell Palisades?

18 A. There are several reasons that prompted Consumers Energy to make the decision to sell
19 Palisades at this time. First, the future of NMC is uncertain. When Consumers Energy
20 joined NMC in 2001, it was the fifth owner to place operating responsibility of its nuclear
21 plant with NMC. Since that time, two of the five owners have sold their plants and left
22 NMC. As of the end of 2005, the remaining owners were unwilling to make long term
23 commitments to NMC. (Indeed, in July 2006, one of the remaining owners,

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DIRECT TESTIMONY

1 We Energies, announced that it was continuing its strategic assessment, and conducting
2 an auction of its Point Beach Nuclear Plant.) Because of these changes, the likelihood of
3 continuing to realize the benefits associated with continued NMC management of
4 Palisades as part of a fleet of units is in considerable doubt. Consumers Energy did not
5 believe it was prudent to simply wait and see what happened to NMC, since we did not
6 believe that resuming direct management and operation of Palisades was a practical or
7 realistic choice. There is considerable industry evidence supporting the conclusion that
8 fleet-owned and operated nuclear units have better overall performance than do single
9 site units. Mr. Wawro discusses this in more detail in his testimony. Further, retaining a
10 qualified workforce at a single site plant such as Palisades is extremely difficult, and
11 potentially extremely expensive. We felt that the risks associated with the current
12 situation with NMC supported a decision to seek to sell Palisades.

13 Second, there are significant capital expenditures that will be required at Palisades
14 over and above the normal approximately \$20 million annual amounts. These include the
15 investments necessary for the reactor vessel head replacement, the Steam Generator
16 replacement, for the Combined Pressurizer/Alloy 600 program, and for various life
17 extension projects. The total of these non-routine capital expenditures could exceed \$589
18 million over the next 10 years. Consumers Energy has already made, and expects to
19 continue making substantial investments in its coal-fired generating plants to ensure
20 compliance with Clean Air Act requirements, in addition to other major capital
21 investment requirements. We expect Consumers Energy's total capital expenditures over
22 the next five years, excluding any Palisades-related investments, to exceed \$3.5 billion.
23 Of course, if Consumers Energy undertakes any new generating plant projects, its total

DAVID W. JOOS
DIRECT TESTIMONY

1 capital expenditures would increase even further. The increasing capital requirements at
2 Palisades, combined with other already substantial financing requirements, were an
3 important factor that we concluded supported a decision to sell Palisades.

4 Third, the timing to sell Palisades seemed to be right. As is discussed in more
5 detail by Mr. Reed, the market for nuclear generating assets is strong and competitive.
6 Seven different buyers have won recent auction transactions. The total transaction value
7 (i.e., purchase price, PPA terms, decommissioning fund treatment) of these transactions
8 has trended upward. We believed that it was possible to obtain transaction terms that
9 retained access to the power produced at Palisades on terms comparable to or more
10 favorable than the cost of continued ownership by Consumers Energy, while also freeing
11 up funds from the decommissioning trusts that could be utilized for other purposes
12 beneficial to customers. These considerations further supported a decision to explore the
13 sale of Palisades.

14 Fourth, continued ownership of a nuclear plant entails considerable risk. Some of
15 these risks are highlighted above; namely, the risk that NMC would no longer be a viable
16 option for continued management of Palisades and the impracticality of resuming direct
17 operation of Palisades. In addition, there are significant risks associated with the future
18 capital needs of a nuclear unit. While many of those can be identified and planned for,
19 the nature of the nuclear industry is that issues that arise at other operating nuclear units
20 often have an impact on all units. Many of these are essentially impossible to predict, but
21 can have a substantial impact on the owners of these units. Further, an extended outage
22 of a nuclear unit can be very costly, since the fixed costs of the plant continue and
23 replacement power costs can be significant. A performance-based PPA structure can

DAVID W. JOOS
DIRECT TESTIMONY

1 mitigate this risk. In addition, there is considerable risk associated with the
2 decommissioning of nuclear units. This risk includes the investment performance of the
3 decommissioning trust funds, as well as the difficulty in accurately projecting the cost of
4 decommissioning the plant, and the risk associated with carrying out the
5 decommissioning. The prospect of being able to transfer these risks to a new owner,
6 while retaining the right to the output of the plant for a substantial term also supported a
7 decision to sell Palisades.

8 For these reasons, in December 2005, Consumers Energy elected to proceed with
9 the auction of Palisades.

10 Q. Please describe the Big Rock ISFSI.

11 A. The Big Rock ISFSI consists of eight dry storage casks that contain spent fuel bundles
12 (and reactor-generated greater than class C waste (“GTCC waste”)) from the Big Rock
13 Nuclear Plant, and associated facilities. The Big Rock ISFSI stands on a concrete pad in
14 a secure, fenced and monitored location within the site of the former Big Rock Nuclear
15 Plant site. After the shutdown of the operating plant in 1997, Consumers Energy
16 removed the spent fuel bundles from the operating plant and placed them in the ISFSI.
17 The ISFSI will remain on the current site until the spent fuel bundles and GTCC waste
18 are transferred off-site to a U.S. Department of Energy (DOE) facility or some other
19 licensed storage facility.

20 Q. Why is the Big Rock ISFSI part of the Palisades transaction?

21 A. The sale of the Big Rock ISFSI was offered on an optional basis to bidders. This option
22 was offered because of Consumers Energy’s desire to minimize the future costs and risks
23 associated with the ownership of nuclear assets. Since we had made the decision to seek

DAVID W. JOOS
DIRECT TESTIMONY

1 to sell Palisades and since we are nearing completion of the decommissioning of the Big
2 Rock Nuclear Operating Plant site, we believed it made sense to explore the possibility of
3 transferring ownership of the Big Rock ISFSI, which is the only remaining nuclear
4 power-related asset, so that Consumers Energy could minimize its exposure to the
5 nuclear power sector. Another reason that supported this decision was that it would
6 eliminate the need to maintain the technical staffing capability to support the ISFSI.
7 Finally, transfer of the ISFSI to the new owner of Palisades would avoid legal and
8 practical difficulties associated with separating the rights (between Palisades and Big
9 Rock) that Consumers Energy has under the contract with the DOE for spent fuel
10 removal.

11 Q. Please describe the policy objectives Consumers Energy sought to achieve through the
12 auction of Palisades.

13 A. The basic objectives were to (1) secure a winning bid for Palisades that, on a total
14 transaction value basis, provides clear and compelling benefits to Consumers Energy's
15 retail customers compared to the costs and risks of continued plant ownership, (2) ensure
16 continued access to the output of Palisades for a substantial term at a cost that is
17 comparable to or less than the cost of continued ownership, (3) shed nuclear ownership
18 and operating risk to the maximum extent possible, (including a sale of the Big Rock
19 ISFSI, if such sale could be achieved on reasonable terms), (4) sell Palisades to a new
20 owner committed to nuclear safety, operational excellence, environmental protection and
21 fair treatment of employees.

DAVID W. JOOS
DIRECT TESTIMONY

1 Q. What process did Consumers Energy follow to meet these objectives?

2 A. During 2004 and 2005, Consumers Energy's concerns about the future viability of NMC
3 increased. Those concerns and the analysis of the factors described above in my
4 testimony led to the December 2005 announcement that Palisades would be offered for
5 sale in a competitive auction process. We concluded that conducting an open and
6 competitive auction in which all prospective bidders had an equal opportunity to
7 participate was important to ensure that the maximum value for the plant was realized.
8 While we considered the possibility of identifying potential purchasers and attempting to
9 negotiate a sale transaction on a bilateral basis, we rejected that approach in favor of a
10 competitive auction. Based upon their extensive experience in conducting such auctions,
11 Consumers Energy retained Concentric Energy Advisors ("CEA") as the auction
12 manager. In his testimony, Mr. Reed, the CEO of CEA discusses in more detail the
13 auction process that led to the selection of Entergy as the winning bidder for Palisades.

14 Q. Please outline the terms of the transaction for the sale of Palisades and the Big Rock
15 ISFSI.

16 A. The basic elements of the transaction are as follows:

- 17 • Purchase price: Entergy agrees to pay Consumers Energy \$380 million for the
18 Palisades Plant, plus or minus any adjustments pursuant to the terms of the Asset
19 Sales Agreement. This purchase price exceeds the book value of Palisades.
20 Consumers Energy agrees to pay Entergy \$30 million in exchange for Entergy
21 taking title to the Big Rock ISFSI. This caps the Company's costs for the ISFSI,
22 which would otherwise include the annual operations and maintenance expense
23 for the site, the cost of transferring the spent fuel offsite, and ultimate

DAVID W. JOOS
DIRECT TESTIMONY

1 decommissioning of the Big Rock ISFSI site. Because it is essentially impossible
2 to predict when it will be possible to remove the spent fuel from the Big Rock
3 site, the Company concluded that making this fixed payment represented a
4 reasonable means of capping its potential cost responsibility.

- 5 • Power Purchase Agreement: Entergy and Consumers Energy have entered into a
6 PPA that has a 15 year term and pricing that, on a present value basis, is
7 significantly less than the costs that would be incurred if Consumers Energy
8 continued to own the Palisades Plant for this period. Mr. Garrity describes the
9 terms of the PPA in more detail in his testimony.
- 10 • Decommissioning: Entergy assumes Consumers Energy's obligations for the
11 post-closing costs for: (1) long term storage of spent nuclear fuel and GTCC
12 waste for both Palisades and the Big Rock ISFSI; (2) decommissioning Palisades
13 and the Big Rock ISFSI in accordance with NRC regulations sufficient for
14 termination of the NRC license; and (3) ultimately restoring both sites to
15 "Greenfield" status. Approximately \$200 million from the non-qualified trusts
16 will be retained for the benefit of customers. Consumers Energy is required to
17 transfer \$250 million from the existing qualified decommissioning trusts to
18 Entergy at the time of closing (assuming closing occurs by March 1, 2007). If a
19 favorable tax ruling is obtained prior to closing, an additional approximately
20 \$116 million (less income taxes) from the qualified trusts will be retained for the
21 benefit of customers. If a favorable tax ruling is not received prior to closing, the
22 agreement provides for the return of the \$116 million (plus associated earnings
23 and less income taxes) from the qualified trust, upon receipt of such a ruling, or, if

DAVID W. JOOS
DIRECT TESTIMONY

1 no such ruling is issued, upon the decommissioning of Palisades. I should note
2 that these decommissioning amounts I am referencing in this answer are estimates
3 that are based upon an assumed March 1, 2007 closing date.

- 4 • Workforce: Entergy agrees to assume the CBA covering the union workers at
5 Palisades. The term of the CBA extends through May 2010. With respect to non-
6 union employees, Entergy will offer continued employment to the existing
7 Palisades and Big Rock ISFSI workforce at comparable wages for 18 months, and
8 has committed to provide similar health care and other benefits to this workforce
9 for a period extending 36 months after closing.

10 There are other features of the transaction which are also beneficial for Consumers
11 Energy and its customers. For example, Entergy accepted pension and post-retirement
12 benefits obligations for the Palisades employees. The estimated pension liability
13 associated with the transferred employees is between \$39 million to \$55.1 million
14 (depending upon the methodology used to calculate those liabilities), and the transferred
15 other post-employment benefits (“OPEB”) responsibility is \$10.1 million. Consumers
16 Energy will transfer pension assets equal to \$18.2 million and other post employment
17 benefits assets equal to \$6.1 million. These avoided costs represent savings to
18 Consumers Energy’s customers of approximately \$25-\$40 million.

19 Q. Please summarize the transaction terms as they relate to decommissioning.

20 A. As of March 1, 2007, there is estimated to be approximately \$566 million in Consumers
21 Energy’s qualified and non-qualified decommissioning trust funds. At closing, all of the
22 funds in the non-qualified decommissioning trusts will be retained for the benefit of
23 customers, which, assuming a March 1, 2007 closing date, will be approximately

DAVID W. JOOS
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1 \$200 million. If the required federal tax ruling is not obtained prior to closing, all of the
2 funds in the qualified trust will transfer to Entergy, but Consumers Energy will retain the
3 right to recover \$116 million (less income taxes). If the Company has obtained the
4 necessary tax rulings, only the \$250 million decommissioning target amount will be
5 transferred to Entergy at closing. These terms recognize (i) Entergy's conclusion that it
6 needed only \$250 million in the qualified trust now for the future decommissioning of the
7 plant, and (ii) that, under current tax regulations, there could be a significant tax penalty
8 associated with the withdrawal of the excess amount from the qualified trust. Consumers
9 Energy will seek a ruling of the Internal Revenue Service that allows the withdrawal of
10 the excess amount from the qualified trust without incurring the punitive tax. If the IRS
11 cannot provide such a ruling, the Company will seek relief through legislative means. If
12 the Company is able to avoid the tax penalty, the ASA allows Consumers Energy to
13 recover up to \$116 million (plus associated earnings and less income taxes) from the
14 qualified trust. Finally, if tax considerations prevent Consumers Energy from recovering
15 these funds earlier, the ASA provides that the \$116 million (plus earnings and less taxes)
16 will be returned after the plant has been decommissioned by Entergy.

17 Q. Please summarize the transaction terms as they relate to spent nuclear fuel.

18 A. The ASA provides that Entergy will assume title to and responsibility for management,
19 storage, removal, transportation and disposal of all spent nuclear fuel ("SNF") associated
20 with Palisades and the Big Rock ISFSI. Consumers Energy will also assign to Entergy its
21 rights, title and interest in the Standard Spent Nuclear Fuel contract with the Department
22 of Energy ("DOE"), with certain exceptions. Those exceptions are that Consumers
23 Energy retains its right to pursue its damages claim against the DOE for DOE's failure to

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1 commence the removal, transportation and acceptance of SNF from Palisades and Big
2 Rock in accordance with the terms of the contract. In the case of Palisades, Consumers
3 Energy retains the litigation rights for pre-closing damages. In the case of the Big Rock
4 ISFSI, Consumers Energy retains these litigation rights with respect to pre-closing
5 damages, and for the \$30 million paid by Consumers Energy pursuant to the ASA.
6 Consumers Energy also retains the pre-1983 DOE liability under the Standard Spent
7 Nuclear Fuel Contract. Mr. Torrey discusses this latter point in more detail in his
8 testimony.

9 Q. What does Consumers Energy propose to do with any damages collected from DOE?

10 A. To the extent that customers have previously paid for any of the costs that are ultimately
11 recovered from DOE, the Company will utilize those amounts for the benefit of
12 customers. At this time, it is impossible to predict when, if ever, those damages will be
13 paid by DOE, or what amounts may be recovered.

14 Q. What does Consumers Energy propose to do with the proceeds from the sale of Palisades
15 and the Big Rock ISFSI?

16 A. The \$380 million purchase price to be paid by Entergy exceeds the expected book value
17 of Palisades at March 1, 2007 by approximately \$65 million. As explained in more detail
18 by Mr. Wawro and Mr. Torrey, transaction costs (including costs associated with
19 termination of the Company's NMC interests) are expected to total approximately
20 \$30 million. This leaves \$35 million as the remaining purchase price proceeds. The
21 Company must, however, pay Entergy \$30 million for the Big Rock ISFSI. The
22 remaining purchase price proceeds and the approximately \$200-\$316 million freed up
23 from the decommissioning trusts will be available for uses that will benefit customers.

DAVID W. JOOS
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1 As is discussed in more detail by Mr. Garrity and Mr. Torrey, Consumers Energy
2 believes it would be appropriate to utilize some significant portion of the proceeds to
3 reduce PSCR costs during the initial years of the PPA. Although the PPA pricing
4 provides a \$199 million present value benefit to customers over its 15 year term relative
5 to the cost of continued ownership, the pricing in the initial years of the PPA will result in
6 a rate increase relative to the costs of Palisades currently included in the Company's
7 rates. In order to minimize that rate impact, we are proposing to utilize \$100 million of
8 the proceeds to offset PPA costs during the first three year period of the PPA.
9 Consumers Energy seeks Commission approval of this proposal in this proceeding. With
10 respect to the remaining proceeds, Consumers Energy believes that a final determination
11 of the possible uses should be deferred until a future case. Nevertheless, I believe it
12 would be useful to identify some of those uses so that the full scope of potential customer
13 benefits from this transaction may be better understood. Additional potential uses of the
14 proceeds include the following:

15 (1) The remaining decommissioning and site restoration costs incurred at the Big
16 Rock site in excess of what has been paid into the decommissioning fund by customers
17 are approximately \$55 million. The Commission's previous decommissioning orders
18 make clear that, following the completion of decommissioning, the Commission would
19 conduct a review, and require refund of amounts not spent, and provide the opportunity to
20 obtain recovery of amounts spent in excess of available funds. We believe it makes sense
21 to utilize a portion of the proceeds freed up from the Palisades nonqualified
22 decommissioning trusts to cover this shortfall at Big Rock, in lieu of a new
23 decommissioning surcharge imposed on customers. One of the principal positive features

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1 of the proposed Palisades transaction is Consumers Energy's shedding of significant
2 nuclear-related risks and costs. Consistent with this as a goal would be the elimination of
3 any further decommissioning-related liabilities. The availability of the proceeds from the
4 proposed transaction offers an opportunity to achieve this objective. The
5 decommissioning process at the Big Rock Point site will be completed soon, and
6 Consumers Energy anticipates filing, by March 31, 2007, an application for the
7 reconciliation of Big Rock decommissioning actual costs, at which time this issue can be
8 addressed.

9 (2) The costs incurred thus far to construct and operate the Big Rock ISFSI are
10 approximately \$55 million. None of these costs have ever been included in rates. While
11 the Company is pursuing recovery of these amounts from the DOE, the timing and final
12 outcome of that litigation is, as noted previously, highly uncertain. We believe that
13 utilizing a portion of the proceeds to recover these costs is appropriate. In the event the
14 Company ultimately recovers all or some portion of this amount from DOE, it would pass
15 that amount on to customers.

16 (3) In the Company's stranded cost cases for 2002/2003, the Commission
17 authorized the recovery of approximately \$63.2 million, plus interest. It would be
18 beneficial to current and future retail open access customers to eliminate as much of this
19 liability as possible through application of a portion of the Palisades proceeds toward
20 recovery of these stranded costs. The reduction or elimination of the 1.2 mill/kWh
21 stranded cost recovery charge would make ROA service more economical.

22 (4) A comparable use for a portion of the proceeds is the unrecovered enhanced
23 security costs incurred at the Palisades and Big Rock sites that was approved in Case No.

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1 U-14126. These are costs that were incurred after September 11, 2001 to improve the
2 security of the nuclear facilities owned by Consumers Energy. A total of approximately
3 \$20 million was authorized for recovery; we expect approximately \$15.8 million will
4 remain unrecovered at March 1, 2007. Eliminating this as a future charge to customers is
5 another appropriate use of the Palisades proceeds.

6 Q. Is the sale of Palisades and the Big Rock ISFSI contingent upon any specific Commission
7 action?

8 A. The sale is contingent upon (i) Commission approval of the PPA, (ii) Commission
9 approval of the manner in which Consumers Energy's rates will be adjusted to reflect the
10 sale of the Palisades Plant and to incorporate the costs incurred pursuant to the PPA,
11 (iii) a Commission order affirming that the requirements imposed by the October 24,
12 2000 Order in MPSC Case No. U-12505 (the "Securitization Order") authorizing the
13 securitization of Consumers Energy's pre-2001 investment in Palisades have been
14 satisfied, (iv) Commission approval of the proposed transfer and disposition of the funds
15 in the MPSC jurisdictional decommissioning trust funds, and (v) Commission issuance of
16 a certificate of convenience and necessity pursuant to 1929 PA 69 that will allow
17 Consumers Energy to supply station power to Palisades, if Entergy elects that option.
18 Mr. Garrity's testimony supports the PPA approval request in more detail. Mr. Torrey
19 discusses the other approvals in more detail. I will note that both Consumers Energy and
20 Entergy retain the ability to forego closing if conditions deemed unreasonable are
21 imposed upon the sale by regulatory bodies. I will also note that, if closing is delayed
22 beyond March 1, 2007, (i) the purchase price is subject to daily reductions, and (ii) the

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1 decommissioning “target” (i.e., the amount in the qualified fund that is permanently
2 transferred to Entergy) increases.

3 Q. Are there other timing aspects of this transaction upon which you would like to
4 comment?

5 A. Yes. The terms of the ASA recognize the importance of Entergy assuming operational
6 control of Palisades sufficiently in advance of the planned 2007 refueling outage so that
7 Entergy has time to prepare for that outage. The ASA also provides that, for each day the
8 closing is delayed after March 1, 2007, the purchase price is reduced by amounts that
9 start at \$79,306/day, and increase to \$133,412/day. Thus, a delay in closing beyond
10 March 1, 2007 is disadvantageous to both Consumers Energy and Entergy, as well as to
11 Consumers Energy’s customers. In addition, there are numerous activities that must take
12 place between the date of the final regulatory approvals and closing, and the possibility of
13 rehearing requests and appeals will also be a factor that affects the willingness of parties
14 to close. Consumers Energy therefore respectfully requests that the Commission adopt
15 procedures that will allow for an expeditious processing of this Application. Specifically,
16 the Company asks that the Commission issue its final order more than 30 days before
17 March 1, 2007, so that the ability to achieve closing by that date is preserved.

18 Q. Please comment upon the Company’s filing with respect to the Commission’s
19 Securitization Order issued in Case No. U-12505.

20 A. Mr. Torrey addresses this issue in more detail in his testimony. I will simply note that the
21 key element of that Order was that the Company would not be permitted to profit from a
22 sale of the Palisades plant to the extent such profit stems from the securitization of the

DAVID W. JOOS
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1 plant. As noted throughout my testimony and that of others, Consumers Energy is
2 committed to providing to customers the net benefits realized from this transaction.

3 Q. Please describe Entergy Nuclear Palisades, LLC.

4 A. As noted previously, Entergy Nuclear Palisades, LLC is a wholly owned subsidiary of
5 Entergy Corporation. Entergy Corporation owns and operates power plants with
6 approximately 30,000 MW of electric generating capacity, and is the nation's second
7 largest nuclear plant operator. Entergy Corporation delivers electricity to 2.7 million
8 utility customers in Louisiana, Texas, Mississippi and Arkansas. It has annual revenues
9 of approximately \$10 billion and has approximately 14,000 employees. Entergy
10 Corporation owns ten nuclear plants and operates another nuclear plant. Palisades would
11 be the third Combustion Engineering pressurized water reactor in the Entergy fleet. I
12 believe that the size and nature of the Entergy Corporation nuclear fleet makes it likely
13 that they will be able to achieve economies of scale and operating efficiencies that will
14 allow them to fulfill their obligations under the PPA. Based upon their reputation in the
15 industry as well as the contractual protections that have been put in place, I also believe
16 that Entergy Corporation will fairly treat the transferred employees.

17 Q. Earlier in your testimony you identified several objectives that the Company established
18 prior to the auction. Do you believe those objectives have been satisfied?

19 A. Yes. The basic objectives were as follows: (1) secure a winning bid for Palisades that, on
20 a total transaction value basis, provides clear and compelling benefits to Consumers
21 Energy's retail customers compared to the costs and risks of continued plant ownership,
22 (2) ensure continued access to the output of Palisades for a substantial term at a cost that
23 is comparable to or less than the cost of continued ownership, (3) shed nuclear ownership

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1 and operating risk to the maximum extent possible, including a sale of the Big Rock
2 ISFSI, if such sale could be achieved on reasonable terms, (4) sell Palisades to a new
3 owner committed to nuclear safety, operational excellence, environmental protection and
4 fair treatment of employees. For the following reasons, I believe these objectives have
5 been met:

- 6 • NMC's future is uncertain, and it is not feasible or practical for Consumers
7 Energy to leave itself in a position where it might have to resume the direct
8 management and operation of Palisades.
- 9 • There are significant operating risks associated with the operation of a nuclear
10 plant, which have been mitigated through the terms of the PPA.
- 11 • Risks associated with decommissioning Palisades and the Big Rock ISFSI (trust
12 fund investment performance and the uncertain cost of decommissioning) are
13 shed by Consumers Energy.
- 14 • Risks associated with future capital requirements at Palisades are shifted to
15 Entergy.
- 16 • Consumers Energy and its retail customers retain the right to the output of
17 Palisades at a price that is fixed by the terms of the PPA for a 15 year term, and
18 that is significantly less than the estimated cost of continued ownership by
19 Consumers Energy. As explained by Mr. Garrity, the present value of these
20 estimated savings is estimated to be \$199 million.
- 21 • At least \$200 million, and ultimately as much as \$316 million, is freed up from
22 the decommissioning trust funds and made available to offset other costs that
23 would otherwise be borne by customers.

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- 1 • The above-book portion of the purchase price net proceeds are available to offset
2 costs that would otherwise be borne by customers.
- 3 • The transaction produces substantial cash that will be used to reduce Consumers
4 Energy debt, which is ultimately beneficial to customers.
- 5 • As noted above, Entergy already has a large presence in the nuclear industry, and
6 has demonstrated an ability to successfully operate nuclear power plants. Their
7 reputation, along with the contractual obligations imposed by the Asset Sale
8 Agreement, lead me to conclude that they will be committed to nuclear safety,
9 operational excellence, environmental protection and fair treatment of employees.

10 Q. Does this complete your testimony?

11 A. Yes.

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
CONSUMERS ENERGY COMPANY)
for approval of a Power Purchase)
Agreement and for other relief in)
connection with the sale of the Palisades)
Nuclear Power Plant and other assets.)
_____)

Case No. U-14992

DIRECT TESTIMONY

OF

JOHN J. REED

ON BEHALF OF

CONSUMERS ENERGY COMPANY

August, 2006

JOHN J. REED
DIRECT TESTIMONY

1 Q. Please state your name and business address.

2 A. My name is John Reed. My business address is 313 Boston Post Road West, Suite 210,
3 Marlborough, MA, 01752.

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

5 A. I am Chairman and Chief Executive Officer of Concentric Energy Advisors, Inc. and CE
6 Capital Advisors, Inc. (together "CEA").

7 Q. What is your educational background?

8 A. I have a Bachelor of Science Degree in Economics and Finance from Wharton School,
9 University of Pennsylvania, and have passed the NASD Series 7, 24 and 63 securities
10 license exams.

11 Q. Please describe your professional experience.

12 A. I have more than 30 years of experience in the energy industry, and have worked as an
13 executive in and consultant to the energy industry for the past 25 years. Over the past
14 decade, I have directed the financial advisory services of CEA, Navigant Consulting and
15 Reed Consulting Group, and I have been involved in the purchase or sale of more than
16 \$15 billion of electric generation facilities. I have served as Vice Chairman and Co-CEO
17 of the nation's largest publicly traded consulting firm, and as Chief Economist for the
18 nation's largest gas utility. My background is presented in more detail in
19 Exhibit A-3 (JJR-1).

20 Q. Have you provided testimony in prior regulatory proceedings?

21 A. Yes, I have provided testimony in numerous regulatory proceedings. A detailed listing of
22 previous testimony I have given is included as part of Exhibit A-3 (JJR-1).

JOHN J. REED
DIRECT TESTIMONY

1 Q. What is the purpose of your testimony?

2 A. My testimony is submitted on behalf of Consumers Energy (“Consumers” or the
3 “Company”). The testimony addresses:

- 4 • The market for nuclear generating assets;
- 5 • The process (the “Auction” or the “Auction Process”) employed by Consumers to sell
6 the Palisades Nuclear Power Plant (“Palisades”);
- 7 • The structure of the Transaction Consumers has entered into with Entergy Palisades
8 for the sale of Palisades, including an assessment of specific terms of the transaction
9 from an industry perspective (overall, the “Transaction”);
- 10 • The derivation and use of Consumers’ estimated cost of continued ownership
11 (“CCO”) of Palisades in the Transaction; and
- 12 • The process employed by Consumers to evaluate bids for the Plant and select Entergy
13 Palisades as the winning bidder.

14 Q. What was your role in the Auction Process?

15 A. CEA was retained by Consumers to act as its auction advisor. In this capacity, CEA
16 designed, executed and managed the Auction Process, reporting to the Consumers
17 executive team. I acted as the Responsible Officer for the CEA auction team.

18 Q. What were the results of the Palisades Auction?

19 A. The Palisades Auction resulted in Entergy Palisades, a wholly-owned subsidiary of
20 Entergy, Inc., purchasing Palisades for \$380 million in cash purchase price. As part of
21 the Transaction, Consumers will enter into a power purchase agreement (“PPA”) with
22 Entergy Palisades for 15 years at terms significantly better than Consumers’ customers
23 would have paid for the capacity and energy had the Company continued to own the
24 plant. Consumers’ witness William Garrity discusses the specific terms of the PPA.

JOHN J. REED
DIRECT TESTIMONY

1 Q. Please summarize your assessment of the results of the Palisades Auction.

2 A. Consumers began the Auction Process hoping to achieve the following:

- 3 1. Securing a purchase price for the facility that was at least equal to the book value of
4 the assets being sold plus the costs of the transactions;
- 5 2. Securing a 10-15 year PPA for all, or nearly all, of the output of the facility at prices
6 which were less than or equal to the projected costs if Consumers were to continue to
7 own the plant, and whose terms transferred much of the operating risk to the plant's
8 new owner;
- 9 3. Transferring all of the decommissioning responsibility for the plant to the new owner,
10 with less than all of the accumulated decommissioning funds being transferred to the
11 new owner;
- 12 4. Achieving terms of sale for labor, environmental, and other issues which were within
13 industry norms; and
- 14 5. Achieving a disposition of the Big Rock ISFSI on terms which yielded cost and risk
15 levels that were no higher than those associated with Consumers' continuing to own
16 this facility.

17 The objectives were recognized as being aggressive both individually and in the
18 aggregate, and Consumers understood that some level of trade-offs in meeting these
19 objectives might be necessary.

20 The proposed Transaction with Entergy Palisades exceeds Consumers objectives
21 on each of the five points listed above. In fact, in each area, the Transaction *significantly*
22 exceeds the objectives that were established. Taken as a whole, the Transaction
23 represents one of the most favorable nuclear plant sales to date, with approximately
24 \$582 million in net benefits being created for Consumers and its customers.

JOHN J. REED
DIRECT TESTIMONY

1 Q. Are you sponsoring an exhibit and supporting schedules in the filing?

2 A. Yes. I am sponsoring the following exhibits:

- 3 • Exhibit A-3 (JJR-1): Qualifications of John J. Reed
- 4 • Exhibit A-4 (JJR-2): Early Interest Letter
- 5 • Exhibit A-5 (JJR-3): Confidential Offering Memorandum (“COM”)
- 6 • Exhibit A-6 (JJR-4): Final Bid Instructions
- 7 • Exhibit A-7 (JJR-5): Estimated Cost of Continued Ownership
- 8 • Exhibit A-8 (JJR-6): Asset Sale Agreement

9 **I. THE MARKET FOR NUCLEAR GENERATION ASSETS**

10 Q. Please describe the market for nuclear generation assets.

11 A. The market for nuclear generation assets is very competitive. Since 1998, more than
12 30 utilities have sold their ownership interests in nuclear generating plants. Seven
13 different buyers have purchased these ownership interests, which reflects a substantial
14 amount of consolidation in the nuclear power industry. Every transaction that was the
15 result of a competitive auction was approved by state and federal regulators. More than
16 15 state commissions have approved the sale of a nuclear plant. Currently, 72 of the
17 nation’s 103 operating nuclear plants are owned by the 10 major nuclear fleet owners
18 (Exelon, Entergy, FPL, Constellation, Dominion, Duke, Southern Company, TVA,
19 FirstEnergy and Progress Energy).¹

¹ Consolidation has been the result of the individual sales of plants as well as mergers of companies which owned nuclear generation.

JOHN J. REED
DIRECT TESTIMONY

1 Q. Has competition for the acquisition of nuclear generating assets changed over the past
2 decade?

3 A. Yes. The first transactions for majority operating interests in nuclear generating facilities
4 which occurred in the 1998 – 1999 timeframe were dominated by two players and ranged
5 from \$16/kW to \$127/kW in purchase price, with an average of \$71/kW. More recent
6 transactions have shown a marked increase in competitive interest and in transactional
7 value. The purchase price value for nuclear generating facilities in the past five years,
8 excluding Palisades, has ranged from \$353/kW to \$891/kW, with an average of
9 \$648/kW, a 800% increase over the 1998 – 1999 values.

10 This increase in value can be attributed to a number of factors including increased
11 competition, increasing comfort by strategic acquirers of nuclear generation in managing
12 nuclear portfolio risk, and rising fossil fuel prices. The acquisition, ownership and
13 operation of nuclear generating assets have become core elements of business for a
14 number of well-established owners and operators of nuclear generating fleets. These
15 organizations have demonstrated their ability to run plants better than their previous
16 owners. Their confidence in their ability to continue that trend causes them to compete
17 aggressively to acquire plants, and in the case of Palisades, to offer a total transaction
18 value that fully reflects all elements of the plant's value (e.g., decommissioning, PPA,
19 etc.). Industry experts and regulators agree that the operation of nuclear plants is a
20 distinct core competency, quite different from operating fossil or other types of units.

JOHN J. REED
DIRECT TESTIMONY

1 Q. What factors have caused utilities to sell their nuclear assets and state commissions to
2 approve these sales?

3 A. The decisions that dozens of nuclear sellers have made to sell their ownership interests
4 are based on: (1) the desire to get these plants into the hands of the nation's best owner
5 operators; (2) the desire of the sellers to transfer, and the willingness of the buyers to
6 accept, the very substantial and unique risks that accompany nuclear plant ownership;
7 and (3) a recognition that the substantial amounts of capital that are required to keep
8 nuclear plants operating are best invested by merchant generating companies that are
9 committed to nuclear power. These are some of the very same reasons that motivated
10 Consumers to sell Palisades.

11 In approving these sales, state commissions have focused on the benefits resulting
12 from the transfer of risk and the realization of other customer and public interest benefits.

13 Q. Please describe in more detail the industry trends and other considerations that have led
14 single unit owners to sell their nuclear units.

15 A. The industry is facing the challenges of an aging asset base and aging workforce. The
16 average age of the nuclear generating stations in the U.S. is 26 years - 14 years away
17 from shutdown if license renewal is not achieved.² The aging asset base makes
18 decommissioning funding, spent nuclear fuel storage, and decommissioning planning
19 more imminent concerns. The capital and other investments necessary to ensure that a
20 plant is capable of running for an additional 20 years are substantial. As described by
21 Consumers' witness Steven Wawro, the owner of Palisades will face up to \$589 million

² Average age of nuclear plants was calculated using Energy Information Administration's "Reactor Status List"
See www.eia.doe.gov/cneaf/nuclear/page/nuc_reactors/reactsum.html.

JOHN J. REED
DIRECT TESTIMONY

1 in capital expenditures over the next 10 years. Although the industry, on average, has
2 enjoyed more reliable performance than a decade ago, performance of aging nuclear
3 plants is also a significant concern. There are many examples of unplanned outages,
4 including the 5 ½ month shutdown at the Kewaunee Nuclear Power Plant (“KNPP”) in
5 2005 while it was still operated by the NMC, which cost its owners and their customers
6 more than \$100 million. With the cost to correct the underlying cause of the outage plus
7 replacement power costs, these unplanned outages can prove to be much more costly to
8 utilities and their customers than in the past.

9 In addition to an aging asset base, the industry also faces an aging workforce.
10 According to the Nuclear Energy Institute, more than ¼ of nuclear industry personnel
11 will be retirement eligible by 2011.³ Demand for qualified personnel, particularly
12 nuclear engineers, radiation waste technicians, and part-time outage workers, outstrips
13 supply. This has been exacerbated by a decrease in the number of university nuclear
14 engineering programs from 38 in the 1970s to around 25 today.⁴ Competition for
15 qualified nuclear personnel is increasing. Many owners are finding recruiting
16 increasingly difficult and costly. One example of this is the increased need to team with
17 universities and technical schools to sponsor programs aimed at attracting and developing
18 talent.

³ The Associated Press & Local Wire, “Nuclear Engineers in High Demand,” May 1, 2006.

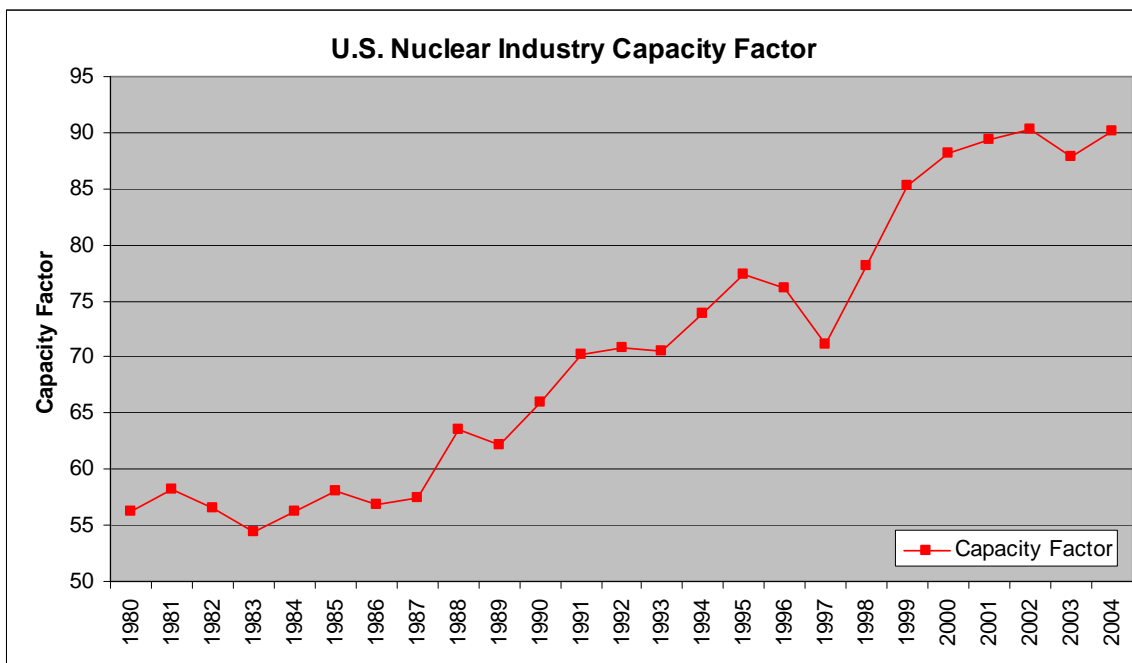
⁴ Nuclear Energy Institute. *Nuclear Fact Sheet*. Feb 2005 at 2-3.

JOHN J. REED
DIRECT TESTIMONY

1 Q. Has industry-wide performance improved as nuclear plant ownership has become more
2 concentrated?

3 A. Yes. At the same time the industry has been consolidating, plant performance has
4 dramatically improved. Industry-wide capacity factors averaged less than 60% in the
5 1980s. By the end of the 1990s, the average rose into the mid-70% range. The last five
6 years (2000-2004) saw an industry average capacity factor of approximately 90%.

7 *Figure 1: Industry Average Capacity Factors⁵*



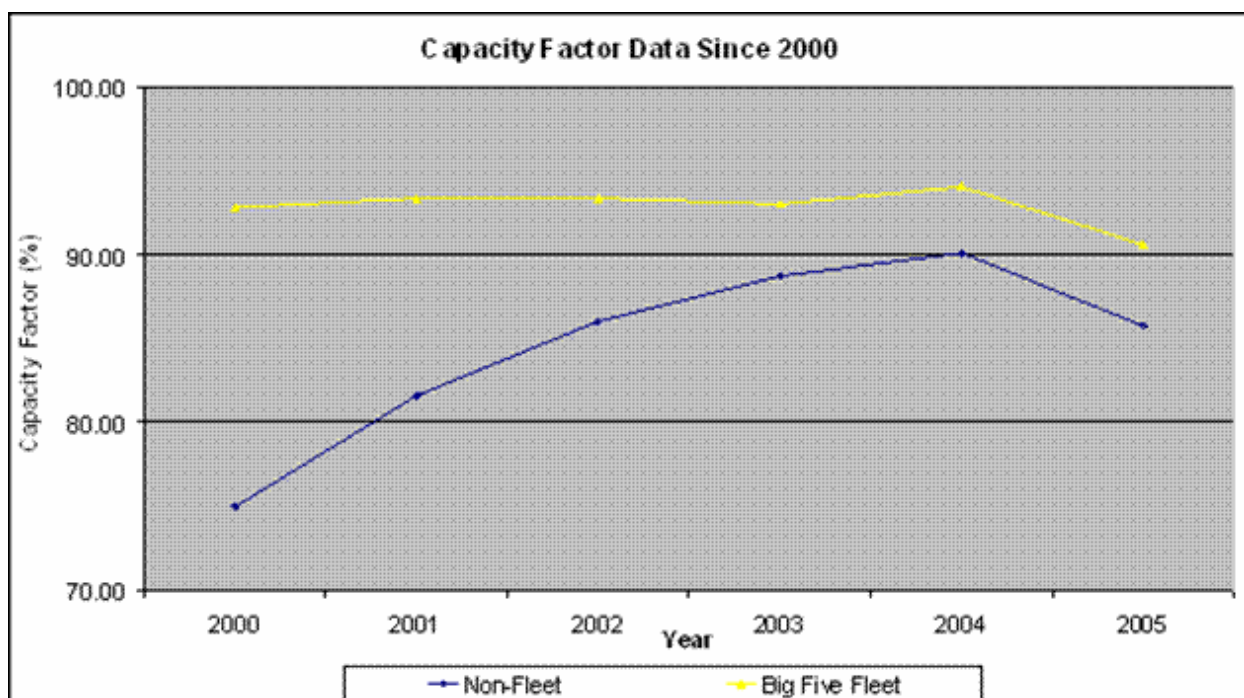
17 As shown in Figure 2, below, the industry average during the 2000 to 2005 period was
18 largely driven by the performance of the major nuclear fleets, which achieved an average
19 91% capacity factor, outperforming the major non-fleet owners on average by nine
20 percentage points.⁶

⁵ Data from Nuclear Energy Institute website:
www.nei.org/documents/U.S._Nuclear_Industry_Capacity_Factors_1980_2004.pdf

⁶ The major fleet owners are Constellation, Dominion, Entergy, Exelon, and FPL Group.

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DIRECT TESTIMONY

Figure 2: 2000-2004 Average Capacity Factors



Q. Have you included the NMC in your statistics for nuclear fleets?

A. No. While the NMC operates multiple units, the NMC is hindered by the fact that it does not own the units it operates. The original premise of the NMC was to transfer ownership and truly merge financial and operational responsibility for the NMC plants through a jointly-owned or publicly-owned generation company. This did not happen. As a result, the NMC has remained strictly an operating company for plants owned by others. Fleet owners have significant incentives through ownership to improve and streamline operations and safety at their plants, because they can achieve financial benefits for their shareholders if they do so. Due to the different needs and situations of its owners, the NMC has been unable to operate the plants within its operational control as a true fleet (it operates these plants more in parallel). The result is that NMC does not have the performance opportunities that the “owned” fleets have. The Public Service

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1 Commission of Wisconsin, when faced with this same issue in the KNPP transaction,
2 concluded that:

3 “NMC operates KNPP and seven other nuclear units in Wisconsin
4 and neighboring states but the fact that it does not own any of these
5 plants to some extent limits NMC’s economies of scale. Unless
6 each of the five utility owners agrees about program initiatives,
7 NMC cannot optimally manage and operate these units.”⁷
8

9 Palisades, and other NMC-operated plants, have achieved improvements under NMC
10 operation but still are not operating at the levels of those units that are part of nuclear
11 fleets. The decision by Consumers to join the NMC was a good one which led to
12 improved plant performance, however the Palisades Transaction offers an even better
13 result for Consumers’ customers through the terms of the PPA, the transaction’s purchase
14 price, the decommissioning terms and other non-price terms.

15 Q. How can you be certain that the Palisades Transaction is the best available option for
16 Consumers’ customers in today’s market?

17 A. As described in more detail in the section which follows, the Auction was highly
18 competitive. The bidders participated actively and bid aggressively for the Plant. By
19 conducting a competitive auction in which all interested and qualified parties were
20 provided an equal opportunity to participate and a high degree of flexibility to maximize
21 the value of their bids, Consumers ensured that the full and highest value of the Plant,
22 when considering all of the terms of the Transaction, was achieved through the auction.

23 This total transaction value provides benefits significantly greater than those which can

⁷ Public Service Commission of Wisconsin. Docket No. 05-EI-136. April 2, 2005. (In the Matter of Application for All Approvals Necessary for the Transfer of Ownership and Operational Control of the Kewaunee Nuclear Power Plant From Wisconsin Public Service Corporation and Wisconsin Power and Light Company to Dominion Energy Kewaunee, Inc.) at 7.

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1 be achieved under continued ownership by Consumers, and shifts significant risk away
2 from Consumers and its customers to Entergy Palisades (see Sections V and VI, below).

3 **II. THE AUCTION PROCESS**

4 Q. Please summarize the Auction Process.

5 A. The Auction Process was conducted in six major phases, each designed and executed to
6 achieve Consumers' Auction objectives. The phases of the Auction Process included:

- 7 • Auction Preparation
- 8 • Early Interest Phase
- 9 • Marketing and Due Diligence
- 10 • Bidding
- 11 • Bid Evaluation
- 12 • Negotiation and Agreement

13 Q. When did the Company initiate the Auction Process?

14 A. The Company announced its decision to commence a competitive auction for the sale of
15 Palisades in December 2005. The Auction Process was then deployed over a period of
16 approximately seven months, leading to the execution of the Asset Sale Agreement
17 ("ASA") and PPA between Consumers and Entergy Palisades on July 11, 2006 and the
18 submittal of this Application with the Michigan Public Service Commission ("MPSC")
19 and other filings with other regulatory bodies. The ASA is Exhibit A-8 (JJR-6). The
20 PPA is one of the exhibits sponsored by Mr. Garrity.

21 Q. What were Consumers' objectives for the Palisades Auction Process?

22 A. Consumers' principal objectives for the Palisades Auction were to:

- 23 • Secure a winning bid for Palisades and the Big Rock ISFSI that, on a total transaction
24 value basis, provides clear and compelling benefits to Consumers' customers as

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1 compared to the costs and risks of continued ownership of these facilities by
2 Consumers;

- 3 • Ensure continued access to power products from Palisades (or replacement resources)
4 via a long-term PPA;
- 5 • Sell Palisades and Big Rock ISFSI to a new owner committed to nuclear safety,
6 operational excellence, environmental protection, and employment opportunities; and
- 7 • Shed nuclear ownership and operating risks to the maximum extent possible,
8 including operating risk, financial risk, nuclear risk, industry risk, NRC risk,
9 potentially significant future capital expenditures, employee attraction and retention,
10 and exposure to NMC uncertainties.

11 The final terms of the Transaction have achieved all of these objectives, and represent a
12 highly successful auction.

13 Q. What key attributes of the Auction Process underlie these objectives?

14 A. The key attributes include:

- 15 • Maximizing competition by conducting an open auction in which all bidders are
16 provided with an equal opportunity to participate and a high degree of flexibility to
17 structure terms which maximizes the value of their bids;
- 18 • Establishing terms for the sale and PPA which ensure that all of Consumers' existing
19 commitments are honored, customers and employees are protected, and the region's
20 power supply continues to benefit from the safe, efficient and long-term operation of
21 Palisades; and
- 22 • Selecting a winning bidder that is committed to the continued safe and reliable
23 operation of the Plant, vigorously pursuing regulatory approvals for the Transaction
24 and closing expeditiously.

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1 Q. Did the Company establish certain policies which were used to guide the Auction?

2 A. Yes. A number of Auction-related policies were established including:

- 3 • Flexibility – as noted above, a key attribute of the Auction was to maximize the total
4 value of the Transaction. One means of doing this as a seller is being as flexible as
5 reasonably possible in your bidding requirements and transaction structure. While
6 Consumers put forth specific transaction documents and bid instructions, bidders
7 were encouraged to be creative in putting forth their highest value bids.
- 8 • Matrix Bidding – in order to ensure that the highest value bid was identified, the
9 Company adopted a matrix bidding structure whereby bidders were asked to bid
10 certain elements of transaction value (purchase price, PPA pricing and term,
11 decommissioning funds required to be transferred) and were encouraged to propose
12 multiple bid options (e.g., different terms of PPA). By soliciting the level of price
13 discovery, the Company maximized both its options and its information for purposes
14 of evaluating bids.
- 15 • Key Palisades Transaction terms – certain Transaction terms were established and
16 communicated to bidders as a means of facilitating the achievement of Auction
17 objectives. For example, the Company was very specific regarding the continued
18 employment of the Palisades workforce, the requirement that the buyer assume full
19 responsibility for decommissioning the Plant and ultimately returning the site to a
20 greenfield condition, and the desire for a long term PPA.
- 21 • Big Rock ISFSI – as part of the Auction of Palisades, Consumers offered bidders the
22 opportunity, but not the requirement, to provide a bid for the Big Rock ISFSI.⁸ The
23 Company further determined that it would only sell the Big Rock ISFSI to the buyer
24 of Palisades, thus ensuring that any buyer of the Big Rock ISFSI would be a
25 financially strong, owner/operator committed to nuclear generation and to the State of
26 Michigan.

⁸ Consumers' portion of the Big Rock Point plant site, which is not part of the sale, is expected to be fully decommissioned by early 2007.

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1 **Auction Preparation**

2 Q. Please describe the preparation phase of the Palisades Auction.

3 A. The Company's Auction preparation phase included assembling the transaction team and
4 Subject Matter Experts ("SMEs"), developing the marketing strategy and preliminary
5 marketing materials, and commencing the myriad of technical programs necessary to
6 execute an auction.

7 Q. Please describe the transaction team.

8 A. The Company started preparing for the Auction by assembling a team of internal and
9 external experts to develop the strategy, process and schedule for the Auction and to
10 implement and facilitate the Auction Process. The transaction team included CEA and
11 Consumers management, and other advisors. In conjunction with Consumers' internal
12 project manager, Mr. Steve Wawro, CEA acted as the external Project Manager for the
13 transaction team, leading the efforts of multiple working groups tasked with addressing
14 the full spectrum of strategic, technical, financial, logistical, and transactional issues.

15 Q. What was the role of the SMEs?

16 A. The Company assembled a team of highly-qualified SMEs from select business, technical
17 and operating units of the Company and the NMC to participate in the transaction team.
18 The SMEs were responsible for supporting the development of marketing materials and
19 supporting the due diligence process. The SMEs identified and collected financial,
20 technical, operational and organizational information relevant to Palisades, developed
21 responses to bidders' questions, and participated in meetings and conference calls with
22 the bidders. CEA worked with the SMEs, as well as the Palisades personnel, to prepare
23 them for their roles in the Auction Process. This preparation included several meetings to

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1 review Auction protocols for interactions with bidders. In addition to their full support of
2 the Auction Process, the NMC staff continued to meet the overriding objective of safe
3 and reliable operation of Palisades. During the due diligence process, NMC also
4 conducted a safe and effective refueling outage (“RFO”).

5 Q. What were some key tenets of the Palisades marketing strategy?

6 A. Key tenets of the Palisades marketing strategy included running a flexible, single-stage
7 auction where all qualified bidders would be provided the opportunity to perform due
8 diligence and submit binding bids. An alternative to this approach is a two-stage auction
9 where indicative, non-binding expressions of interest would be sought and evaluated and
10 a small number of qualified bidders would be invited to perform detailed due diligence
11 and submit binding offers. Two-stage auction processes are frequently used in the sale of
12 fossil-fuel generating facilities to manage the number of bidders who gain access to
13 detailed due diligence materials and the sites. The sale of a nuclear station is more self-
14 selecting. Bidders must commit up to a million dollars to perform detailed due diligence.
15 Only the most serious players choose to make that kind of investment. Finally, the
16 Company, with the advice of CEA, retained the right to modify the Auction Process and
17 schedule at any time so as to appropriately respond to the market.

18 Q. What marketing and technical programs were initiated during the Auction preparation
19 phase?

20 A. A number of marketing and technical programs were initiated during the Auction
21 preparation phase, including:

- 22 • Marketing: the identification of a prospective bidder or marketing list and various
23 other materials, including an Early Interest Letter (“EIL”) and COM were developed.

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1 Exhibit A-4 (JJR-2) includes a copy of the EIL. Exhibit A-5 (JJR-3) includes a copy
2 of the COM;

- 3 • Documentation: documents were identified and document collection and the
4 establishment of document rooms and bidder question and answer (“Q&A”) process
5 were initiated;
- 6 • Transaction Terms: potential terms of a Transaction were identified and assessed;
- 7 • Regulatory: required regulatory approvals were identified; and
- 8 • Technical: a number of technical teams were established. For example, an
9 environmental team facilitated the American Society for Testing and Materials Phase
10 I environmental site assessment and the real estate team facilitated a survey of the
11 site.

12 Many of these marketing and technical programs continued throughout the Auction
13 Process and are described in greater detail later in my testimony.

14 **The Early Interest Phase**

15 Q. What did the early interest phase of the Palisades Auction include?

16 A. The early interest phase included the preliminary marketing and identification and
17 qualification of parties potentially interested in bidding on Palisades.

18 Q. How were interested parties identified and qualified?

19 A. On December 6, 2005, an EIL was sent to potential bidders. The EIL generally described
20 Palisades, identified some of the opportunities presented by the sale, and provided a non-
21 confidential overview of the anticipated Auction Process and schedule. In addition, both
22 a confidentiality agreement and a request for qualifications were transmitted with the
23 EIL. The purpose of the EIL was to solicit interest from those parties wishing to
24 participate in the competitive bidding process for the Plant. The EIL was sent to all
25 United States investor-owned utilities (“IOUs”) that were operators of nuclear generation,

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1 major financial players who had either acquired energy assets in the past or who were
2 actively seeking opportunities in the energy sector, and Canadian nuclear owners and
3 operators. The combination of the broad distribution of the EIL and direct marketing to
4 prospective bidders was intended to maximize the market exposure of the Plant and to
5 ensure the largest and most competitive group of qualified prospective bidders.

6 Q. What happened after the EIL was issued?

7 A. In response to the EIL, a number of prospective bidders inquired about Palisades,
8 executed confidentiality agreements with the Seller, and submitted technical and financial
9 qualifications. In an effort to achieve a competitive and fair process, careful steps were
10 taken to protect the confidentiality of the bidders, their bids and the information provided
11 to bidders during the Auction Process. Confidentiality, during and after the sale process,
12 is a standard part of an asset Auction Process. Confidentiality encourages prospective
13 bidders to bid aggressively for assets by allowing them to avoid disclosure of sensitive
14 strategic information even if they do not win the auction. Requiring a prospective bidder
15 for a nuclear facility to demonstrate its ability to purchase and operate the facility also is
16 a standard part of a nuclear asset transaction and supports the objectives of safe, reliable
17 operation and environmental protection and the ability to close. For these reasons,
18 executing the confidentiality agreement and submitting technical and financial
19 qualifications were prerequisites for a party to receive access to perform due diligence
20 and to participate in the Auction.

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1 **The Marketing and Due Diligence Phase**

2 Q. What did the Marketing and Due Diligence phase of the Palisades Auction include?

3 A. In addition to ongoing direct marketing to prospective and qualified bidders and the
4 ongoing efforts of technical teams, the Marketing and Due Diligence Phase included
5 dissemination of the COM, access to the virtual and physical document rooms, the Q&A
6 process, the receipt and ability to provide comments on draft transaction documents, and
7 access to site tours and management meetings.

8 Q. Please describe the COM.

9 A. To facilitate bidders' detailed due diligence and the development of bids, a descriptive
10 offering memorandum was issued to bidders on a rolling basis as they executed
11 confidentiality agreements and submitted satisfactory technical and financial
12 qualifications. The COM provided, among other things, information regarding the Plant,
13 the NMC, the Midwest Independent Transmission System Operator, Inc., Consumers'
14 anticipated transaction terms, and the competitive bidding process and schedule.

15 Q. What did the document rooms provide to qualified bidders?

16 A. With the issuance of the COM, bidders were provided access to the Palisades document
17 room and the ability to use the Q&A process. The Palisades document room was an
18 electronic document room accessed through a secure internet site. The Palisades
19 document room contained extensive financial, technical, operational and organizational
20 information. As appropriate, documents were added to the Palisades document room as
21 they became available. For example, during the due diligence phase of the auction,
22 bidders were provided with updated documentation such as operating budgets, employee
23 demographic information, Consumers' book value for plant, fuel inventory, and non-fuel

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1 inventory, and operating updates including plant status reports and RFO briefings, all of
2 which were made available as soon as they were complete. Bidders were notified
3 promptly when new information was added to the Palisades document room.

4 In addition to the electronic Palisades document room, a physical document room
5 was available to bidders. The physical document room contained copies of certain highly
6 confidential documents, which were available on a view-only basis. Such documents
7 included copies of certain contracts and agreements which required a separate release by
8 the third-party suppliers under the contracts.

9 Q. What did the Q&A process provide to qualified bidders?

10 A. Bidders submitted questions electronically to CEA, who then distributed questions to the
11 appropriate SMEs. The SMEs were expected to respond in a timely manner with a goal
12 of no more than 48 hours. As part of the Palisades Auction, SMEs responded to over
13 2,000 questions from bidders. The Q&A process was available throughout the Marketing
14 and Due Diligence phase of the Auction. Q&As were generally confidential. A response
15 to a Bidder's question was generally only provided to the bidder asking the question
16 except where it was determined that information prompted by a Bidder's question was
17 material to a fair evaluation of Palisades by all bidders. In such instances, however, the
18 question itself and the identity of the bidder posing the question remained confidential.

19 Q. What did draft transaction documents entail?

20 A. Draft transaction documents, which included the ASA, PPA and Large Generator
21 Interconnection Agreement, were made available to bidders in late March. Bidders were
22 invited to submit their proposed modifications to the transaction documents in April.
23 Consumers committed to considering all comments received and distributing revised

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1 transaction documents upon which bidders would be invited to submit binding bids.
2 Consumers also provided the opportunity to review the modifications accepted and
3 rejected following the receipt of transaction documents. Revised transaction documents,
4 upon which the bidders were requested to submit a bid, were provided to bidders on
5 May 26, 2005.

6 Q. Please describe the other avenues for detailed due diligence made available to bidders.

7 A. Bidders were also invited to participate in site tours, off-site management meetings and
8 conference calls. Site tours were made available at two separate times: before the
9 commencement of Palisade's planned RFO and after the successful restart of the Plant
10 following the outage. During site tours, bidders were afforded the opportunity to
11 participate in briefings (which included the opportunity for Q&A) regarding a variety of
12 issues (e.g., operations, license renewal, uprate potential). The site tours also involved
13 physical tours of the Plant and one-on-one meetings with Plant and support personnel.
14 Although bidders were asked to identify areas of interest before coming on-site, requests
15 for additional meetings and tours were accommodated real time during site tours.
16 Bidders were offered up to three days of site tour access. No bidder requested additional
17 time and, in fact, several bidders completed their site tours in less than the allotted three
18 days.

19 Q. What was the purpose of the off-site management meetings and conference calls?

20 A. Off-site management meetings and conference calls were available to bidders throughout
21 the Auction Process. Management meetings covered topics such as the Auction Process,
22 anticipated bid requirements and transaction documents. In addition, many conference
23 calls were facilitated between the bidder requesting a call and the appropriate SMEs. A

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1 representative of CEA participated in all site tours, management meetings and conference
2 calls.

3 Q. What was the role of Consumers' personnel in this process?

4 A. Throughout the Auction Process, the entire transaction team, SMEs and Plant personnel
5 were responsive to the bidders' needs. Formal and informal Q&A, requests for site tours,
6 management meetings, conference calls and access to the physical document room were
7 made available as quickly as possible. Bidders commented very favorably on the
8 responsiveness of the Company and its personnel and advisors in facilitating their due
9 diligence efforts.

10 **The Bidding Phase**

11 Q. What did the bidding phase of the Palisades Auction include?

12 A. The Bidding Phase included the dissemination of revised transaction documents and final
13 bid instructions and the development of a bid evaluation methodology.

14 Q. Please describe the revised transaction documents and final bid instructions.

15 A. As noted above, on May 26, 2006, revised transaction documents and instructions
16 describing the timing and procedures for submitting binding bids were issued to the
17 bidders. The revised transaction documents reflected both feedback from bidders on the
18 transaction documents issued in April and incremental work done by Consumers since
19 the April documents. The final bid instructions directed bidders to submit separate bids
20 for each of the individual assets being offered (i.e., Palisades and the Big Rock ISFSI).
21 The final bid instructions also specified certain assumptions bidders should make in
22 preparing their bids (e.g., closing date, inventory values). Bid assumptions were

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1 provided to bidders to ensure the comparability of bids. The final bid instructions are
2 included as Exhibit A-6 (JRR-4).

3 Q. Please describe the bid evaluation methodology.

4 A. In advance of the receipt of binding bids, Consumers, in conjunction with CEA,
5 developed a bid evaluation methodology. This methodology included both a financial
6 analysis of all of the economic elements of consideration included in bids and a process
7 for assessing less easily quantified proposed mark-ups to transaction documents. This
8 overall bid evaluation methodology was developed to facilitate the identification of the
9 highest total value bid options by enabling Consumers to value and compare the many
10 bid options it anticipated receiving.

11 Q. Please describe the methodology used to perform the financial analysis of bids.

12 A. The financial analysis involved an Excel-based model which was set up to capture all of
13 the “economic” aspects of each bid, including:

- 14 • Cash purchase price;
- 15 • Amount of Decommissioning trust funds to be transferred to the new owner (and the
16 amount to be retained by the Company);
- 17 • Pricing and terms of the power purchase agreement from the bidder back to the
18 Company;
- 19 • The economic impact of pension asset transfers or other cash payments or true-ups;
- 20 • Adjustments for inventory or capital expenditure reimbursements from the base level;
- 21 • Financial impact of differences in proposed closing dates, spent nuclear fuel
22 reimbursement sharing, environmental liability issues, etc.;
- 23 • Other economic issues that show a quantifiable difference from the base case or other
24 bidders; and

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- 1 • In the case of the Big Rock ISFSI, the level of support payments and termination
2 payment.

3 Each bid is compared against a base case in the Bid Evaluation Model, which consists of
4 the following:

- 5 • The Continuing Cost of Operations of the plant (“CCO” as described in detail later) in
6 \$/MWH assuming continued Consumers ownership;
- 7 • The amount of generation in MWH that would be expected to be produced assuming
8 continued Consumers ownership;
- 9 • Projected future power prices were used to evaluate power costs after the term of the
10 PPA; and
- 11 • Other base case economic assumptions.

12 The comparison of each bid against the base case is computed on a net present value
13 (“NPV”) basis. A NPV for the base case is compared against the NPV for each bid. The
14 discount rate used in the model is Consumers Energy’s cost of capital of 9.17%.

15 Q. Please describe the process for assessing non-economic or less easily quantified elements
16 of bids (e.g., proposed mark-ups to transaction documents).

17 A. In addition to the financial evaluation of bids, a process to perform a detailed assessment
18 of each bidder’s proposed mark-ups to the transaction documents was developed. This
19 analysis entailed a side-by-side comparison of proposed mark-ups and a business and
20 legal assessment of the risks and benefits of each proposed mark-up.

21 **The Bid Evaluation Phase**

22 Q. Please describe the bid evaluation phase of the Palisades Auction.

23 A. The bid evaluation phase commenced with the receipt of binding bids. Binding bids were
24 received in electronic form on June 29, 2006. Bid evaluation, using the methodology

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1 described above, commenced immediately upon receipt of binding bids. Consumers and
2 CEA worked together to evaluate binding bids. In parallel with the on-going evaluation
3 of bids, follow-up discussions to clarify elements of bid packages, as well as to provide
4 the bidders the opportunity to enhance their bids, were held with bidders. In assessing
5 which bid options provided the best overall value, purchase price, PPA pricing and terms,
6 decommissioning trust transfers, proposed changes to Consumers' transaction documents,
7 Big Rock ISFSI bid elements, and bidder qualifications were considered.

8 Q. What were the results of the bid evaluation?

9 A. Based upon our evaluation of bids, including bidders' responses to requests for
10 clarification and value enhancements, and direct discussions with bidders, Entergy
11 Palisades was identified as the top bidder. A series of meetings was held with Entergy
12 Palisades, at which the bidder was provided the opportunity to clarify and enhance the
13 overall value of its bid package, and specific transaction documents were negotiated.
14 These meetings culminated in the selection of Entergy Palisades as the winning bidder
15 and the execution of transaction documents.

16 **The Agreement Phase**

17 Q. What did the agreement phase of the Palisades Transaction include?

18 A. On July 11, 2006, Transaction Agreements were executed by Consumers and Entergy
19 Palisades. I am sponsoring the ASA which is included as Exhibit A-8 (JJR-6).
20 Consumers' witness Garrity sponsors the PPA.

21 Q. What are the next steps in the process?

22 A. Consumers and Entergy Palisades have now entered into a transition period where the
23 primary focus is to (1) secure the appropriate state and federal regulatory approvals

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1 necessary to complete the Transaction, and (2) transition ownership and operational
2 responsibility of Palisades to Entergy Palisades.

3 **III. TRANSACTION STRUCTURE AND RESULTS**

4 Q. Please summarize the key elements of the proposed Transaction.

5 A. The principal elements of the Transaction are the purchase price for Palisades, the PPA
6 terms, the decommissioning fund transfer, other assumed liabilities and transfers for
7 Palisades, and the payment to Entergy Palisades to assume all future responsibility for the
8 Big Rock ISFSI. Consumers' and CEA's analysis of the Transaction included an
9 assessment of all elements of value under the Transaction and a comparison of these
10 elements to other nuclear transactions.

11 Q. Please describe the directly quantifiable elements of transaction value embodied in the
12 ASA.

13 A. The Palisades Transaction is comprised of the following directly quantifiable elements of
14 transaction value:

- 15 • As noted above, Entergy Palisades will pay Consumers a cash purchase price of
16 \$380 million at closing, subject to a number of closing adjustments (discussed
17 later), for the plant, land, inventories and related assets;
- 18 • Entergy Palisades will assume the full responsibility to ultimately decommission
19 Palisades and return the site to a greenfield condition, and Consumers will transfer
20 to Entergy Palisades a target amount of decommissioning funds equal to \$250
21 million at closing. The difference between the decommissioning target and the
22 non-qualified decommissioning funds the Company has collected immediately adds
23 approximately \$200 million of value to the Transaction and will be returned to
24 customers as discussed by Consumers' witnesses Joos and Torrey. In addition,
25 approximately \$116 million of qualified decommissioning funds are expected to be
26 freed up for customers when IRS regulations permit the funds to be removed from

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1 the qualified trust without incurring tax penalties. In total, the decommissioning
2 terms offer \$316 million in value to Consumers' customers;

- 3 • Entergy Palisades will assume responsibility for pension and post-retirement
4 benefits for the Palisades employees and will provide comparable benefits for a
5 period of at least 36 months. The estimated pension liability associated with the
6 transferred employees is \$54.7 million (using a projected benefit obligation
7 (“PBO”) measure) or \$39 million (using an accumulated benefit obligation
8 (“ABO”) measure. Entergy Palisades will also assume Other Post-Employment
9 Benefits (“OPEB”) responsibility with a value of \$10.1 million. In exchange for
10 accepting these obligations, Consumers will transfer to Entergy Palisades pension
11 assets equal to \$18.2 million and OPEB assets equal to \$6.1 million (subject to
12 purchase price adjustments). This represents approximately \$40.7 million savings to
13 customers (using a PBO liability measure) or a \$24 million savings to customers
14 (using an ABO liability measure);
- 15 • The purchase price is subject to various other adjustments including, (i) for each
16 day the closing is delayed beyond March 1, 2007, a reduction of \$79,306 per day in
17 March, increasing to \$133,412 per day by June 2007, (ii) reductions for any
18 budgeted but not performed capital expenditures up to the date of closing, and
19 (iii) adjustments to the extent inventory levels differ from what is specified in the
20 ASA. These types of purchase price adjustments are common in virtually all
21 transactions for generating assets;
- 22 • Entergy Palisades will provide power to Consumers pursuant to a 15-year PPA at
23 specified energy prices. The PPA is projected to provide \$199 million of benefits
24 (in present value terms) to Consumers' customers, as compared to the costs that
25 customers would face if Consumers continued to own the plant. The PPA is
26 described in general below and in more detail in the testimony of Mr. Garrity;
- 27 • Entergy Palisades will assume the ownership of and full responsibility and liability
28 for the Big Rock ISFSI. In exchange, Consumers will make a one-time, lump-sum
29 payment to Entergy Palisades in the amount of \$30 million, which is below

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1 Consumers' estimated cost to maintain the ISFSI over the remainder of its life and
2 decommission it at the end of its life.

3 Q. Please describe how the quantifiable elements of transaction value were evaluated.

4 A. The quantifiable elements of transaction value were thoroughly evaluated using the bid
5 evaluation model described in Section III of my testimony. Entergy Palisades' winning
6 bid had the highest total value of any bid received by Consumers and compared very
7 favorably to Consumers estimated CCO. I estimate the total pre-tax value of the
8 Palisades Transaction to be \$899.5 million as compared to the \$317.3 million value of the
9 plant if it remained under Consumers' ownership. The \$899.5 million of pre-tax value
10 consists of the following elements:

11	Purchase price	\$380.0
12	Inventory adjustments	(2.4)
13	NQF retained	200.2
14	QF retained	115.7
15	Pension/OPEB savings	24.1
16	Letter of credit & other fees	(17.4)
17	PPA savings	<u>199.3</u>
18	Total Palisades Value	\$899.5

19
20 This level of economic benefits from the Transaction; i.e., \$582 million
21 (\$899.5 million of value vs. \$317.3 million book value) is truly extraordinary in terms of
22 other nuclear power sales.

23 Q. Are there any conditions which need to be satisfied before these benefits are available to
24 Consumers and its customers?

25 A. Apart from the need to close the transaction before March 1, 2007, there is one condition
26 which needs to be satisfied before the \$116 of benefits from the retention of the
27 decommissioning qualified fund are in hand. Either an IRS ruling, or a tax law change

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1 will be needed in order to get these funds out of the QF that is being transferred to
2 Entergy Palisades. This can occur either before or after closing. If it occurs after closing,
3 Consumers would also receive its proportionate share of the gains or losses in the QF that
4 occurred after closing.

5 Q. Are there other elements of the proposed Transaction that add value to Consumers and its
6 customers?

7 A. Yes. The Transaction includes numerous other ASA terms which add value to the
8 Transaction for both Consumers and its customers. These items include:

- 9 • Entergy Palisades has agreed to assume and honor the existing collective bargaining
10 unit agreements as well as to offer employment with comparable wages for a
11 minimum of 18 months and similar retirement and health benefits for a minimum of
12 36 months to all existing non-union employees at Palisades, thus preserving more
13 than 470 well-paying jobs in Covert Township, Michigan.
- 14 • As noted above, Entergy Palisades will assume the responsibility to ultimately
15 decommission Palisades and return the site to a greenfield condition in exchange for
16 the transfer of \$250 million in decommissioning funds. To the extent the ultimate
17 cost to decommission the facility is more than \$250 million, Entergy Palisades will
18 bear that risk and responsibility.
- 19 • Consumers fully retains its claim against the Department of Energy (“DOE”) for
20 breach of the spent nuclear fuel (“SNF”) standard contract for all damages relating to
21 the pre-closing period at Palisades and at Big Rock, and for the \$30 million Big Rock
22 ISFSI payment to Entergy Palisades.
- 23 • Consumers retains the note payable to the DOE for the pre-1983 SNF fee, which is
24 approximately \$145 million, at a very favorable interest rate.
- 25 • Entergy Palisades agreed that no nuclear waste generated outside of the State of
26 Michigan will be transported to the Plant or stored at the Plant.

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- 1 • Pursuant to the ASA, Entergy Palisades will assume the liability for losses under or
2 related to environmental laws that were caused by the presence or release of
3 hazardous substances at (A) the Palisades site *on or prior to* the Closing Date with
4 certain limited exceptions: (1) leaks from former sulphuric acid above-ground storage
5 tanks, (2) leaks of radionuclides that would require Entergy Palisades to begin
6 remediation of the site prior to commencing decommissioning; (3) third party claims
7 for exposure to materials at or leaking from the site prior to closing; and (4) leaks for
8 which no on-site evidence of the leak remains; and (B) the Big Rock ISFSI site that
9 occurred at and migrated from the BRP Operating Facility site. Consumers will be
10 required to indemnify Entergy Palisades for pre-closing environmental conditions
11 identified within three years of closing which exceed a deductible of \$1,000,000 per
12 item and \$3 million in the aggregate, up to a maximum of \$30 million. Entergy
13 Palisades assumes all responsibilities for environmental claims or liabilities arising
14 post-closing.

15 Q. What are the key PPA terms that add value to Consumers and its customers?

16 A. The PPA contains numerous price and non-price terms which provide significant value
17 to Consumers and its customers. These terms are described in more detail in the
18 testimony of Consumers witness Garrity. Highlights of key PPA terms include:

- 19 • Access to 100% of the Plant's currently rated output for a 15-year term.
- 20 • Fixed energy pricing which, over the term of the PPA, will result in approximately
21 \$199 million of savings for customers as compared to what they would have
22 otherwise paid had Consumers continued to own the Plant.
- 23 • Pay-for-performance structure whereby Consumers and its customers pay only for the
24 power they receive, with no fixed cost exposure. This provision transfers virtually all
25 of the plant's performance risk to Entergy Palisades.

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1 Q. How does the PPA in the Palisades Transaction compare to the PPAs in other
2 transactions?

3 A. The Palisades PPA compares very favorably to PPAs in other transactions. Consumers
4 carefully structured the PPA to ensure continued access to 100% of Palisades current
5 capability for 15 years at rates less than the Company's CCO and in a manner where
6 customers pay only for power that is delivered. This provides Consumers' customers
7 with significant savings and a high-degree of certainty for a long term with very low
8 exposure to operating risk. PPAs in most other nuclear transactions have not been
9 developed on an energy-only basis at rates below CCO. Further, other transactions
10 frequently provide less than all of the plant's power to the sellers' ratepayers, or are for
11 terms far less than 15 years. For example, no PPA was included in the Seabrook
12 transaction, several transactions in New York were for less than 100% of the Seller's
13 interest in the facility, and the recent sales of KNPP and Duane Arnold had PPAs that
14 lasted for less than 10 years.

15 Q. How does the Palisades Transaction compare, in total, to other transactions for nuclear
16 generating stations?

17 A. The proposed Transaction compares very favorably to other transactions for nuclear
18 generating stations. I reviewed 22 nuclear generation transactions nationally that took
19 place from 1998 through 2005. Based on my knowledge of these other transactions, most
20 of which I had some level of involvement in for either the seller or a bidder, I believe that
21 the Palisades Transaction has a total value that puts it in the top 10% of the industry's
22 past transactions.

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1 Q. Are you certain that the sale of Palisades reflects its full market value?

2 A. Yes. The sale was the result of a very competitive Auction Process. Auctions use
3 competition to identify the highest total value available in the market at the time. This
4 market value fully captures the economics of the asset. In formulating their offers,
5 bidders consider the value of all terms of the transaction (e.g., PPA, decommissioning,
6 pension obligations, environmental considerations, etc.), the material condition and
7 capabilities of the asset, expected cost and performance of the asset, opportunities for
8 enhancements, and projected power prices to establish what bidders believe the plant is
9 worth, considering a reasonable return on their investment. By soliciting and negotiating
10 bids from the full breadth of interested and qualified parties the full and highest market
11 value of the Plant is identified. The Palisades Transaction unquestionably represents full
12 fair market value for the assets being sold.

13 Q. What is your overall assessment of the benefits that will be realized by the Company and
14 its customers as a result of the Palisades Transaction?

15 A. If approved, this Transaction will provide Consumers and its customers with significant
16 benefits. Consumers' witnesses Joos and Torrey describe the financial and rate benefits
17 of the Transaction. Other benefits include:

- 18 • Customer savings: net proceeds above book value, after deducting transaction costs,
19 are expected to be \$35.8 million, decommissioning proceeds are expected to be
20 \$316 million, and PPA savings are expected to be \$199 million; the total net
21 transaction benefits are expected to be approximately \$582 million, if a closing can be
22 achieved before March 1, 2007.
- 23 • Reduced exposure to operating risk: During the term of the PPA, ratepayers will
24 enjoy the access to 100% of the current capability of the Plant while having
25 significantly less exposure to nuclear operating risk. Ratepayers will pay only for the

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1 power they receive at the prices fixed in the PPA. If the plant does not run for some
2 reason, ratepayers will be responsible for the cost of replacement power only and not
3 replacement power plus the cost to maintain and repair the facility, as is currently the
4 case.

- 5 • Reduced decommissioning risk: The full responsibility to ultimately decommission
6 the site to a greenfield condition will be transferred to Entergy Palisades, while
7 Consumers will transfer only a target amount of decommissioning funds which is
8 significantly less than the existing funds held by Consumers – “freeing” an estimated
9 \$316 million for the benefit of customers. Entergy Palisades will be fully responsible
10 for the total cost to ultimately decommission the site and ultimately return it to a
11 greenfield condition.

IV. CONTINUED COST OF OWNERSHIP

12
13 Q. Earlier in your testimony you referred to Consumers’ estimated continued cost of
14 ownership of Palisades, or the CCO. Please explain what the CCO is.

15 A. The CCO is the estimate of the cost to customers of the Palisades plant under continued
16 ownership by Consumers for the rest of its operating life (assuming a 20 year license
17 extension). The CCO is computed on a cost per megawatt-hour basis (\$/MWH) for each
18 remaining year of the plant’s life. The CCO was provided to all bidders as a point of
19 information in their due diligence.

20 Q. Was a similar CCO developed for the Big Rock ISFSI?

21 A. Yes, it was. The Big Rock ISFSI CCO represented the annual cost to maintain and
22 operate the ISFSI, and to eventually decommission the facility and return the site to
23 greenfield status. This CCO was expressed as an annual total dollar amount in real and
24 nominal dollars.

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1 Q. What is the role of the CCO in evaluating bids?

2 A. The CCO is the “economic” base case around which binding bids were evaluated. The
3 “total transaction value” of proposals received from bidders were compared to the CCO
4 to determine the economic benefits of each bid relative to a common standard. By “total
5 transaction value” I mean all of the economic aspects of the binding bids, including
6 purchase price, decommissioning terms, the pricing of the PPA and other costs or
7 benefits in the bid.

8 Q. Please describe the methodology used to determine the Palisades CCO.

9 A. All of the costs to Consumers associated with owning and operating the plant were
10 gathered and summarized. These costs include O&M, fuel, depreciation, administrative
11 expenses, taxes and financing costs. These costs were gathered for the most recent full
12 calendar year and historic data was gathered to the extent it was available. This provided
13 a base cost level and trend lines for the various cost categories. Where possible, SMEs
14 provided Company and/or NMC forecast or budget data which was used as a starting
15 point and adjusted as appropriate. For other items, costs were extrapolated from recent
16 trends or from expected future changes in costs. The information was then summarized
17 in an Excel spreadsheet model which calculated the annual and total cost to operate
18 Palisades through 2030, the anticipated term of its extended license.

19 A forecast of the Plant’s net generation (in MWH) was also developed, using a
20 combination of historic plant generation data, forecasts of future generation, and industry
21 data on nuclear plant generation. Dividing the annual costs by the annual expected
22 generation provided a \$/MWH CCO for each year.

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1 In addition to computing the CCO through the end of plant life, a CCO for the
2 term of the proposed PPA with Entergy Palisades was calculated. The CCO was
3 calculated on both an annual and a real, levelized basis. The real levelized CCO is
4 calculated by setting the year one price (in \$/MWH) to a level which, when escalated at
5 the rate of inflation (2.5%) has a present value (using Consumers' pre-tax cost of capital
6 9.17% as the discount rate) equal to the present value of the annual CCO over the same
7 time period.

8 Q. What were the major inputs and assumptions used to develop the CCO?

9 A. Major inputs and assumptions include:

- 10 • Forecasted capacity factor
- 11 • Timing and duration of future outages
- 12 • Rate base and cost of capital, including income taxes
- 13 • Forecasted capital expenditures and depreciation
- 14 • Labor related O&M expenses
- 15 • Non-Labor related O&M expenses
- 16 • Taxes other than income taxes, insurance costs, and administrative costs
- 17 • General inflation expectations and specific escalation rates for different cost
18 categories

19 Each input and assumption was developed based on a combination of historic
20 operating data, future economic expectations, nuclear industry trends and expectations,
21 and corporate and NMC projections of future Plant costs and performance.

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1 Q. Please describe the capacity factor and generation forecast inputs and assumptions used
2 in the CCO.

3 A. As noted earlier, assumptions regarding future plant capacity factor and generation were
4 based on a review of historic Plant performance, the Company's and NMC's expectations
5 of future Plant performance, and available data on the performance of other U.S. nuclear
6 plants. Future outage time for major maintenance and upgrades was also considered.
7 Collectively, these factors drove the forecast of generation for the Plant (the denominator
8 in the \$/MWH CCO calculation). Consumers' witness Wawro provided much of these
9 data and worked with CEA to develop the assumptions.

10 We derived the projected capacity factor in two steps. First we analyzed recent
11 historic performance. Specifically we calculated the capacity factor that the plant
12 achieved over the last three calendar years (2003-2005). We chose this time period
13 because (1) it represented the best three consecutive years of performance in the plant's
14 history, and (2) it is the equivalent of two refueling cycles.⁹ Over the last three calendar
15 years, Palisades achieved a capacity factor of 87.33%. For purposes of the CCO, we
16 assumed that the plant will operate at a capacity factor of 87.33% during each three year
17 period (consisting of two complete refueling cycles) for the remainder of the plant's
18 operating life (assuming relicensing), except in two years during which major capital
19 refurbishment projects are expected to occur (as described below).

20 Using the Plant's estimate of refueling outage duration and forced outage rates as
21 a guide, we divided future outage time into two categories; a 40 day planned refueling

⁹ Because Palisades is on an 18 month refueling cycle, any normal three year period should contain two refueling outages. Between 2000 and 2005 the plant had two refueling outages.

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1 outage every 18 months, and a 6.12% monthly forced outage rate for non-refueling
2 outage months (1.84 days/month). We used this capacity factor as the base projected
3 capacity factor for each refueling cycle from 2007 through 2030.

4 The second step we used to calculate future capacity factor was to add two
5 additional periods of outage time. In 2009, the installation of a new reactor vessel head is
6 assumed to take an incremental 30 days over a normal refueling outage (40 days is
7 assumed for normal refueling outages), for a total of 70 days. The resulting capacity
8 factor for the 2007-2009 three-year period is 84.74%. In 2016, steam generator
9 replacement is assumed. An additional 55 days over a normal planned refueling outage is
10 assumed, for a total of 95 days. The capacity factor for that three-year period is 82.64%.
11 The overall capacity factor for the plant's remaining life, including these outages, is
12 86.42%.

13 Q. Do you believe that an 86.42% capacity factor is a reasonable assumption?

14 A. I believe that this is an optimistic, but reasonable, assumption. The main driver of the
15 projected capacity factor in the CCO model is the Plant's performance from 2003-2005.
16 While I believe that an 86.42% projected capacity factor is reasonable, I do recognize that
17 the Plant's performance prior to 2003 was significantly worse than during the 2003-2005
18 time frame. This most recent three year period was in fact the single best three year
19 period of performance in the Plant's history. This would indicate that the 86.42%
20 projected capacity is clearly towards the upper end of the range of reasonable projections.

21 From the beginning of 1990 to the end of the most recent RFO #18 (ended
22 May 10, 2006), Palisades achieved a 75.08% capacity factor. The average length of the
23 11 RFOs since 1990 was 76 days (this includes a 181 day refueling outage in 1990/1991

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1 during which the steam generator was replaced). The equivalent forced outage rate over
2 the same time period was 10.9%.

3 From the end of RFO #11 (ended August 21, 1995) to the end of RFO #18,
4 Palisades achieved an 81.82% capacity factor. The average duration of the seven RFOs
5 during this time period was 47.7 days, and the equivalent forced outage rate was 9.7%.

6 The Plant's capacity factor has improved considerably over the last 16 years and
7 the Plant has performed better over the last three years than in any three year time period
8 in its history. Normally, I would not want to use the three best years of operating history
9 to extrapolate performance out over the remaining 26 years of operating life. This is
10 especially true here, where much of the Palisades performance improvement can be
11 attributed to Consumers' decision to hire NMC to operate the plant. As discussed by
12 Mr. Joos, the NMC would probably not have remained a viable option for Consumers if it
13 had continued to own the plant. However, Palisades recent operating performance has
14 been consistent with the performance improvement achieved at other non-fleet nuclear
15 plants, even though most of these other plants are newer than Palisades. In total, it is my
16 judgment that the capacity factor assumptions we used in the CCO are optimistic, but still
17 within a reasonable range for Palisades' remaining life. I should emphasize that the
18 impact of this assumption was to decrease the CCO, and thereby pressure bidders to offer
19 more attractive PPA pricing bids.

20 Q. Please describe the rate base inputs and assumptions used in the CCO.

21 A. Assumptions regarding Palisades' rate base are required in order to calculate return on
22 rate base and depreciation expense. Rate base inputs are the sum of four separate rate
23 base elements:

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- 1 1. Net Utility Plant (including Construction Work in Progress (“CWIP”)) – Consumers
2 provided historical values for Net Utility Plant and CWIP. Starting with year-end
3 2005 balances, estimated 2006 capital expenditures were added, and estimated 2006
4 depreciation was subtracted to get 2006 year-end Net Utility Plant and CWIP. Each
5 year’s net utility plant is calculated as the previous year’s net utility plant (including
6 CWIP on “normal” capital expenditures) plus the current years’ capital expenditures
7 minus the current years’ depreciation.

- 8 2. Net Nuclear Fuel Plant (including CWIP) – NMC provides fuel procurement and
9 forecasting services for the plant. NMC’s fuel forecasting models incorporate the
10 terms of all of Palisades’ outstanding fuel contracts (for raw uranium, enrichment
11 services and fabrication services) as well as the projected monthly forced outage rate
12 (provided by Consumers) to forecast average annual levels of nuclear fuel plant,
13 annual nuclear fuel capital expenditures and annual nuclear fuel amortization through
14 2015. The value of net nuclear fuel plant in the CCO comes directly from NMC’s
15 forecast. Beyond 2015, net nuclear fuel plant in the CCO model is increased at 3%
16 per year to be consistent with NMC’s spot fuel forecast.

- 17 3. Working Capital - Working capital is allocated to Palisades based on its percentage
18 share of Consumers’ total electric plant. Consumers provided an estimate of 2006
19 working capital which also provided the base off of which all future years are
20 escalated. Working capital is escalated at the assumed rate of inflation (2.5%).¹⁰

- 21 4. Allowance for Funds Used During Construction (“AFUDC”) - Consistent with
22 Michigan ratemaking precedent, “long term CWIP” is not included in rate base until
23 the project (such as the steam generator replacement project) is considered to be in
24 service. The corporate AFUDC rate is assumed to be equal to the company’s pre-tax
25 cost of capital for ratemaking purposes. The annual AFUDC accrual is computed on
26 the total project CWIP at the end of the previous year (including previously accrued
27 AFUDC) plus 50% of the capital expenditures for that year. For 2016, the year that
28 the steam generator is placed in service, AFUDC is only computed for half of the
29 year, because the expenditures are assumed to be in rate base for half of the year.

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1 Total rate base for the term of the CCO is the sum of net plant including CWIP,
2 net nuclear fuel plant (including CWIP), and working capital and AFUDC. Deferred
3 taxes are not subtracted from rate base; rather as I describe later in my testimony, the
4 capital structure utilized in financing rate base includes a component of “cost-free”
5 capital that represents deferred taxes.

6 Q. Please describe the non-fuel capital expenditure inputs and assumptions used in the CCO.

7 A. Capital expenditure assumptions were developed in collaboration with Consumers
8 witness Wawro and included:

9 1. Routine Capital Expenditures – This category includes capital spending associated
10 with routine capital and cost of removal projects. The 2007 through 2009 values were
11 provided by Plant personnel and are based on the NMC budget forecast which was
12 finalized on May 31, 2006.¹¹

13 In order to forecast routine capital expenditures beyond 2009, we took the
14 average of annual capital spending (actual and projected) between 2004 through
15 2009. We then removed all spending associated with the reactor vessel head
16 replacement (the Plant’s budget included spending on this project but we do not
17 consider it routine).

18 Finally we separated the years to get outage and non-outage year averages. All
19 of the averages were then converted to 2010 dollars (using the base inflation
20 assumption of 2.5%). The base outage and non-outage year values for routine capital

¹⁰ Consensus CPI forecast. See Blue Chip Economic Indicators Vol. 30 No. 10, October 10, 2005. Page 16.

¹¹ The 2010 and 2011 budget numbers were not used. Because predicting routine capital projects four years out is difficult to do, we feel the 2010 and 2011 budgets underestimate routine capital spending in those years.

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1 spending are escalated at a 1% real inflation rate (3.5% nominal) until 2025, when
2 capital spending decreases significantly as license expiry approaches. We used a 1%
3 real escalation rate to account for the significant labor component of capital costs
4 (which are forecast to increase by almost twice the rate of inflation) as well as the
5 increased costs associated with maintaining an aging plant.

- 6 2. Reactor Head Vessel Replacement – Approximately \$75 million is included for a new
7 vessel head, which is scheduled for replacement in the 2009 refueling outage.
- 8 3. Steam Generator Replacement – The CCO model assumes steam generator
9 replacement in the fall of 2016. Spending on the project is spread out between 2012
10 and 2016. The projected cost of replacing the steam generators is based on recently
11 observed costs of the same project at a similar plant.

12 Although money is spent on the steam generators starting in 2012, it will not
13 be put into service until 2016. Depreciation on the steam generator starts in 2016, the
14 year it is placed in service. As mentioned above, accumulated AFUDC associated
15 with the steam generator-related capital expenditures is also added to rate base in
16 2016, and amortized over the life of the plant.

- 17 4. Pressurizer/Alloy 600 Program Capital Expenditures - Expenditures for a combined
18 pressurizer/Alloy 600 program are included in the CCO in 2008 and 2009 to be put
19 into service during the 2010 spring outage.
- 20 5. “Life Extension” Capital Expenditures - Additional “Life-Extension” capital
21 expenditures are included each year from 2010 on for life extension-related projects.

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1 Q. Please describe the cost of capital and return on investment inputs and assumptions used
2 in the CCO.

3 A. We used the capital structure and pre-tax cost of capital approved by the commission in
4 its December 22, 2005 order in Case No. U-14347 to calculate return on investment
5 (average rate base). This approved cost of capital and capital structure is used throughout
6 the life of the analysis. The total return on investment in the CCO model is comprised of
7 four elements:

8 1. Interest Expense – This is the result of multiplying the pre-tax weighted average cost
9 of debt by average rate base in a given year.

10 2. Preferred Stock Dividends – This is the result of multiplying the pre-tax weighted
11 average cost of preferred stock by average rate base in a given year.

12 3. Return Assignable to Job Development Investment Tax Credit (“JDITC”) - The
13 JDITC was a tax credit program which allowed tax credits for businesses that make
14 large-scale investments that result in job retention and job creation. No new credits
15 are allowed, but Consumers has an unamortized balance. Consistent with MPSC
16 precedent, the unamortized portion of the JDITC is included in the capital structure
17 and earns the overall cost of capital. The return assignable to JDITC in the CCO
18 model is equal to the sum of the weighted average costs of equity, debt and preferred
19 stock assignable to JDITC multiplied by average rate base in a given year.

20 4. Return on Common Equity - This is the result of multiplying the pre-tax weighted
21 average cost of equity by average rate base in a given year.

22 The total return on rate base is equal to the sum of Return on Common Equity,
23 Interest Expense, Preferred Stock Dividends, and Return Assignable to JDITC.

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1 Q. Please describe the O&M labor related inputs and assumptions used in the CCO.

2 A. Assumptions regarding labor related O&M were developed based upon an assessment of
3 historic actual labor-related O&M costs and assumed future expenses. Consumers'
4 witness Wawro provided the data and worked with CEA to develop the assumptions
5 which are comprised of two elements.

6 1. Operations, Maintenance and Construction (“OM&C”) Labor-Related Expenses –
7 OM&C Labor represents costs associated with the Operations Maintenance and
8 Construction employees at Palisades. But for one exception, employees accounted for
9 in this group are comprised exclusively of bargaining unit employees who work for
10 Consumers Energy, not NMC. Based upon input from Consumers’ witness Wawro,
11 we assumed headcount would remain constant at the Plant. Next, we forecast
12 bargaining unit salaries by escalating the 2006 base year value at the annual increase
13 in pay per the terms of the union collective bargaining agreement (“CBA”), 3.5%.
14 The other labor cost categories are all a function of Bargaining Salaries, so they
15 increase proportionally (note that forecasted overtime expenses in outage years are
16 greater than non-outage years). For all OM&C labor cost categories, we forecast off
17 of 2006 as the base year.

18 2. NMC Labor-Related Expenses – NMC labor-related expenses includes all costs
19 associated with all non-OM&C employees at Palisades. This category is comprised of
20 non-bargaining unit, management employees. Management headcount at Palisades
21 has decreased by approximately 100 over the last three years. Some of the 2005
22 headcount reduction of 26 employees is the result of an NMC centralization effort.
23 Several Palisades employees working in training and IT functions were transferred to

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1 NMC headquarters in Hudson, WI and ceased being counted as Palisades' employees.
2 The result from a cost perspective is a reduction in management salaries in 2006, with
3 a corresponding increase in headquarters allocations in 2006. Since we assume no
4 planned increases or decreases in headcount at the plant, all future NMC Labor cost
5 categories are escalated off of the base 2006 costs.

6 Expenses for this group are assumed to increase at 4.8% per year. As witness
7 Wawro previously mentioned in his testimony in Case No. U-14347, experienced
8 nuclear employees and nuclear services are in limited supply and the cost escalation
9 for these salaries continue to exceed those of the general industry. His estimate for the
10 annual increase in management salaries, based on historic actual escalation and
11 industry experience, is 4.8%.

12 We escalated retirement expenses in this category at the same rate that we
13 expect NMC salaries to increase, 4.8%. We have escalated health expenses in this
14 category at 10% per year, consistent with the order in Case U-14347.

15 Q. Please describe the non-labor O&M related inputs and assumptions used in the CCO.

16 A. Assumptions regarding non-labor O&M were developed based upon an assessment of
17 historic actual non-labor O&M and assumed future expenses. Consumers witness Wawro
18 worked with CEA to develop the assumptions which are comprised of three elements.

- 19 1. NMC Non-Labor and Major Maintenance-Related Expenses – Consistent with the
20 approach used by witness Wawro in his prior testimony filed in Case No. U-14347,
21 we escalated this combined cost category at the rate of inflation (2.5%).

22 We use estimated 2006 costs (the combination of the two categories noted
23 above) as the base off of which future years are forecast because the 2006 figures

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1 reflect a number of new or increased costs incurred in recent years that are expected
2 to continue in the future. For example, new regulations put in place by the NRC have
3 contributed to increases in non-labor NMC expenses in recent years. Consumers has
4 seen a \$1 million increase in inspection fees and a \$0.2 million increase in the
5 Institute of Nuclear Power Operations fee since 2003. Other costs included in 2006
6 are new post-9/11 security costs which are expected to be on-going.

7 Other annual costs included in the 2006 figures that will be expended on a
8 continuing basis include \$2.8 million for increased steam generator tube inspection
9 requirements (this expense will be eliminated following steam generator replacement
10 in 2016), \$3.15 million for increased pressurizer inspections, and \$4,356,000 for
11 increased reactor head inspections (this cost will only be incurred in one out of every
12 three RFOs after the new vessel head is installed in 2009). All of these are outage-
13 related costs, so they will be incurred in outage years only.

14 2. NMC Headquarters Allocation –This category includes the costs associated with
15 services provided by NMC to Palisades by employees who are not fully dedicated to
16 the site. Following is a sample list of services provided under the HQ allocation:
17 legal, accounting, human resources, communications, fleet services, oversight,
18 regulatory services, license renewal services, executive site services, supply chain,
19 nuclear fuel management, engineering design, project management, and dry fuel
20 storage.

21 For 2006, there is a significant (\$11million) increase in this allocation. This is
22 primarily a result of certain IT and training services being reallocated from the Plant
23 to NMC headquarters through this cost center. The corresponding reduction can be

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1 seen in payroll expenses (certain employees are no longer counted as Palisades
2 employees, but their time is billed back to the site). As previously noted, this is part
3 of a centralization effort being undertaken by NMC.

4 Costs in this category are escalated by 4.55% annually. This escalation rate is
5 derived from the historic cost increases in the 2002-2005 timeframe. We derived the
6 increase after adjusting for the cost reallocations noted above and also for the sale of
7 KNPP in 2005 which forced the other NMC plants to take an increased percentage of
8 NMC's fixed costs. It should be noted that the 2006 costs that are being used as a
9 base are fully adjusted for the increase in NMC fixed costs allocated to Palisades due
10 to the sales of both KNPP and Duane Arnold (in early 2006) respectively.

- 11 3. Senior Reactor Operator ("SRO") Retention Incentive Expense - Consumers agreed
12 to offer eligible employees an incentive if they remain SRO qualified and remain
13 employed by Consumers. This program started in 1999 and was terminated in 2005.
14 But the SRO qualified employees are still entitled to compensation for the period of
15 time when the plan was in place. This line item in the CCO model contains values
16 through 2010 and represents the expected annual expense associated with fulfilling
17 the incentive-related obligation.

18 Q. Please describe the inputs and assumptions used in the CCO for other expenses.

19 A. Inputs and assumptions for a variety of other expenses were also developed and used in
20 the calculation of the CCO. Other expenses included:

- 21 • OM&C Pension and Other Post Employment Benefits Expenses – Hewitt Associates
22 performed an actuarial study on Consumers Energy's pension plan and carved out the
23 estimated pension assets and liabilities associated with the Palisades employees who

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1 chose to retain their Consumers pension benefits as opposed to participating in the
2 NMC retirement plan. Through 6/1/06 (the date the final CCO was provided to
3 bidders), the difference between plan assets and liabilities (on a PBO basis), as of
4 3/1/2007 was estimated to be \$37.5 million. Using Hewitt's assumption of a 5.75%
5 discount rate, the annual contribution to the plan required to meet the benefit
6 obligation at the end of plant life in 2030 was \$2,813,948.

7 Hewitt Associates performed a similar analysis of Consumers Energy's OPEB
8 Plan. It was estimated that the annual contribution to the plan required to meet the
9 benefit obligation at the end of plant life in 2030 was \$894,000.

- 10 • Insurance Premiums – Annual insurance premiums have varied slightly over the last
11 10 years but have tended to hover around \$3.2 million per year. Consumers has
12 forecasted 2006 insurance premiums to be \$3,240,442. Starting in 2007, we used the
13 10-year average insurance premium of \$3,291,195, and escalated it at the rate of
14 inflation (2.5%).
- 15 • Insurance Credits Applicable to Palisades Ownership – Each year Consumers may
16 receive a distribution from Nuclear Electric Insurance Limited (“NEIL”). The size of
17 the distribution changes year to year based on the number and size of claims that are
18 paid out by NEIL. The distributions are paid to NEIL members based on their accrued
19 member balance and, to a lesser extent, the amount of annual premiums paid.
20 Consumers has estimated that under a sale scenario, it will still be eligible to receive
21 distributions from NEIL because (1) it has accrued a substantial member balance over
22 the years and (2) it will still pay NEIL insurance premiums for at least one active
23 policy. The dynamics of Consumers' ANI insurance premiums and credits are similar

JOHN J. REED
DIRECT TESTIMONY

1 to those of Consumers' NEIL insurance premiums and credits. We have decreased the
2 CCO by the difference between the value of the insurance credits Consumers would
3 expect to receive under continued ownership of Palisades and what Consumers would
4 expect to receive under a sale scenario. The forecasted credits used in our analysis
5 were provided by Consumers' risk management group.

- 6 • Depreciation Expense – 2006 depreciation is an estimate provided by Mr. Wawro.
7 From 2007 through 2030, book depreciation is done on a modified straight line basis,
8 with all plant additions depreciated through the final year of plant operations
9 (assuming license extension) resulting in the Plant being depreciated to zero by the
10 end of its extended life in 2030.

- 11 • Property Taxes – Since 1995, property taxes have averaged \$7.5 million and have had
12 no discernable escalation pattern. We understand that the reason for this is a general
13 agreement between the county and the company to attempt to keep taxes relatively
14 flat through the 2000 timeframe. That agreement has now expired, and recent
15 property taxes have shown an escalating trend. The 2006 base year value for property
16 taxes is an estimate provided Consumers. Consumers' tax group suggested we
17 escalate property taxes at the assumed inflation rate of 2.5%. This escalation is
18 reflected in the numbers from 2007 through 2030.

19 The replacement of the steam generator, an estimated \$484 million capital
20 addition (excluding AFUDC), in 2016 is likely to trigger a reassessment of the
21 taxable value of the Plant. We made the conservative assumptions that the taxable
22 value will increase by 50% of the value of the addition and that the resulting tax
23 increase will be 50% of the calculated amount.

JOHN J. REED
DIRECT TESTIMONY

- 1 • Michigan Single Business Tax (“MSBT”) –The MSBT is levied on net income,
2 interest expense, compensation and benefits and depreciation (all value-added items).
3 The MSBT is accounted for in two places in the CCO model (consistent with how it
4 is accounted for in rate cases before the MPSC). The portion of the MSBT levied on
5 net income and interest expense is accounted for by grossing up the pretax cost of
6 capital to earn an extra 1.9% on debt and equity. The remaining portion of the MSBT
7 is accounted for in the CCO model by multiplying 1.9% by compensation and benefit
8 expenses plus depreciation expense for each year and using that as an expense in the
9 model.
- 10 • MSBT Capex Credit – Consumers is awarded a credit against its annual MSBT for
11 capital expenditures it makes for the plant (including nuclear fuel). It receives
12 \$0.00739 for every dollar of capex. We have multiplied this credit factor by the sum
13 of normal capital expenditures, steam generator capital expenditures and nuclear fuel
14 capital expenditures for each year of the analysis. This reduces the MSBT costs each
15 year and is assumed to be immediately passed through to Consumers’ customers.
- 16 • Decommissioning Expense for 2007 – An annual decommissioning charge is
17 included for 2007 based on the amount Consumers is allowed to recover from
18 customers. After 2007, based on the assumption that Palisades will have been
19 relicensed, we have not included any decommissioning charge.

20 Q. How was the CCO for the Big Rock ISFSI developed?

21 A. The Big Rock ISFSI CCO was developed using a much simpler process. The costs of
22 maintaining and operating the Big Rock ISFSI were estimated for 2007 at \$2.1 million,
23 based on budget projections supplied by Consumers. This cost was assumed to escalate

JOHN J. REED
DIRECT TESTIMONY

1 at the rate of inflation for as long as the ISFSI remained open. The cost for
2 decommissioning the Big Rock ISFSI was estimated to be \$4.6 million in 2007 dollars.
3 The duration for the operation of Big Rock ISFSI was assumed to be greater than
4 15 years, based on the assumption that Yucca Mountain will not be able to accept the
5 SNF before that date.

6 **V. CONCLUSION**

7 Q. What are your conclusions regarding the Palisades Auction Process and the resulting
8 Transaction?

9 A. The Palisades Auction was highly competitive and highly successful. The Auction
10 maximized interest in the Plant and produced financial results which, on a total
11 transactional value basis, provide large benefits to ratepayers. It is my opinion that the
12 total value of the Palisades Transaction is equal to the full market value of the assets
13 being sold, and that the PPA will provide ongoing benefits to Consumers' customers,
14 both in terms of the cost of the power from Palisades and in terms of risks transferred to
15 Entergy Palisades. The Application should be approved as submitted.

16 Q. Does this conclude your prepared direct testimony?

17 A. Yes, it does.

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
CONSUMERS ENERGY COMPANY)
for approval of a Power Purchase)
Agreement and for other relief in)
connection with the sale of the Palisades)
Nuclear Power Plant and other assets.)
_____)

Case No. U-14992

EXHIBITS

OF

JOHN J. REED

ON BEHALF OF

CONSUMERS ENERGY COMPANY

August, 2006

John J. Reed
Chairman and Chief Executive Officer

John J. Reed is a financial and economic consultant with more than 25 years of experience in the energy industry. Mr. Reed has also been the CEO of an NASD member securities firm, and Co-CEO of the nation's largest publicly traded management consulting firm (NYSE: NCI). He has provided advisory services in the areas of mergers and acquisitions, asset divestitures and purchases, strategic planning, project finance, corporate valuation, energy market analysis, rate and regulatory matters and energy contract negotiations to clients across North and Central America. Mr. Reed's comprehensive experience includes the development and implementation of nuclear, fossil, and hydroelectric generation divestiture programs with an aggregate valuation in excess of \$20 billion. Mr. Reed has also provided expert testimony on financial and economic matters on more than 125 occasions before the FERC, Canadian regulatory agencies, state utility regulatory agencies, various state and federal courts, and before arbitration panels in the United States and Canada. After graduation from the Wharton School of the University of Pennsylvania, Mr. Reed joined Southern California Gas Company, where he worked in the regulatory and financial groups, leaving the firm as Chief Economist in 1981. He served as executive and consultant with Stone & Webster Management Consulting and R.J. Rudden Associates prior to forming REED Consulting Group (RCG) in 1988. RCG was acquired by Navigant Consulting in 1997, where Mr. Reed served as an executive until leaving Navigant to join CEA as Chairman and Chief Executive Officer.

REPRESENTATIVE PROJECT EXPERIENCE

Executive Management

As an executive-level consultant, worked with CEOs, CFOs, other senior officers, and Boards of Directors of many of North America's top electric and gas utilities, as well as with senior political leaders of the U.S. and Canada on numerous engagements over the past 20 years. Directed merger, acquisition, divestiture, and project development engagements for utilities, pipelines and electric generation companies, repositioned several electric and gas utilities as pure distributors through a series of regulatory, financial, and legislative initiatives, and helped to develop and execute several "roll-up" or market aggregation strategies for companies seeking to achieve substantial scale in energy distribution, generation, transmission, and marketing.

Financial and Economic Advisory Services

Retained by many of the nation's leading energy companies and financial institutions for services relating to the purchase, sale or development of new enterprises. These projects included major new gas pipeline projects, gas storage projects, several non-utility generation projects, the purchase and sale of project development and gas marketing firms, and utility acquisitions. Specific services provided include the development of corporate expansion plans, review of acquisition candidates, establishment of divestiture standards, due diligence on acquisitions or financing, market entry or expansion studies, competitive assessments, project financing studies, and negotiations relating to these transactions.

***Concentric Energy Advisors, Inc.
Resume of John J. Reed***

Litigation Support and Expert Testimony

Provided expert testimony on more than 125 occasions in administrative and civil proceedings on a wide range of energy and economic issues. Clients in these matters have included gas distribution utilities, gas pipelines, gas producers, oil producers, electric utilities, large energy consumers, governmental and regulatory agencies, trade associations, independent energy project developers, engineering firms, and gas and power marketers. Testimony has focused on issues ranging from broad regulatory and economic policy to virtually all elements of the utility ratemaking process. Also frequently testified regarding energy contract interpretation, accepted energy industry practices, horizontal and vertical market power, quantification of damages, and management prudence. Have been active in regulatory contract and litigation matters on virtually all interstate pipeline systems serving the U.S. Northeast, Mid-Atlantic, Midwest, and Pacific regions.

Also served on FERC Commissioner Terzic's Task Force on Competition, which conducted an industry-wide investigation into the levels of and means of encouraging competition in U.S. natural gas markets. Represented the interests of the gas distributors (the AGD and UDC) and participated actively in developing and presenting position papers on behalf of the LDC community.

Resource Procurement, Contracting and Analysis

On behalf of gas distributors, gas pipelines, gas producers, electric utilities, and independent energy project developers, personally managed or participated in the negotiation, drafting, and regulatory support of hundreds of energy contracts, including the largest gas contracts in North America, electric contracts representing billions of dollars, pipeline and storage contracts, and facility leases.

These efforts have resulted in bringing large new energy projects to market across North America, the creation of hundreds of millions of dollars in savings through contract renegotiation, and the regulatory approval of a number of highly contested energy contracts.

Strategic Planning and Utility Restructuring

Acted as a leading participant in the restructuring of the natural gas and electric utility industries over the past fifteen years, as an adviser to local distribution companies (LDCs), pipelines, electric utilities, and independent energy project developers. In the recent past, provided services to many of the top 50 utilities and energy marketers across North America. Managed projects that frequently included the redevelopment of strategic plans, corporate reorganizations, the development of multi-year regulatory and legislative agendas, merger, acquisition and divestiture strategies, and the development of market entry strategies. Developed and supported merchant function exit strategies, marketing affiliate strategies, and detailed plans for the functional business units of many of North America's leading utilities.

PROFESSIONAL HISTORY

Concentric Energy Advisors, Inc. (2002 – Present)

Chairman and Chief Executive Officer

Navigant Consulting, Inc. (1997- 2002)

President, Navigant Energy Capital (2000 – 2002)

Executive Director (2000 – 2002)

Co-Chief Executive Officer, Vice Chairman (1999 – 2000)

Executive Managing Director (1998 – 1999)

President, REED Consulting Group, Inc. (1997 – 1998)

***Concentric Energy Advisors, Inc.
Resume of John J. Reed***

REED Consulting Group (1988-1997)

Chairman, President and Chief Executive Officer

R.J. Rudden Associates, Inc. (1983-1988)

Vice President

Stone & Webster Management Consultants, Inc. (1981-1983)

Senior Consultant

Consultant

Southern California Gas Company (1976-1981)

Corporate Economist

Financial Analyst

Treasury Analyst

EDUCATION AND CERTIFICATION

BS, Economics and Finance, Wharton School, University of Pennsylvania, 1976

Licensed Securities Professional: NASD Series 7, 63, and 24 Licenses.

BOARDS OF DIRECTORS (PAST AND PRESENT)

Concentric Energy Advisors, Inc.

Navigant Consulting, Inc.

Navigant Energy Capital

Nukem, Inc.

New England Gas Association

R. J. Rudden Associates

REED Consulting Group

AFFILIATIONS

National Association of Business Economists

International Association of Energy Economists

American Gas Association

New England Gas Association

Society of Gas Lighters

Guild of Gas Managers

EXPERT TESTIMONY OF JOHN J. REED
--REGULATORY AGENCIES--

Case No. : U-14992
 Exhibit: A-3 (JJR-1)
 Witness: JJReed
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SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Alaska Public Utilities Commission				
Chugach Electric	12/86	Chugach Electric	Docket No. U-86-11	Cost Allocation
Chugach Electric	6/87	Enstar Natural Gas Company	Docket No. U-87-2	Tariff Design
Chugach Electric	12/87	Enstar Natural Gas Company	Docket No. U-87-42	Gas Transportation
Chugach Electric	2/88	Chugach Electric	Docket No. U-87-35	Cost of Capital
California Energy Commission				
Southern California Gas Co.	8/80	Southern California Gas Co.	Docket No. 80-BR-3	Gas Price Forecasting
California Public Utility Commission				
Southern California Gas Co.	3/80	Southern California Gas Co.	TY 1981 G.R.C.	Cost of Service, Inflation
Pacific Gas Transmission Co.	10/91	Pacific Gas & Electric Co.	App. 89-04-033	Rate Design
Pacific Gas Transmission Co.	7/92	Southern California Gas Co.	A. 92-04-031	Rate Design
Colorado Public Utilities Commission				
AMAX Molybdenum	2/90	Commission Rulemaking	Docket No. 89R-702G	Gas Transportation
AMAX Molybdenum	11/90	Commission Rulemaking	Docket No. 90R-508G	Gas Transportation
Xcel Energy	8/04	Xcel Energy	Docket No. 031-134E	Cost of Debt
Conn. Department of Public Utilities Control				
Connecticut Natural Gas	12/88	Connecticut Natural Gas	Docket No. 88-08-15	Gas Purchasing Practices
United Illuminating	3/99	United Illuminating	Docket No. 99-03-04	Nuclear Plant Valuation
Southern Connecticut Gas	2/04	Southern Connecticut Gas	Docket No. 00-12-08	Gas Purchasing Practices
Southern Connecticut Gas	4/05	Southern Connecticut Gas	Docket No. 05-03-17	LNG/Trunkline

EXPERT TESTIMONY OF JOHN J. REED
--REGULATORY AGENCIES--

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
District Of Columbia PSC				
Potomac Electric Power Company	3/99	Potomac Electric Power Company	Docket No. 945	Divestiture of Gen. Assets & Purchase Power Contracts (Direct)
Potomac Electric Power Company	5/99	Potomac Electric Power Company	Docket No. 945	Divestiture of Gen. Assets & Purchase Power Contracts (Supplemental Direct)
Potomac Electric Power Company	7/99	Potomac Electric Power Company	Docket No. 945	Divestiture of Gen. Assets & Purchase Power Contracts (Rebuttal)
Federal Energy Regulatory Commission				
Western Gas Interstate Company	5/84	Western Gas Interstate Company	Docket No. RP84-77	Load Fcst. Working Capital
Southern Union Gas	4/87	El Paso Natural Gas Company	Docket No. RP87-16-000	Take-or-Pay Costs
Connecticut Natural Gas	11/87	Penn-York Energy Corporation	Docket No. RP87-78-000	Cost Alloc./Rate Design
AMAX Magnesium	12/88	Questar Pipeline Company	Docket No. RP88-93-000	Cost Alloc./Rate Design
Western Gas Interstate Company	6/89	Western Gas Interstate Company	Docket No. RP89-179-000	Cost Alloc./Rate Design, Open-Access Transportation
Associated CD Customers	12/89	CNG Transmission	Docket No. RP88-211-000	Cost Alloc./Rate Design
Utah Industrial Group	9/90	Questar Pipeline Company	Docket No. RP88-93, Phase II	Cost Alloc./Rate Design
Iroquois Gas Trans. System	8/90	Iroquois Gas Transmission System	Docket No. CP89-634-000	Gas Markets, Rate Design, Cost of Capital, Capital Structure
Boston Edison Company	1/91	Boston Edison Company	Docket No. ER91-243-000	Electric Generation Markets
Cincinnati Gas and Electric Co., Union Light, Heat and Power Company, Lawrenceburg Gas Company	7/91	Texas Gas Transmission Corp.	Docket No. RP90-104-000, RP88-115-000, RP90-192-000	Cost Alloc./Rate Design Comparability of Svc.
Ocean State Power II	7/91	Ocean State Power II	ER89-563-000	Competitive Market Analysis, Self-dealing
Brooklyn Union/PSE&G	7/91	Texas Eastern	RP88-67, et al	Market Power, Comparability of Service
Northern Distributor Group	9/92	Northern Natural Gas Company	RP92-1-000, et al	Cost of Service

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--REGULATORY AGENCIES--**

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Canadian Association of Petroleum Producers and Alberta Pet. Marketing Comm.	10/92	Lakehead Pipe Line Co. L.P.	IS92-27-000	Rate Case Analysis Cost of Service
Colonial Gas, Providence Gas	7/93	Algonquin Gas Transmission	RP93-14	Cost Allocation, Rate Design
Colonial Gas, Providence Gas	8/93	Algonquin Gas Transmission	RP93-14 – Rebuttal	Cost Allocation, Rate Design
Iroquois Gas Transmission	94	Iroquois Gas Transmission	RP94-72-000	Cost of Service and Rate Design
Transco Customer Group	1/94	Transcontinental Gas Pipeline Corporation	Docket No. RP92-137-000	Rate Design, Firm to Wellhead
Pacific Gas Transmission	2/94	Pacific Gas Transmission	Docket No. RP94-149-000	Rolled-In vs. Incremental Rates
Tennessee GSR Group	1/95	Tennessee Gas Pipeline Company	Docket Nos. RP93-151-000, RP94-39-000, RP94-197-000, RP94-309-000	GSR Costs
Pacific Gas Transmission	2/95	Pacific Gas Transmission	RP94-149-000	Rate Design
Tennessee GSR Customer Group	3/95	Tennessee Gas Pipeline Company	Docket Nos. RP93-151-000, RP94-39-000, RP94-197-000, RP94-309-000	GSR Costs
ProGas and Texas Eastern	1/96	Tennessee Gas Pipeline Company	RP93-151	Declaration
PG&E and SoCal Gas	96	El Paso Natural Gas Company	RP92-18	Stranded Costs
Iroquois Gas Transmission System, L.P.	97	Iroquois Gas Transmission System, L.P.	RP97-126-000	Cost of Service, Rate Design
BEC Energy - Commonwealth Energy System	2/99	Boston Edison Company/ Commonwealth Energy System	EC99-____-000	Market Power Analysis – Merger
Central Hudson Gas & Electric, Consolidated Co. of New York, Niagara Mohawk Power Corporation, Dynegy Power Inc.	10/00	Central Hudson Gas & Electric, Consolidated Co. of New York, Niagara Mohawk Power Corporation, Dynegy Power Inc.	Docket No. EC00-____	Market Power 203/205 Filing
Wyckoff Gas Storage	12/02	Wyckoff Gas Storage	CP03-33-000	Need for Storage Project
Indicated Shippers/Producers	10/03	Northern Natural Gas	Docket No. RP98-39-029	Ad Valorem Tax Treatment
Maritimes & Northeast Pipeline	6/04	Maritimes & Northeast Pipeline	Docket No. RP04-360-000	Rolled-In Rates
ISO New England	8/04	ISO New England	Docket No. ER03-563-030	Cost of New Entry

EXPERT TESTIMONY OF JOHN J. REED
--REGULATORY AGENCIES--

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Hawaii Public Utility Commission				
Hawaiian Electric Light Company, Inc. (HELCO)	6/00	Hawaiian Electric Light Company, Inc.	Docket No. 99-0207	Standby Charge
Indiana Utility Regulatory Commission				
Northern Indiana Public Service Company	10/01	Northern Indiana Public Service Company	Docket No. 99-0207	Direct Testimony, Valuation of Electric Generating Facilities
Iowa Utilities Board				
Interstate Power and Light	7/05	Interstate Power and Light and FPL Energy Duane Arnold, LLC	Docket No. SPU-05-15	Sale of Nuclear Plant
Maine Public Utility Commission				
Northern Utilities	5/96	Granite State and PNGTS	Docket No. 95-480, 95-481	Transportation Service and PBR
Maryland Public Service Commission				
Eastalco Aluminum	3/82	Potomac Edison	Docket No. 7604	Cost Allocation
Potomac Electric Power Company	8/99	Potomac Electric Power Company	Docket No. 8796	Stranded Cost & Price Protection (Direct)
Mass. Department of Public Utilities				
Haverhill Gas	5/82	Haverhill Gas	Docket No. DPU #1115	Cost of Capital
New England Energy Group	1/87	Commission Investigation		Gas Transportation Rates
Energy Consortium of Mass.	9/87	Commonwealth Gas Company	Docket No. DPU-87-122	Cost Alloc./Rate Design
Mass. Institute of Technology	12/88	Middleton Municipal Light	DPU #88-91	Cost Alloc./Rate Design
Energy consortium of Mass.	3/89	Boston Gas	DPU #88-67	Rate Design
PG&E Bechtel Generating Co./ Constellation Holdings	10/91	Commission Investigation	DPU #91-131	Valuation of Environmental Externalities
The Berkshire Gas Company	5/92	The Berkshire Gas Company	DPU #92-154	Gas Purchase Contract Approval
Essex County Gas Company	5/92	Essex County Gas Company	DPU #92-155	Gas Purchase Contract Approval

EXPERT TESTIMONY OF JOHN J. REED
--REGULATORY AGENCIES--

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Fitchburg Gas and Elec. Light Co.	5/92	Fitchburg Gas and Elec. Light Co.	DPU #92-156	Gas Purchase Contract Approval
Boston Edison Company	7/92	Boston Edison	DPU #92-130	Least Cost Planning
Boston Edison Company	7/92	The Williams/Newcorp Generating Co.	DPU #92-146	RFP Evaluation
Boston Edison Company	7/92	West Lynn Cogeneration	DPU #92-142	RFP Evaluation
Boston Edison Company	7/92	L'Energia Corp.	DPU #92-167	RFP Evaluation
Boston Edison Company	7/92	DLS Energy, Inc.	DPU #92-153	RFP Evaluation
Boston Edison Company	7/92	CMS Generation Co.	DPU #92-166	RFP Evaluation
Boston Edison Company	7/92	Concord Energy	DPU #92-144	RFP Evaluation
The Berkshire Gas Company	11/93	The Berkshire Gas Company	DPU #93-187	Gas Purchase Contract Approval
Colonial Gas Company	11/93	Colonial Gas Company	DPU #93-188	Gas Purchase Contract Approval
Essex County Gas Company	11/93	Essex County Gas Company	DPU #93-189	Gas Purchase Contract Approval
Fitchburg Gas and Electric Company	11/93	Fitchburg Gas and Electric Company	DPU #93-190	Gas Purchase Contract Approval
Bay State Gas Company	10/93	Bay State Gas Company	Docket No. 93-129	Integrated Resource Planning
Boston Edison Company	94	Boston Edison	DPU #94-49	Surplus Capacity
Hudson Light & Power Department	4/95	Hudson Light & Power Dept.	DPU #94-176	Stranded Costs - Direct
Essex County Gas Company	5/96	Essex County Gas Company	Docket No. 96-70	Unbundled Rates
Boston Edison Company	8/97	Boston Edison Company	D.P.U. No. 97-63	Holding Company Corporate Structure
Berkshire Gas Company	6/98	Berkshire Gas Mergco Gas Co.	D.T.E. 98-87	Regulatory Issues
Eastern Edison Company	8/98	Montaup Electric Company	D.T.E. 98-83	Marketing for divestiture of its generation business.
Boston Edison Company	98	Boston Edison Company	D.T.E. 97-113	Fossil Generation Divestiture
Boston Edison Company	98	Boston Edison Company	D.T.E. 98-119	Nuclear Generation Divestiture
Eastern Edison Company	12/98	Montaup Electric Company	D.T.E. 99-9	
Mass. Energy Facilities Siting Council				
Mass. Institute of Technology	1/89	M.M.W.E.C.	EFSC-88-1	Least-Cost Planning
Boston Edison Company	9/90	Boston Edison	EFSC-90-12	Electric Generation Mkts
Silver City Energy Ltd. Partnership	11/91	Silver City Energy	D.P.U. 91-100	State Policies; Need for Facility

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SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Michigan Public Service Commission				
Detroit Edison Company	9/98	Detroit Edison Company	Case No. U-11726	Market Value of Generation Assets
Minnesota Public Utilities Commission				
Xcel Energy/No. States Power	9/04	Xcel Energy/No. States Power	Docket No. G002/GR-04-XXX	Cost of Debt
Northern States Power Company d/b/a Xcel Energy	3/06	Northern States Power Company	Docket No. E002/GR-05-1428	NRG Impacts on Debt Costs
Missouri Public Service Commission				
Missouri Gas Energy	1/03	Missouri Gas Energy	Case No. GR-2001-382	Gas Purchasing Practices; Prudence
Aquila Networks	2/04	Aquila-MPS, Aquila_L&P	Case Nos. ER-2004-0034 HR-2004-0024	Cost of Capital, Capital Structure
Aquila Networks	2/04	Aquila-MPS, Aquila_L&P	Case No. GR-2004-0072	Cost of Capital, Capital Structure
Montana Public Service Commission				
Great Falls Gas Company	10/82	Great Falls Gas Company	Docket No. 82-4-25	Gas Rate Adjust. Clause
Nat. Energy Board of Canada				
Alberta-Northeast	2/87	Alberta Northeast Gas Export Project	Docket No. GH-1-87	Gas Export Markets
Alberta-Northeast	11/87	TransCanada Pipeline	Docket No. GH-2-87	Gas Export Markets
Alberta-Northeast	1/90	TransCanada Pipeline	Docket No. GH-5-89	Gas Export Markets
Indep. Petroleum Association of Canada	1/92	Interprovincial Pipe Line, Inc.	RH-2-91	Pipeline Valuation, Toll
The Canadian Association of Petroleum Producers	11/93	Transmountain Pipe Line	RH-1-93	Cost of Capital
Alliance Pipeline L.P.	6/97	Alliance Pipeline L.P.	GH-3-97	Market Study
Maritimes & Northeast Pipeline	97	Sable Offshore Energy Project	GH-6-96	Market Study
Maritimes & Northeast Pipeline	2/02	Maritimes & Northeast Pipeline	GH-3-2002	Natural Gas Demand Analysis
TransCanada Pipelines	8/04	TransCanada Pipelines	RH-3-2004	Segmented Service

EXPERT TESTIMONY OF JOHN J. REED
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SPONSOR	DATE	CASE/APPLICANT	DOCKET No.	SUBJECT
New Hampshire Public Utilities Commission				
Bus & Industry Association	6/89	P.S. Co. of New Hampshire	Docket No. DR89-091	Fuel Costs
Bus & Industry Association	5/90	Northeast Utilities	Docket No. DR89-244	Merger & Acq. Issues
Eastern Utilities Associates	6/90	Eastern Utilities Associates	Docket No. DF89-085	Merger & Acq. Issues
EnergyNorth Natural Gas	12/90	EnergyNorth Natural Gas	Docket No. DE90-166	Gas Purchasing Practices
EnergyNorth Natural Gas	7/90	EnergyNorth Natural Gas	Docket No. DR90-187	Special Contracts, Discounted Rates
Northern Utilities, Inc.	12/91	Commission Investigation	Docket No. DR91-172	Generic Discounted Rates
New Jersey Board of Public Utilities				
Hilton/Golden Nugget	12/83	Atlantic Electric	B.P.U. 832-154	Line Extension Policies
Golden Nugget	3/87	Atlantic Electric	B.P.U. No. 837-658	Line Extension Policies
New Jersey Natural Gas	2/89	New Jersey Natural Gas	B.P.U. GR89030335J	Cost Alloc./Rate Design
New Jersey Natural Gas	1/91	New Jersey Natural Gas	B.P.U. GR90080786J	Cost Alloc./Rate Design
New Jersey Natural Gas	8/91	New Jersey Natural Gas	B.P.U. GR91081393J	Rate Design; Weather Norm. Clause
New Jersey Natural Gas	4/93	New Jersey Natural Gas	B.P.U. GR93040114J	Cost Alloc./Rate Design
South Jersey Gas	4/94	South Jersey Gas	BRC Dock No. GR080334	Revised levelized gas adjustment
New Jersey Utilities Association	9/96	Commission Investigation	BPU AX96070530	PBOP Cost Recovery
New Mexico Public Service Commission				
Gas Company of New Mexico	11/83	Public Service Co. of New Mexico	Docket No. 1835	Cost Alloc./Rate Design
New York Public Service Commission				
Iroquois Gas. Transmission	12/86	Iroquois Gas Transmission System	Case No. 70363	Gas Markets
Brooklyn Union Gas Company	8/95	Brooklyn Union Gas Company	Case No. 95-6-0761	Panel on Industry Directions
Central Hudson, ConEdison and Niagara Mohawk	9/00	Central Hudson, ConEdison and Niagara Mohawk	Case No. 96-E-0909 Case No. 96-E-0897 Case No. 94-E-0098 Case No. 94-E-0099	Section 70

EXPERT TESTIMONY OF JOHN J. REED
--REGULATORY AGENCIES--

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SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Central Hudson, New York State Electric & Gas, Rochester Gas & Electric	5/01	Joint Petition of NiMo, NYSEG, RG&E, Central Hudson, Constellation and Nine Mile Point	Case No. 01-E-0011	Section 70, Rebuttal Testimony
Rochester Gas & Electric	12/03	Rochester Gas & Electric	Case No. 03-E-1231	Sale of Nuclear Plant
Rochester Gas & Electric	01/04	Rochester Gas & Electric	Case No. 03-E-0765	Sale of Nuclear Plant; Ratemaking Treatment of Sale
Oklahoma Corporation Commission				
Oklahoma Natural Gas Company	6/98	Oklahoma Natural Gas Company	Case PUD No. 980000177	Evaluate their use of storage
Oklahoma Gas & Electric Company	9/05	Oklahoma Gas & Electric Company	Cause No. PUD 200500151	Prudence of McLain Acquisition
Ontario Energy Board				
Market Hub Partners Canada, L.P.	5/06	Natural Gas Electric Interface Roundtable	File No. EB-2005-0551	Market-based Rates For Storage
Pennsylvania Public Utility Commission				
ATOC	4/95	Equitrans	Docket No. R-00943272	Tariff Changes
ATOC	3/96	Equitrans	Docket No. P-00940886	Rate Service - Direct
Rhode Island Public Utilities Commission				
Newport Electric	7/81	Newport Electric	Docket No. 1599	Rate Attrition
South County Gas	9/82	South County Gas	Docket No. 1671	Cost of Capital
New England Energy Group	7/86	Providence Gas Company	Docket No. 1844	Cost Alloc./Rate Design
Providence Gas	8/88	Providence Gas Company	Docket No. 1914	Load Forecast., Least-Cost Planning
Providence Gas Company and The Valley Gas Company	1/01	Providence Gas Company and The Valley Gas Company	Docket No. 1673 and 1736	Gas Cost Mitigation Strategy
The New England Gas Company	3/03	New England Gas Company	Docket No. 3459	Cost of Capital
Texas Public Utility Commission				
Southwestern Electric	5/83	Southwestern Electric		Cost of Capital, CWIP
P.U.C. General Counsel	11/90	Texas Utilities Electric Company	Docket No. 9300	Gas Purchasing Practices

EXPERT TESTIMONY OF JOHN J. REED
--REGULATORY AGENCIES--

Case No.: U-14992
 Exhibit: A-3 (JJR-1)
 Witness: JReed
 Date: August, 2006
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SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Texas Railroad Commission				
Southern Union Gas	5/85	Southern Union Gas Company	G.U.D. 1891	Cost of Service
Utah Public Service Commission				
AMAX Magnesium	1/88	Mountain Fuel Supply Company	Case No. 86-057-07	Cost Alloc./Rate Design
AMAX Magnesium	4/88	Utah P&L/Pacific P&L	Case No. 87-035-27	Merger & Acquisition
Utah Industrial Group	7/90	Mountain Fuel Supply	Case No. 89-057-15	Gas Transportation Rates
AMAX Magnesium	9/90	Utah Power & Light	Case No. 89-035-06	Energy Balancing Account
AMAX Magnesium	8/90	Utah Power & Light	Case No. 90-035-06	Electric Service Priorities
Vermont Public Service Board				
Green Mountain Power	8/82	Green Mountain Power	Docket No. 4570	Rate Attrition
Green Mountain Power	12/97	Green Mountain Power	Docket No. 5983	Tariff Filing
Green Mountain Power	7/98	Green Mountain Power	Docket No. 6107	Direct Testimony
Green Mountain Power	9/00	Green Mountain Power	Docket No. 6107	Rebuttal Testimony
Wisconsin Public Service Commission				
WEC & WICOR	11/99	WEC	Docket No. 9401-YO-100 Docket No. 9402-YO-101	Approval to Acquire the Stock of WICOR

EXPERT TESTIMONY OF JOHN J. REED
--COURTS AND ARBITRATION--

Case No.: U-14992
 Exhibit: A-3 (JJR-1)
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SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
American Arbitration Association				
Michael Polsky	3/91	M. Polsky vs. Indeck Energy		Corporate Valuation, Damages
ProGas Limited	7/92	ProGas Limited v. Texas Eastern	Arbitration Panel	Gas Contract Arbitration
Attala Generating Company	12/03	Attala Generating Co v. Attala Energy Co.	Case No. 16-Y-198-00228-03	Power Project Valuation; Breach of Contract; Damages
Commonwealth of Massachusetts, Suffolk Superior Court				
John Hancock	1/84	Trinity Church v. John Hancock	C.A. No. 4452	Damages Quantification
State of Delaware, Court of Chancery, New Castle County				
Wilmington Trust Company	11/05	Calpine Corporation vs. Bank Of New York and Wilmington Trust Company	C.A. No. 1669-N	Bond Indenture Covenants
State of Colorado District Court, County of Garfield				
Questar Corporation, et al	11/00	Questar Corporation, et al.	Case No. 00CV129-A	Partnership Fiduciary Duties
Illinois Appellate Court, Fifth Division				
Norweb, plc	8/02	Indeck No. America v. Norweb	Docket No. 97 CH 07291	Breach of Contract; Power Plant Valuation
Independent Arbitration Panel				
Ocean State Power	9/02	Ocean State Power v. ProGas Ltd.	2001/2002 Arbitration	Gas Price Arbitration
Ocean State Power	2/03	Ocean State Power v. ProGas Ltd.	2002/2003 Arbitration	Gas Price Arbitration
Ocean State Power	6/04	Ocean State Power v. ProGas Ltd.	2003/2004 Arbitration	Gas Price Arbitration
Shell Canada Limited	7/05	Shell Canada Limited and Nova Scotia Power Inc.		Gas Contract Price Arbitration

EXPERT TESTIMONY OF JOHN J. REED
--COURTS AND ARBITRATION--

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
International Court of Arbitration				
Wisconsin Gas Company, Inc.	2/97	Wisconsin Gas Co. vs. Pan-Alberta	Case No. 9322/CK	Contract Arbitration
Minnegasco, A Division of NorAm Energy Corp.	3/97	Minnegasco vs. Pan-Alberta	Case No. 9357/CK	Contract Arbitration
Utilicorp United Inc.	4/97	Utilicorp vs. Pan-Alberta	Case No. 9373/CK	Contract Arbitration
IES Utilities	97	IES vs. Pan-Alberta	Case No. 9374/CK	Contract Arbitration
U.S. Securities and Exchange Commission				
Eastern Utilities Association	10/92	EUA Power Corporation	File No. 70-8034	Value of EUA Power
State of Rhode Island, Providence City Court				
Aquidneck Energy	5/87	Laroche vs. Newport		Least-Cost Planning
State of Texas Hutchinson County Court				
Western Gas Interstate	5/85	State of Texas vs. Western Gas Interstate Co.	Case No. 14,843	Cost of Service
U.S. Bankruptcy Court, District of New Hampshire				
EUA Power Corporation	7/92	EUA Power Corporation	Case No. BK-91-10525-JEY	Pre-Petition Solvency
U.S. Bankruptcy Court, District Of New Jersey				
Ponderosa Pine Energy Partners, Ltd.	7/05	Ponderosa Pine Energy Partners, Ltd.	Case No. 05-21444	Forward Contract Bankruptcy Treatment
U.S. Bankruptcy Court, So. District Of New York				
Johns Manville	5/04	Enron Energy Mktg. v. Johns Manville; Enron No. America v. Johns Manville	Case No. 01-16034 (AJG)	Breach of Contract; Damages

EXPERT TESTIMONY OF JOHN J. REED
--COURTS AND ARBITRATION--

Case No.: U-14992
 Exhibit: A-3 (JJR-1)
 Witness: JJReed
 Date: August, 2006
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SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
U.S. Bankruptcy Court, Northern District of Texas				
Southern Maryland Electric Cooperative, Inc. and Potomac Electric Power Company	11/04	Mirant Corporation, et al. v. SMECO	Case No. 03-4659; Adversary No. 04-4073	PPA Interpretation; Leasing
U. S. District Court, Boulder County, Colorado				
KN Energy, Inc.	3/93	KN Energy vs. Colorado GasMark, Inc.	Case No. 92 CV 1474	Gas Contract Interpretation
U. S. District Court, Northern California				
Pacific Gas & Electric Co./PGT PG&E/PGT Pipeline Exp. Project	4/97	Norcen Energy Resources Limited	Case No. C94-0911 VRW	Fraud Claim
U. S. District Court, District of Connecticut				
Constellation Power Source, Inc.	12/04	Constellation Power Source, Inc. v. Select Energy, Inc.	Civil Action 304 CV 983 (RNC)	ISO Structure, Breach of Contract
U.S. District Court, Massachusetts				
Eastern Utilities Associates & Donald F. Pardus	3/94	NECO Enterprises Inc. vs. Eastern Utilities Associates	Civil Action No. 92-10355-RCL	Seabrook Power Sales
U. S. District Court, Montana				
KN Energy, Inc.	9/92	KN Energy v. Freeport MacMoRan	Docket No. CV 91-40-BLG-RWA	Gas Contract Settlement
U.S. District Court, New Hampshire				
Portland Natural Gas Transmission and Maritimes & Northeast Pipeline	9/03	Public Service Company of New Hampshire vs. PNGTS and M&NE Pipeline	Docket No. C-02-105-B	Impairment of Electric Transmission Right-of-Way

EXPERT TESTIMONY OF JOHN J. REED
--COURTS AND ARBITRATION--

Case No.: U-14992
 Exhibit: A-3 (JJR-1)
 Witness: JJReed
 Date: August, 2006
 Page: 16 of 16

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
U. S. District Court, Southern District of New York				
Central Hudson Gas & Electric	11/99	Central Hudson v. Riverkeeper, Inc., Robert H. Boyle, John J. Cronin	Civil Action 99 Civ 2536 (BDP)	Expert Report, Shortnose Sturgeon Case
Central Hudson Gas & Electric	8/00	Central Hudson v. Riverkeeper, Inc., Robert H. Boyle, John J. Cronin	Civil Action 99 Civ 2536 (BDP)	Revised Expert Report, Shortnose Sturgeon Case
Consolidated Edison	3/02	Consolidated Edison v. Northeast Utilities	Case No. 01 Civ. 1893 (JGK) (HP)	Industry Standards for Due Diligence
Merrill Lynch & Company	1/05	Merrill Lynch v. Allegheny Energy, Inc.	Civil Action 02 CV 7689 (HB)	Due Diligence, Breach of Contract, Damages
U. S. District Court, Eastern District of Virginia				
Aquila, Inc.	1/05	VPEM v. Aquila, Inc.	Civil Action 304 CV 411	Breach of Contract, Damages
U. S. District Court, Portland Maine				
ACEC Maine, Inc. et al.	10/91	CIT Financial vs. ACEC Maine	Docket No. 90-0304-B	Project Valuation
Combustion Engineering	1/92	Combustion Eng. vs. Miller Hydro	Docket No. 89-0168P	Output Modeling; Project Valuation



CONCENTRIC ENERGY ADVISORS

313 Boston Post Road West, Suite 210
Marlborough, MA 01752
508.263.6200 • 508.303.3290 *fax*
www.ceadvisors.com

December 7, 2005

«Salutation» «Company_Contact»
«Contact_Title»
«Company_Name»
«Company_Street_1»
«Company_Street_2»
«CityStateZip» «Country»

Dear «Salutation» «Last_Name»:

Consumers Energy (“Consumers” or the “Seller”), a wholly-owned subsidiary of CMS Energy, is conducting an auction for its 100% ownership interest in the Palisades Nuclear Power Plant (“Palisades”). Consumers has retained Concentric Energy Advisors, Inc. (“CEA”) to act as its auction manager in the transaction (the “Sale”).

The purpose of this letter is to solicit expressions of interest from parties that may have an interest in purchasing the generation facilities and certain other assets being offered for sale and to inform you of the process for participating in this opportunity.

OVERVIEW OF PALISADES



Palisades consists of a fully licensed and operational two-loop Pressurized Water Reactor and associated electric generation equipment. The facility, which commenced commercial operation in December 1971, has a net capacity of 798 MW. Palisades is located on a 432-acre site on Lake Michigan near South Haven, MI and is electrically interconnected to facilities owned by the Michigan Electric Transmission Company. Since 2000, Palisades has been operated on behalf of Consumers by the Nuclear Management Company (“NMC”).

The assets included in the sale are: the nuclear steam supply systems, the turbines, the generators, certain assets necessary for interconnection, and the balance of plant and supporting systems, in addition to all contracts, permits and other assets directly related to or necessary for the operation of these facilities. The Sale will include transfer of the decommissioning liability and associated trust funds. Potential interested parties should also note that Consumers expects to enter into a Purchase Power Agreement (“PPA”) with the winning bidder for a term of ten years or more. Consumers also may offer interested parties the opportunity to acquire and manage the Dry Fuel Storage casks and pad at the Big Rock Nuclear Facility, which is a former nuclear generating site that is currently being decommissioned. The Dry Fuel Storage facilities will continue to provide spent nuclear fuel storage post-decommissioning.



INVESTMENT HIGHLIGHTS

This Sale provides interested parties with several attractive investment features:

Operating Performance

NMC operation has led to significant improvement in the operating performance of Palisades. Over the past three years, Palisades has generated an average of 5,958 GWh of energy, well in excess of the 3,744 GWh/year average over the entire life of the facility.

Emerging Market

Palisades is located in the Mid-West Independent System Operator (“MISO”) market. Since April 2005, MISO has operated Day-Ahead and Real-Time Energy Markets. MISO also is responsible for the centralized dispatch of generation using Locational Marginal Pricing (“LMP”) and establishes locational pricing at each generation node and all network load zones. The competitiveness of the MISO wholesale power market is increasing and various other financial and physical products are being considered for future implementation.

NRC License Renewal

Palisades’ current NRC operating license expires in 2011. NMC and Consumers filed a license renewal application with the NRC in March 2005 and the relicensing process is proceeding in accordance with established NRC milestones. Consumers expects the license renewal process to be complete in 2007.

Long-Term PPA

Consumers expects to enter into a long-term (ten years or more) PPA with the new owner of Palisades, which will provide the new owner with an assured market for the power from this facility.

OVERVIEW OF THE AUCTION PROCESS

Consumers intends to conduct a single-stage binding bid process. An overview of the key auction milestones follows.

PALISADES AUCTION MILESTONES	
Bidders Qualified and Confidentiality Agreements Executed	Mid-December 2005 (Rolling)
Initial Due Diligence Materials Available for Qualified Bidders (Offering Memorandum, Document Room Access, Q&A)	Late January 2006
On-Site Due Diligence (Site Tours and Meetings with Station Staff)	March 2006
Management Meetings, On-going Q&A	April-May 2006
Bids Due	June 2006
Winner Announced	As soon as practicable
Target Closing	As soon as practicable

At this time, Consumers seeks expressions of interest from parties wishing to participate in the auction process. Parties wishing to participate must return an executed Confidentiality Agreement (attached) and provide a statement of their specific qualifications as described in the Request for Qualifications (attached) as promptly as possible.

CEA is the Seller’s sole and exclusive point of contact for the potential sale. Employees of Consumers and the NMC, and their affiliates or subsidiaries shall not be contacted at any time during this process, unless otherwise specifically instructed or approved by CEA.

Consumers expressly reserves the right, in its absolute discretion, to modify the auction process or schedule, or to terminate discussions with any or all prospective buyers at any time. A party's expression of interest will not be construed by Consumers as either an offer to purchase or a binding statement of intent. Likewise, Consumers' issuance of this letter should not be construed as an offer to sell. Consumers' solicitation of expressions of interest should also not be construed as its determination that the party is a qualified bidder. Potential buyers must be able to meet financial and regulatory requirements established by the NRC and desired by Consumers. All regulatory requirements must be met and may include, but are not limited to, those of the NRC, the Federal Energy Regulatory Commission, the Michigan Public Service Commission, and the Securities and Exchange Commission. In addition, to the extent a party anticipates seeking to acquire the asset(s) through a special purpose entity ("SPE"), such party must be prepared to provide appropriate credit support and guarantees.

If you have questions regarding the material presented herein, or require additional information in order to evaluate whether to participate in the auction of Palisades, you may contact:

<p>Tara L. Nolan Vice President Concentric Energy Advisors 313 Boston Post Road, Suite 210 Marlborough, MA 01752 508-263-6226 tnolan@ceadvisors.com</p>	<p>John C. Slocum Vice President Concentric Energy Advisors 313 Boston Post Road, Suite 210 Marlborough, MA 01752 508-263-6288 jslocum@ceadvisors.com</p>	<p>Caroline O'Neill Senior Consultant Concentric Energy Advisors 313 Boston Post Road, Suite 210 Marlborough, MA 01752 508-263-6250 coneill@ceadvisors.com</p>
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If you are interested in participating in the auction of Palisades, please submit two (2) originals of your qualifications package and two (2) original copies of the executed confidentiality agreement to Ms. Caroline O'Neill at the above contact information. Thank you for your interest and attention.

Very truly yours,

CONCENTRIC ENERGY ADVISORS, INC.



John J. Reed
Chairman and Chief Executive Officer

Attachments: Confidentiality Agreement, Request for Qualifications

FORM OF CONFIDENTIALITY AGREEMENT

_____, 2005

Attention: _____

Ladies and Gentlemen:

In order to allow _____ (hereinafter referred to as “you” or “your”) to evaluate the possible sale (the “Possible Sale”) to you of the Palisades Nuclear plant and other related assets (the “Project”) owned by Consumers Energy (referred to as the “Company” or “we or “us”) we will deliver to you, upon your execution and delivery to us of this letter agreement, certain information about the Project and its operations as well as other assets that may be offered in this Possible Sale. All information furnished by us or our Representatives (as defined below), whether furnished before or after the date hereof, whether oral or written, and regardless of the manner in which it is furnished, is referred to in this letter agreement as “Proprietary Information”. Proprietary Information does not include, however, information which (a) is or becomes generally available to the public other than as a result of a disclosure by you or your Representatives, (b) was available to you on a non-confidential basis prior to its disclosure by us or our Representatives or (c) becomes available on a non-confidential basis from a person other than us or our Representatives who is not otherwise bound by a confidentiality agreement with us or our Representatives, or is otherwise not under any obligation to us or our Representatives not to transmit the information to you. As used in this letter agreement, the term “Representative” means, as to any person, such person’s affiliates and its and their directors, partners, officers, employees, agents, advisors (including, without limitation, financial advisors, technical advisors, counsel and accountants) and controlling persons. Representatives of the Company include, but are not limited to, Concentric Energy Advisors, Inc. (“CEA”), the Nuclear Management Company (“NMC”), and outside legal counsel. As used in this letter agreement, the term “person” shall be broadly interpreted to include, without limitation, the media and any corporation, company, partnership, other entity or individual.

Except as required by law, unless otherwise agreed to in writing by the disclosing party, for a period of three years from the signing of this agreement, you agree (a) to keep all Proprietary Information confidential and not to disclose or reveal such Proprietary Information to any person other than your Representatives who are actively and directly participating in your evaluation of the Possible Sale and to cause those persons to observe the terms of this letter agreement, (b) not to use such Proprietary Information for any purpose other than in connection with your evaluation of the Possible Sale or the consummation of the Possible Sale and (c) not to disclose to any person (other than those of your Representatives who are actively and directly participating in your evaluation of the Possible Sale) any information about the Possible Sale, or the terms or conditions of any other facts relating thereto, including, without limitation, the fact that discussions are taking place with respect thereto or the status thereof, or the fact that

Proprietary Information has been made available to you or your Representatives. You will treat any Proprietary Information at least according to the same internal security procedures and with the same degree of care regarding its secrecy and confidentiality as your similar information is treated within your organization, but in no event with less than a reasonable degree of care. You will notify us of any unauthorized disclosure to third parties that you discover, and you will endeavor to prevent further such disclosures. You will be responsible for any breach of the terms of this letter agreement by you or your Representatives and you agree, at your sole expense, to take all reasonable measures (including, but not limited to, court proceedings) to restrain your Representatives from prohibited or unauthorized use of the Proprietary Information.

In the event that you are requested pursuant to, or required by, applicable law or regulation or by other legal, judicial or regulatory process to disclose any Proprietary Information or any other information concerning the Project or the Possible Sale (or to disclose that any investigation, discussions or negotiations are taking or have taken place concerning a Possible Sale), you agree that you will provide us with prompt notice of such request or requirement in order to enable us to seek an appropriate protective order or other remedy, and will consult with us with respect to taking steps to resist or narrow the scope of such request or legal process, or to waive compliance, in whole or in part, with the terms of this letter agreement. You agree to cooperate fully with and not to oppose any action by us to obtain a protective order or other appropriate remedy. In the event that no such protective order or other remedy is obtained, or that we waive compliance with the terms of this letter agreement, you agree that you will furnish only that portion of the Proprietary Information which you are advised by counsel is legally required. In any such event you will use your reasonable best efforts to ensure that all Proprietary Information and other information that is so disclosed will be accorded confidential treatment. All Proprietary Information shall remain our property; and in the absence of a specific agreement to the contrary, no right or license, by implication or otherwise, is granted by the Company as a result of any disclosure of Proprietary Information under this letter agreement.

If you determine that you do not wish to proceed with the Possible Sale, you will promptly advise us on that decision. In that case, or in the event that we, in our sole discretion, so request or the Possible Sale is not consummated by you, you will, upon request and at our option, promptly (and in any case within 14 days of our or our Representatives' request) either (i) deliver to us all Proprietary Information, including all copies, reproductions, summaries, analyses or extracts thereof or based thereon in your possession or in the possession of your Representatives, or (ii) cause such Proprietary Information to be destroyed with any such destruction confirmed by you in writing to us. Any oral Proprietary Information that is retained by you or your Representatives will also continue to be subject to this letter agreement.

You acknowledge that neither the Company, its Representatives nor any of the respective officers, partners, directors, employees, agents or controlling persons of the Company or such Representatives makes any express or implied representation or warranty as to the accuracy or completeness of any Proprietary Information, and you agree that none of such persons shall have any liability to you or your Representatives or to any other person relating to or arising from your use of any Proprietary Information or for any errors therein or omissions therefrom. You agree that you are not entitled to rely on the accuracy or completeness of any Proprietary Information and that you shall be entitled to rely solely on such representations and

warranties regarding Proprietary Information as may be made to you in any final acquisition agreement relating to the Possible Sale, subject to the terms and conditions of such agreement.

You acknowledge that you are aware, and will advise your Representatives who are informed of the matters that are the subject of this letter agreement, of the restrictions imposed by the United States securities laws on the purchase or sale of securities by any person who has received material, non-public information from the issuer of such securities, which may include certain portions of the Proprietary Information, and on the communication of such information to any other person.

You agree that, without our prior written consent, you will not for a period of two years from the date hereof directly or indirectly solicit for employment any person who is now employed by us, any of our subsidiaries or the NMC and who is identified by you as a result of your evaluation or otherwise in connection with the Possible Sale; provided, however, that you shall not be prohibited from (i) employing any such person who contacts you on his or her own initiative and without any direct or indirect solicitation by you and (ii) conducting generalized solicitations for employees (which solicitations are not specifically targeted at employees at the Project) through the use of media advertisements, professional search firms or otherwise. Notwithstanding the foregoing, this provision is not intended to prevent you from employing the employees of the Project if you acquire the assets that are subject to the Possible Sale.

It is understood that CEA will arrange for appropriate contacts for due diligence purposes in connection with the Possible Sale. Unless otherwise agreed to by CEA, all (i) communications regarding any Possible Sale, (ii) requests for additional information regarding any Possible Sale, (iii) requests for facility tours or management meetings related to the Possible Sale, and (iv) discussions or questions regarding procedures in connection with any Possible Sale, will be submitted or directed exclusively to CEA. You further acknowledge and agree that the Company reserves the right, in its sole discretion, to reject any and all proposals made by you or your Representatives with regard to a Possible Sale, and to terminate discussions and negotiations with you at any time. You further understand that the Company shall be free to establish and change any process or procedure with respect to a Possible Sale as the Company in its sole discretion shall determine (including, without limitation, negotiating with any other interested party and entering into a final definitive agreement relating to a Possible Sale with any other party without prior notice to you or any other person).

In consideration of the collective benefit to all persons participating in the sale process of finality in the process and of the Company providing you with access to the Proprietary Information pursuant to this letter agreement, the sufficiency of which consideration is hereby acknowledged, you further agree (i) not to object in any regulatory proceedings seeking authorization relating to any sale of the Project by the Company and (ii) not to seek from any regulatory agency or any court any order, judgment or decree that your bid was the "highest" or "best" bid, that you are or should be chosen as the successful bidder in the process, that the Company erred in its evaluation of the price, terms or conditions of your bid or any bid of any other person participating in the process as compared to the chosen successful bidder's bid (if there be one), or that the Company otherwise exercised its discretion in connection with this process in an inappropriate manner.

Except to the extent set forth in this letter agreement, you agree that until a final acquisition agreement regarding the Possible Sale has been executed by you and us, we and our Representatives are not under any legal obligation and shall have no liability to you of any nature whatsoever with respect to the Possible Sale by virtue of this letter agreement or otherwise.

Without prejudice to the rights and remedies otherwise available to us, we shall be entitled to equitable relief by way of injunction or otherwise if you or any of your Representatives breach or threaten to breach any of the provisions of this letter agreement. You agree that you shall not request that we post a bond or prove actual damages in any proceeding for such equitable relief. You agree to indemnify and hold us harmless from any damages, loss, cost or liability (including legal fees and the cost of enforcing this indemnity) arising out of or resulting from any unauthorized use or disclosure of the Proprietary Information.

It is further understood and agreed that no failure or delay in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

Notwithstanding anything herein to the contrary, it is agreed and acknowledged that upon the earliest to occur of (i) the date of public announcement of discussions relating to a final acquisition agreement, (ii) the date of public announcement of an acquisition agreement or (iii) the date of execution of a final acquisition agreement, each of you and the Company (and each of your respective employees, representatives or agents) may disclose to any and all persons, without limitations of any kind, the "tax structures" and "tax aspects" (as such terms are used in Sections 6011, 6012 and 6112 of the Internal Revenue Code and the regulations promulgated thereunder) of such acquisition agreement and all materials of any kind (including opinions or other tax analyses) that are provided to either you or the Company relating to such "tax structure" or "tax aspect" (it being understood that any public announcement regarding a Possible Sale or discussions relating thereto by you remains subject to the terms of this letter agreement). In addition, neither you nor the Company shall be subject to any restriction concerning consulting with your respective tax advisers regarding the "tax structure" or "tax aspects" of the acquisition agreement.

Further all terms of this agreement shall apply to information provided regarding any additional assets made available by Consumers Energy and/or its subsidiaries. Such information shall be treated as Proprietary Information as described herein.

This letter agreement shall be governed by and construed in accordance with the laws of the State of Michigan. You and your Representatives agree to submit to personal jurisdiction of the Michigan courts, with venue in Jackson County, Michigan in respect to any matter or dispute arising out of this agreement.

Any assignment of this letter agreement by you or us without prior written consent of the other party shall be void, provided, however, that we reserve the right in our discretion to assign our rights hereunder to the purchaser of the Project. This letter agreement shall be binding upon your successors and permitted assigns. You agree that the rights and remedies of

the Company under this letter agreement shall inure to the benefit of the Company, its affiliates, and their respective successors and assigns.

This letter agreement contains the entire agreement between you and us concerning confidentiality of the Proprietary Information. No modification of this letter agreement or waiver of the terms and conditions hereof shall be binding upon you or us, unless approved in writing by both you and us.

If any provision of this letter agreement shall for any reason, be adjudged by any court of competent jurisdiction to be invalid or unenforceable, such judgment shall not affect, impair or invalidate the remainder of this letter agreement but shall be confined in its operation to the provision of this agreement directly involved in the controversy in which such judgment shall have been rendered. This letter agreement may be executed in counterparts, each of which shall be an original, but all of which together shall constitute one and the same agreement.

YOU AGREE TO DEFEND, INDEMNIFY, PROTECT, COMPENSATE, RELEASE, AND HOLD HARMLESS THE COMPANY, ITS REPRESENTATIVES, AND ANY OF THEIR RESPECTIVE OFFICERS, PARTNERS, DIRECTORS, EMPLOYEES, AGENTS OR CONTROLLING PERSONS OR SUCH REPRESENTATIVES, SUBSIDIARIES, AFFILIATES, SUCCESSORS, AND ASSIGNS (COLLECTIVELY, THE "INDEMNIFIED PARTIES"), FROM AND AGAINST ANY AND ALL DAMAGES, LOSSES, INJURIES, JUDGMENTS, AND CLAIMS OF ANY TYPE OR CAUSE, INCLUDING ALL COSTS OF DEFENSE AGAINST THE SAME, ARISING FROM OR OUT OF A BREACH OF THIS AGREEMENT OR ANY ACTIVITY CONDUCTED IN CONNECTION WITH THIS AGREEMENT BY THE RECEIVING PARTY OR ITS RESPECTIVE REPRESENTATIVES.

Please confirm your agreement with the foregoing by signing and returning to CEA two original copies of this letter at the following address:

Caroline O'Neill
Concentric Energy Advisors, Inc.
313 Boston Post Road West, Suite 210
Marlborough, MA 01752

Accepted and Agreed as of the date first written above:

By _____
Name:
Title:
Company:

**PALISADES NUCLEAR POWER PLANT
COMPETITIVE AUCTION PROCESS
REQUEST FOR QUALIFICATIONS**

Case No. : U-14992
Exhibit: A-4 (JJR-2)
Witness: JJReed
Date: August, 2006
Page: 10 of 12

Prospective purchasers (“Bidders”) of the Palisades Nuclear Power Plant and related assets (collectively, the “Project”) must provide Concentric Energy Advisors, Inc. (“CEA”) a comprehensive Qualifications Package as defined below. Upon receipt and approval of both the Qualifications Package and the executed Confidentiality Agreement, the interested party will become a “Qualified Bidder” and will be provided with access to the Offering Materials, related Due Diligence documentation, management meetings, site visits, and participation in the Q&A process. Offering Materials are anticipated to be available to qualified Bidders in late January, 2006. Qualifications Packages should be submitted as quickly as practicable and organized as described below:

1. Identification of Parties: Each prospective Bidder must identify the entity or entities that comprise the Bidder for purposes of submitting a binding Bid (the “Bidding Group”). This information must include:
 - a. The name and role of each entity included in the Bidding Group;
 - b. Primary and secondary contact information for individuals responsible for submitting bids;
 - c. Name and contact details for any advisors, consultants and attorneys retained in connection with the bidding process;
 - d. Any and all anticipated equity participants; and
 - e. If known, the source of funds and a general description of the anticipated transaction financing.

2. Operating Plans and Qualifications: Each prospective Bidder or Bidding Group must identify its plans for operating the Project on a going forward basis. This information must include the following:
 - a. A summary of the Bidder’s relevant nuclear operating experience or their plans for acquiring such operating experience.
 - b. An indication of whether:
 - i. The Bidder, or a member of the Bidding Group, currently holds a Nuclear Regulatory Commission (“NRC”) operating license or has the ability to obtain an NRC license in a timely manner; or

**PALISADES NUCLEAR POWER PLANT
COMPETITIVE AUCTION PROCESS
REQUEST FOR QUALIFICATIONS**

Case No. : U-14992
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- ii. The Bidder plans to acquire the necessary operating capability or contract for such capability with a third party operator, and the plans for this process
 - c. Whether the Bidder currently does, or will, meet the NRC financial qualifications and other qualifications for ownership of a nuclear plant. If the Bidder does not currently meet NRC qualifications, a complete description of how such qualifications will be obtained in a timely manner, including any partnership plans, must be included in the Qualifications Package.
3. Environmental, Labor and Community Philosophy and Experience: Each Bidding Group also should describe in relevant detail:
 - a. Environmental compliance philosophy and experience with respect to similar assets, including a summary of any formal notices of violation or any other such environmental notices, claims or proceedings by any local, state or federal agency, for the past five (5) years;
 - b. Industrial and labor relations philosophy and experience with respect to similar transactions or assets; and
 - c. Approach to community involvement, and a summary of community involvement experience with respect to similar transactions or assets.
4. Financial Qualifications: Consumers Energy (“Consumers”) will qualify prospective Bidders based in part on their ability to meet the NRC financial qualifications for ownership of a nuclear power plant. Further, Consumers will not accept Bids that contain financing contingencies. For the purposes of determining financial capability, prospective Bidders must submit (to the extent available, for each member of the Bidding Group) all reports filed with the Securities and Exchange Commission pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder for the most recent two (2) fiscal years.

If the prospective Bidder or any member of the Bidding Group is not required to file the reports noted above, audited or certified financial statements for the same periods must be provided. In addition, if the Bidding Group intends to finance or otherwise secure or

**PALISADES NUCLEAR POWER PLANT
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guarantee financing through a parent or affiliate, similar reports or statements should be provided for such parent or affiliate. Similarly, if the Bidding Group intends to establish or otherwise use a special purpose entity (“SPE”) for the purpose of effectuating the transaction, the identity and relationship of the SPE to the entity expected to provide credit support and indemnities must be provided along with relevant filings, reports or audited financial statements.

5. Conflicts of Interest: Each prospective Bidder must briefly describe any known material conflicts of interest between itself or any member of its Bidding Group and Consumers or the NMC including, but not limited to:
 - a. Any litigation involving the prospective Bidder or any member of the Bidding Group and Consumers, any affiliate of Consumers, or the NMC; and
 - b. Any claims asserted by the prospective Bidder or any member of the Bidding Group against any of Consumers, their respective affiliates, or the NMC.

6. Necessary Approvals: Prospective Bidders should indicate all internal and external approvals required to close the transaction. Final Bids subject to further internal approvals will not be accepted; Please list all regulatory requirements that must be met in order for the Bidder to close on a transaction, which may include but not be limited to, those of the NRC, the Federal Energy Regulatory Commission, state public utilities commissions, and the Securities and Exchange Commission.

Prospective Bidders must provide the information requested herein to Consumers through its advisor, CEA. Consumers and CEA will review the Qualifications Package upon receipt. Please send **two (2)** copies of the Qualifications Package to the address shown below:

Caroline O’Neill
Concentric Energy Advisors
313 Boston Post Road West, Suite 210
Marlborough, MA 01752
508-263-6250

PALISADES NUCLEAR POWER PLANT

CONFIDENTIAL OFFERING MEMORANDUM

JANUARY 2006



CONCENTRIC
ENERGY ADVISORS

DISCLAIMER

Consumers Energy Company, a wholly owned subsidiary of CMS Energy Corporation (“CMS”), (hereinafter referred to as “Consumers” or “Seller”) has issued this Offering Memorandum on a confidential basis solely for your use in considering the possible transaction (the “Transaction”) involving the acquisition by you of the Palisades Nuclear Power Plant (“Palisades”) owned by Consumers and operated by the Nuclear Management Company, LLC (“NMC”), and/or the Big Rock Independent Spent Fuel Storage Installation (“Big Rock ISFSI”) facility. This Offering Memorandum does not purport to be all-inclusive generally or to include specifically all the information that a Bidder should consider in its investigation of the Transaction.

All information contained herein is subject to the terms of the Confidentiality Agreement previously executed by you in connection with the Transaction. This Offering Memorandum constitutes Proprietary Information, as defined in the Confidentiality Agreement. Any person in possession of this Offering Memorandum should read and understand the Confidentiality Agreement before reading this Offering Memorandum. Power marketing affiliates should not be provided with this Offering Memorandum. If you do not wish to pursue this opportunity, you will return or destroy this Offering Memorandum and any copies, together with all other Proprietary Information, as defined in the Confidentiality Agreement, without retaining copies, in accordance with the Confidentiality Agreement.

Concentric Energy Advisors, Inc. (“CEA” or “Auction Manager”) is acting as auction manager to Consumers with respect to the Transaction. This Offering Memorandum has been prepared from materials supplied by or on behalf of Consumers and NMC. **WHILE THE INFORMATION CONTAINED HEREIN IS BELIEVED TO BE ACCURATE, CONSUMERS, NMC AND CEA EXPRESSLY DISCLAIM ANY AND ALL LIABILITIES FOR REPRESENTATIONS OR WARRANTIES, IF ANY, EXPRESSED OR IMPLIED, OR ARISING IN ANY WAY FROM THIS OFFERING MEMORANDUM OR ANY OTHER WRITTEN OR ORAL COMMUNICATION TRANSMITTED OR MADE AVAILABLE TO YOU. THIS DOCUMENT IS NOT INTENDED TO, AND DOES NOT, CREATE ANY RIGHTS OR OBLIGATIONS ON PART OF THE SELLER, PROSPECTIVE BUYERS, OR ANY THIRD PARTY AND IS INTENDED AS INFORMATIONAL ONLY.**

Only those particular representations and warranties which may be made in a definitive agreement, when, as and if entered into, and subject to such limitations and restrictions as may be specified in such definitive agreement, shall have any legal effect. CEA has not independently verified such information and has not made any independent appraisal of any of the businesses described herein. In furnishing this Offering Memorandum, Consumers, NMC and CEA disclaim any obligation to provide you with any additional information. Neither the delivery of this Offering Memorandum nor the subsequent execution of any definitive agreement in relation to the Transaction shall constitute a representation or warranty that there has been, or will be, no change in the information

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contained in this Offering Memorandum or the information on which it was based nor is it a representation or warranty that all information regarding the Transaction has been provided. Consumers, NMC and CEA specifically disclaim any obligation to update the information contained in this Offering Memorandum with respect to any facts, events, conditions or circumstances whether or not they occur or become known after the date of this Offering Memorandum or otherwise. Without limiting the generality of the foregoing, any reference to or discussion of applicable law or regulation is provided for convenience only and is intended to be indicative in nature. No representation or warranty is made that this Offering Memorandum identifies all relevant laws or regulations, or provides a complete explanation of any laws or regulations.

This Offering Memorandum and other Proprietary Information received by you includes certain statements, estimates and budgets provided by Consumers and NMC with respect to the anticipated future performance of the assets being sold (“Projections”). Such Projections were not prepared for, or with a view toward, dissemination to the public. Projections contained herein were not necessarily prepared in accordance with published guidelines of the American Institute of Certified Public Accountants or the Securities and Exchange Commission (the “SEC”), or with Generally Accepted Accounting Principles, nor have such Projections been audited, examined, or otherwise reviewed by independent auditors for Consumers. In addition, such Projections reflect various assumptions and estimates concerning anticipated results and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the management of Consumers. Actual results may vary, and those variations may be materially different than the Projections. As stated above, Consumers, NMC and CEA make no representations or warranties as to the accuracy or completeness of such Projections or that the Projections will be achieved.

This Offering Memorandum has been prepared solely for informational purposes relating to a Transaction, and has been issued to you upon the express understanding that it will be used only by you, solely for such purposes, in accordance with the terms of the Confidentiality Agreement. This Offering Memorandum is not intended to provide the sole basis for the valuation of the Transaction or any other evaluation and does not purport to contain all of the information that may be required to evaluate the Transaction for submission of a bid. Each Bidder must rely on its own complete appraisal of the Transaction and its own independent verification of the information in this Offering Memorandum and other Proprietary Information, and any other investigation it may deem necessary for the purpose of determining whether to submit a bid to Consumers.

CMS and its subsidiaries are subject to the informational requirements of the Securities and Exchange Act of 1934, as amended, and are required to file reports and other information with the SEC. Copies of publicly available information about CMS may be obtained at the SEC’s World Wide Web site, <http://www.sec.gov>.



**PALISADES NUCLEAR POWER PLANT
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Consumers expressly reserves the right, in its sole and absolute discretion, to negotiate with one or more potential parties at any time and to enter into a definitive agreement for a Transaction without prior notice to you or other potential parties to a Transaction. Consumers further reserves the right, in its sole and absolute discretion, to modify the terms and schedule set forth herein. Consumers also reserves the right to terminate, at any time, further participation in the proposed process by any party, to modify any of the rules or procedures set forth herein or any other procedures, without prior notice and without assigning any reason, or to terminate the process contemplated by this Offering Memorandum.

All requests for further information regarding the Transaction are to be made through CEA. CEA is the exclusive point of contact throughout the Transaction process. *Employees or agents of Consumers or any of their affiliates, or NMC, should not be contacted under any circumstances without CEA approval throughout the course of the Transaction process. Any questions regarding the Transaction process should be directed to the following representatives of CEA:*

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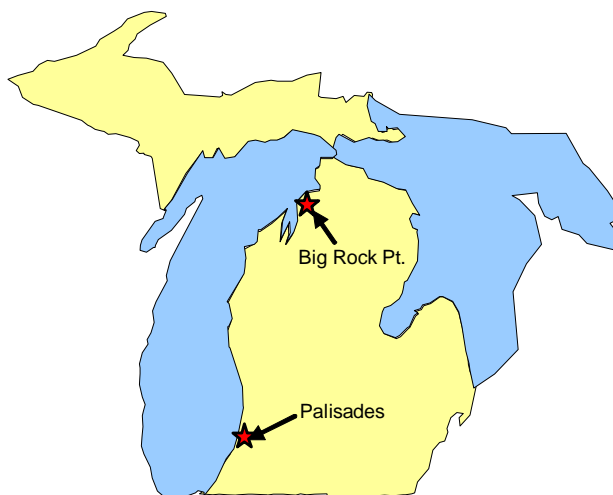


CHAPTER 1. EXECUTIVE SUMMARY

1.1 Introduction

On December 5, 2005, Consumers Energy (referred to herein as “Consumers” or the “Seller”), a wholly-owned subsidiary of CMS Energy Corporation, announced its intention to hold a competitive auction to sell its ownership interest in the Palisades Nuclear Power Plant and certain related assets (“Palisades” or the “Plant”). In addition to Palisades, Consumers is offering for sale its Independent Spent Fuel Storage Installation (“ISFSI”) and associated land located at its Big Rock Point site in Charlevoix County, Michigan (the “Big Rock ISFSI”). (Palisades and the Big Rock ISFSI are referred to collectively as the “Assets”). Consumers has retained Concentric Energy Advisors, Inc. (“CEA”) as its Auction Manager.

Figure 1-1: Palisades and Big Rock Point Locations



1.2 Overview of the Assets

1.2.1 Palisades

Palisades is located on an approximately 432-acre site on Lake Michigan near South Haven, Michigan and is wholly owned by Consumers. Palisades consists of one fully licensed and operational Combustion Engineering Pressurized Water Reactor (“PWR”) and associated electric generation equipment. The Plant currently has an average net capacity of 798 MW. During the four years from 2002 through 2005, Palisades generated an average of 6,129,781

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net MWh of energy annually and achieved an average annual capacity factor of 88.6 percent. Table 1-1 provides a summary of Palisades' recent financial and operating performance. Chapters 2, *Plant and Site Assets*, and 3, *Operational and Financial Performance*, of this Offering Memorandum contain detailed information regarding the Plant.

Table 1-1: Palisades Financial and Operating Performance Summary

Description (\$ millions unless otherwise stated)	2002	2003	2004	2005	2006 Budget
Plant O&M Expenses	86.4	99.4	116.1	83.2	108.4
NMC HQ Allocations	8.2	8.4	8.9	10.9	21.2
Total Plant O&M Expenses	\$94.6	\$107.8	\$125.0	\$94.1	\$129.6
Operator Online O&M	93.7	88.1	89.5	93.1	97.0
Operator Outage O&M	0.9	19.7	35.5	1.0	32.6
Total Owner O&M Expense	n/a	\$7.8	\$7.9	\$7.7	\$7.9
Capital Expenditures	\$25.9	\$27.0	\$31.4	\$31.4	\$69.6
Max. Dependable Net Capacity (MW)	788.4	788.4	788.5	794.0 ¹	798.0
Net MWh	6,369,371	6,158,154	5,345,760	6,645,839	---
Capacity Factor	92.2 percent	89.2%	77.2%	95.6%	---
Forced Outage Rate	8.4%	0.9%	6.7%	4.6%	---

(See: Chapter 3).

Consumers will include in the Palisades sale the nuclear steam supply systems, the turbines, the generators, and the balance of plant and supporting systems, in addition to all nuclear fuel, material contracts, permits, and other assets directly related to or necessary for the operation of the Plant. The sale will also include transfer of the decommissioning liability and certain associated funds and the requirement that the Buyer enter into a long-term Power Purchase Agreement ("PPA") with Consumers. The sale will not include certain on-site transmission assets, owned by the Michigan Electric Transmission Company ("METC"), that connect Palisades to the bulk transmission system, but will include those electrical

¹ Reflects mid-year uprate of 1.4 percent effective June 2005. The current annualized ECAR rating is 798 MW.



CHAPTER 1. EXECUTIVE SUMMARY

facilities necessary for the Plant to interconnect with and deliver energy to METC's facilities. The Buyer will be expected to execute a Large Generator Interconnection Agreement ("LGIA") with METC and the Midwest ISO that governs the interconnection of Palisades to the bulk transmission system. The terms and conditions of the LGIA will incorporate the terms and conditions of the pre-existing interconnection agreement(s) and will be made available to Bidders prior to bid submission.

The sale will not include the firing range used by the Plant's security workforce and located to the east of the Plant in a Consumers transmission corridor. Consumers will offer to lease the firing range to the Buyer for a mutually agreeable term. Chapter 9, *Terms of Transaction*, contains a detailed description of Consumers' proposed terms of sale for Palisades.

The Nuclear Management Company, LLC ("NMC") has operated Palisades since 2001. NMC holds Palisades' operating license and approximately three quarters of the personnel employed at Palisades are NMC employees. Palisades' site workforce currently consists of 475 employees; the 356 NMC employees are management while the remaining 119 employees are bargaining unit employees employed by Consumers subject to the provisions of a Collective Bargaining Agreement ("CBA"). Chapter 4, *Workforce*, of this Offering Memorandum contains a detailed description of the Palisades workforce.

1.2.2 Big Rock ISFSI

The Big Rock ISFSI includes the ISFSI facility itself consisting of spent nuclear fuel, dry casks and pad, associated structures, contracts, etc., along with approximately 100 acres of land. The Buyer of the Big Rock ISFSI will be solely responsible for assuming liability for the spent fuel, operating the ISFSI and, after moving the spent fuel to an off-site storage facility, decommissioning the facility. Chapter 6, *Big Rock*, of this Offering Memorandum contains additional information regarding the Big Rock ISFSI, including Consumers' proposed terms of sale. To the extent Bidders choose to bid to acquire this asset, they must provide such bid on a separate basis from bids for Palisades.

CHAPTER 1. EXECUTIVE SUMMARY

1.3 Transaction Objectives

The principal objectives of the auction are to:

- Secure a winning bid(s) for Palisades, and possibly the Big Rock ISFSI that, on a total transaction value basis, provides clear and compelling benefits to Consumers' customers as compared to the costs and risks of continued ownership by Consumers,
- Ensure continued access to certain power products, which may be provided by Palisades' output, via a long-term (10 to 15 year) PPA, and
- Sell Palisades and the Big Rock ISFSI to a new owner(s) committed to nuclear safety, operational excellence, environmental protection, and employee development.

Based on these objectives, the auction process has been designed to:

- Maximize competition by conducting an open auction in which all Bidders have an equal opportunity to participate,
- Negotiate terms of sale that minimize future risks for Consumers' customers, and
- Select a winning Bidder(s) committed to vigorously pursuing regulatory approvals for the Transaction and closing expeditiously.

Consistent with these objectives, Consumers intends to structure a Transaction that maximizes total transaction value, including cash purchase price, PPA terms, decommissioning terms, labor terms, and other transaction terms. While Consumers is setting out certain guidelines for Bidders to follow in submitting Binding Bids, Bidders should be creative in presenting additional alternatives that result in greater overall value for Consumers and its customers.

1.4 Investment Highlights

This sale provides an opportunity to acquire a large nuclear generator with a track record of significantly improving performance in an emerging market.

CHAPTER 1. EXECUTIVE SUMMARY

1.4.1 Operating Performance

Table 1-1 demonstrates that Palisades has a sound and improving operating record. The last ten years have featured nine of the Plant's top ten production years, including the all-time record of 6.6 million MWh in 2005. Moreover, NMC is undertaking several initiatives designed to improve Plant performance even further over the next several years:

Palisades Performance Improvement Initiatives	
<p>Reactor Head Replacement</p> <p>Industry concerns with reactor head nozzle penetration cracking have led to more stringent inspection requirements of this equipment. During Palisades' 2004 refueling outage, NMC identified two nozzles requiring repair. This placed the reactor head in the NRC's high susceptibility category requiring non-destructive evaluation during each refueling outage. To avoid this on-going expense, Consumers has approved replacement of the reactor head for the 2007 refueling outage. Consumers has purchased the new reactor head and begun the engineering and preparation work for the replacement project. Consumers has budgeted approximately \$35 million for this project in 2006 and another \$37 million in 2007.</p>	<p>Spent Fuel Storage</p> <p>Palisades requires storage in addition to the spent fuel pool to store future core discharges to retain the ability to perform full core offloads. NMC has developed a spent fuel management strategy that assures full core offload ability every year following 2005. This strategy requires a dry fuel loading campaign in 2008 given current planning assumptions. Additionally, Palisades will promote strategic use of low-level waste facilities to assure that waste does not unnecessarily accumulate on site and will work to minimize waste generation through improved equipment and tooling.</p>
<p>Equipment Reliability</p> <p>NMC is implementing an Equipment Excellence Plan to further improve Plant performance reliability. This plan includes identification of critical components in the Plant, optimization of predictive and preventive maintenance activities, elimination of single failure vulnerabilities that can affect generation, and resolution of several long standing equipment performance issues that have affected Plant reliability.</p>	<p>Radiation Dose Reduction</p> <p>Collective radiation exposure at Palisades has been in the fourth quartile for industry performance due to high source term at the Plant. In response, NMC has developed dose reduction plans and is incorporating them into Palisades' five year strategic plan to eliminate source term and reduce dose through Plant modifications, system and component cleaning, and component replacements.</p>

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1.4.2 License Renewal

Palisades' current operating license with the Nuclear Regulatory Commission ("NRC") expires in 2011. NRC filed a license renewal application with the NRC in March, 2005 and the NRC has published a schedule providing for issuance of a renewed license in 2007. Approval of the license renewal application would allow a new owner the opportunity to operate Palisades through 2031.

1.4.3 Emerging Market

While Consumers is requiring a long-term PPA for certain power products which may be provided by Palisades, the Plant presents an opportunity to gain a foothold in the MISO market. Since April, 2005, MISO has operated day-ahead and real-time energy markets. MISO also is responsible for the centralized dispatch of generation using Locational Marginal Pricing and establishes locational pricing at each generation node and all network load zones. The competitiveness of the MISO wholesale power market is increasing and various other financial and physical products are being considered by MISO for future implementation.

1.5 Key Transaction Terms

Consumers expects to make available to Bidders in April copies of the Asset Sale Agreement ("ASA"), PPA and draft of the LGIA for Palisades and an ASA for the Big Rock ISFSI, as well as drafts of available schedules and exhibits thereto (collectively, the "Transaction Documents"). Bidders will have the opportunity to propose modifications to the Transaction Documents through the submission of comments. Consumers plans to distribute final Transaction Documents with Binding Bid Instructions in May. Consumers expects Bidders to submit Binding Bids on the basis of the final Transaction Documents, but encourages Bidders to propose alternatives that result in greater overall value to Consumers.

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Chapters 6, *Big Rock*, and 9, *Terms of Transaction*, provide summaries of Consumers' key proposed commercial terms of sale for the Big Rock ISFSI and Palisades, respectively, highlights of which include:

1.5.1 Asset Groupings

Bidders will have the opportunity to bid on acquiring Consumers' ownership interest in Palisades. In addition, Bidders may elect to submit separate bids for the Big Rock ISFSI. Consumers is not mandating any "linkage" between the Assets, nor is it precluding such linkage. Bidders must indicate whether any bid for the Big Rock ISFSI is contingent upon acquisition of Palisades, or vice versa.

1.5.2 Workforce

The Buyer of Palisades will agree to offer employment with total compensation and benefits that are substantially equivalent to those provided by Consumers and NMC for a period of 18 months to all of the Plant's existing NMC workforce at closing. Also, the Buyer will agree to assume the CBA covering Consumers' bargaining unit employees at Palisades and to be the successor employer for the bargaining unit employees. The term of the CBA extends until May 30, 2010. The Buyer of the Big Rock ISFSI asset will agree to offer employment under substantially equivalent terms to the two Consumers management employees expected to be employed at the site at the time of the sale.

1.5.3 Decommissioning

The Buyer of Palisades will assume the obligation for 100 percent of the post-closing costs for: (1) long term storage of spent nuclear fuel at the site; (2) decommissioning the Plant in accordance with NRC regulations sufficient for termination of the NRC license; and (3) ultimately restoring the Palisades site to a greenfield standard. Consumers has established and funded various decommissioning trusts for the purpose of accumulating funds for the eventual decommissioning of Palisades. Consumers anticipates transferring to the Palisades Buyer certain funds held by these trusts in a tax-efficient manner as part of the sale.

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Consumers intends to conduct discussions and price discovery with Bidders regarding alternative approaches to meet the Bidders' funding requirements. Consumers expects to close the Palisades sale without receipt of a private letter ruling from the Internal Revenue Service ("IRS") regarding the tax treatment of the transfer of the decommissioning funds, and expects the Buyer to close on that basis as well.

The Big Rock ISFSI Buyer will be responsible for the ongoing obligations to maintain the ISFSI as a spent fuel storage site in accordance with the NRC license and to decommission the ISFSI site to a greenfield standard upon the final transfer and disposition of the spent fuel and stored waste. Consumers, for itself or its designee, will reserve rights, e.g., a right of first refusal, with respect to a sale by the Buyer of the 100 acre parcel after completion of the decommissioning and release of the Big Rock ISFSI site by the NRC at a price to be determined in the manner agreed to by the parties in the ASA.

1.5.4 Environmental Liabilities

The Buyer(s) of Palisades and the Big Rock ISFSI will assume the obligation for all pre-closing and post-closing environmental liabilities, including on-site liabilities and any liabilities associated with radiological and non-radiological waste shipped to off-site locations.

1.5.5 Required Approvals

In addition to the receipt of certain third-party approvals (e.g., consents to assignment of certain contracts), Consumers expects the sale of Palisades to be subject to the approval of the following entities:

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- NRC,
- Federal Energy Regulatory Commission (“FERC”),
- Michigan Public Service Commission (“MPSC”), and
- Various other regulatory bodies (e.g., the Securities and Exchange Commission (“SEC”), Federal Trade Commission (“FTC”), Federal Communications Commission (“FCC”).

Chapter 7, *Regulatory*, of this Offering Memorandum describes Consumers’ required approvals for the sale of Palisades.

Consumers expects that any transfer of ownership and/or the NRC license for the Big Rock ISFSI will be subject to NRC approval. Other required NRC approvals may include the transfer of nuclear materials licenses, conforming license amendments, and any disbursement of funds from the decommissioning trusts. In addition, Consumers will require approval of the Transaction by the MPSC in a form that is satisfactory to Consumers.

1.5.6 Power Purchase Agreement

Upon Consumers’ sale of its Palisades ownership interest to the Buyer, the parties will enter into a PPA for capacity, energy and associated ancillary services which the new owner may supply from Palisades. Consumers invites bids for Palisades based on the PPA terms summarized below:

- Minimum of 10 to 15 year term,
- All payments under the PPA will be based on actual energy delivery,
- The company will consider PPA pricing within a reasonable range above and below the continued cost of ownership (“CCO”),
- Power Seller must deliver and the capacity requirement from Palisades or a replacement DNR as defined by MISO, and

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- Power Seller shall provide all capacity, energy and ancillary services up to a 100 percent capacity factor of Consumers’ capacity entitlement if the applicable designated network resource (“DNR”) is operating.

Chapter 9, *Terms of Transaction*, of this Offering Memorandum describes additional details on the anticipated PPA. Consumers will require approval of the PPA by the MPSC in a form that is satisfactory to Consumers.

1.6 Transaction Process and Schedule

Consumers intends to conduct a single-stage Binding Bid process. Table 1-2 identifies the principal events in the bidding process and anticipated schedule. Chapters 10, *Transaction Process and Schedule*, and 11, *Due Diligence Process and Protocols*, of this Offering Memorandum provide a more detailed description of the auction and due diligence processes.

Table 1-2: Anticipated Auction Schedule

Key Milestones	Date
Initial Due Diligence Materials Available to Bidders (Confidential Offering Memorandum, Document Room, and Q&A)	Late January
Palisades On-Site Due Diligence (Site Tours and Meetings with Plant Staff)	February - March
Big Rock ISFSI Site Tours	April
Management Meetings	April - May
Bidder Comment Period on Transaction Documents	April
Binding Bid Instructions and Final Transaction Documents Issued	May
Confirmatory Due Diligence Post-RFO	Late May – Early June
Bids Due	June
Winner Announced	ASAP
Regulatory Filings	ASAP
Target Closing	ASAP

This schedule and process reflect Consumers’ best current estimate and are subject to change at any time at Consumers’ sole discretion. Consumers will promptly notify Bidders of any changes.

In accordance with the Confidentiality Agreement, Bidders may not contact any employees or affiliates of Consumers or NMC in connection with the bidding process under any

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circumstances, unless authorized by CEA. CEA may disqualify from the auction process any Bidder that engages in unauthorized contact. Use of any of the auction materials for any purpose other than the auction process is also a violation of the Confidentiality Agreement.

Pursuant to the Confidentiality Agreements signed by each Bidder, Bidders must not discuss with any person outside of this Transaction any aspect of the potential sale of the Assets. Please note that the content of this Offering Memorandum, the existence, content, and status of any bid and communications surrounding this process and the Transaction, are also subject to the Confidentiality Agreement. Further, Consumers expressly reserves the right, in its sole and absolute discretion, to negotiate with one or more parties at any time and to enter into a definitive agreement for a Transaction involving the Assets without prior notice. Consumers also reserves the right, at any time, to terminate the process or to modify any of the rules or procedures related to the Transaction without prior notice and without assigning any reason.

CHAPTER 2. PLANT AND SITE ASSETS

2.1 Overview

The Palisades Nuclear Power Plant (“Palisades” or the “Plant”)² is located in Covert Township, Van Buren County, Michigan on approximately 432 acres situated between Lake Michigan and the Blue Star Memorial Highway. Palisades, which began commercial operation on December 31, 1971, is comprised of a single-unit, pressurized water reactor (“PWR”), and rated at 798 megawatts average annual net capacity.

Figure 2-1: Palisades Facility



Table 2-1 below provides a chronological overview of major Palisades Milestones.

² As used herein, Palisades refers to the Plant, the site and all related structures and appurtenances.

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Table 2-1: Palisades Milestones

Palisades Milestones	Date
Consumers Power Co Acquires Palisades Property	June 4, 1965
Consumers Power Co Announcement of Construction	Jan 28, 1966
Arrival of Bechtel Corp Personnel	Aug 12, 1966
Start of Site Excavation	Aug 25, 1966
First Concrete Poured	Mar 4, 1967
Construction License Granted by AEC	Mar 13, 1967
Containment Building Construction Started	Aug 28, 1968
Reactor Vessel Installed	Dec 20, 1968
Nuclear Fuel Loaded in Reactor Vessel	Apr 9, 1971
Initial Reactor Criticality	May 24, 1971
License Granted by AEC to Operate at 20% Power	Nov 20, 1971
Commercial Operation, Initial Plant On-Line	Dec 31, 1971
License Granted by AEC for 60% Power	Mar 10, 1972
Full Power License Granted by AEC 2,200 MWth	Oct 16, 1972
First Steam Generator Tube Leak Outage	Jan 16, 1973
First Refueling Outage Completed	May 9, 1976
Licensed Power Raised from 2,200 to 2,530 MWth	Nov 1, 1977
NRC Systematic Evaluation Program (SEP) Report Issued	Oct 29, 1982
Full Term NRC Operating License to March 2007 Issued	Feb 21, 1991
Improved Standard Technical Specifications Implemented	Oct 24, 2000
Consumers Energy Joined Nuclear Management Co (NMC)	Nov 7, 2000
Construction Period Recaptured, License Extended to March 24, 2011	Dec 14, 2000
Operating License Transferred to NMC	Apr 19, 2001
NMC Operation of Palisades Begins	May 15, 2001
Consumers Energy Employees Transferred to NMC	Jul 1, 2001
Switchyard and 345kV Lines Sold to METC	May 1, 2002
Operating License Renewal Application Filed	Mar 31, 2005
1.4% Power Up-Rate 2,530 to 2,565 MWth	May 21, 2005
Palisades Sale Plans Announced	Dec 5, 2005

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2.2 NMC Operating Agreement

In July 2001, Consumers transferred its operating responsibility for Palisades, including Palisades' management employees and Palisades' Nuclear Regulatory Commission ("NRC") operating license, to the Nuclear Management Company, LLC ("NMC"). Bargaining unit employees at Palisades have remained with Consumers. A copy of the Nuclear Power Plant Operating Services Agreement ("NPPOSA"), which governs NMC's operation of Palisades on behalf of Consumers, may be found in the Legal Folder in the Virtual Document Room. Pursuant to the NPPOSA, NMC has operational control of Palisades; however, overall budgets and major capital project approvals are subject to review and authorization by Consumers. In addition, Consumers retains financial responsibility for all costs attributed to Palisades and Palisades' share of NMC overhead. A more detailed discussion of NMC is provided in Chapter 5, *NMC Overview*.

2.3 Generation Plant

Palisades' generation Plant statistics are summarized in Table 2-2.

Table 2-2: Plant Statistics

Parameter	Specification
Average Annual Net Capacity	798 MW
Average Annual Generation (2002 - 2005)	6,129,781 MWh
Operation Commencement	1971
Current License Expiration	2011
Reactor Type	Pressurized Water Reactor
Reactor Manufacturer	Combustion Engineering
Turbine Manufacturer	Westinghouse
Engineer/Architect	Bechtel Corporation

The reactor containment structure at Palisades was designed by Bechtel to house and support a Combustion Engineering PWR. This structure is a vertical right cylindrical structure with a dome and a flat base. The building interior is lined with welded carbon steel plate for leak tightness. Inside the structure, concrete shields the reactor and other Nuclear Steam Supply System ("NSSS") components. The reactor vessel is located in the center of the containment structure.

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The PWR is a two-loop design by Combustion Engineering. The primary coolant is borated water, operating at a flow rate of 144.6 E6 lbm/hr and a pressure of 2,060 psia. The secondary coolant is condensate, operating at a flow rate of 10.97 E6 lbm/hr and steam generator outlet pressure of 760 psia at rated thermal output. The reactor is controlled by a combination of 45 control rods and boric acid dissolved in the primary coolant system. Forty-one of the control rods are full length and four are partial-length. The partial-length rods are maintained in the fully withdrawn position during reactor operation and are not inserted following a reactor trip. The main generator system consists of the generator, brushless exciter and voltage regulator, and protection and control circuits. The 4-pole 1,800 rpm generator is rated at 955 MVA and an output voltage of 22 kV.

The original Plant was based on a once through circulating water design for condenser cooling. The design was changed to a closed cycle design, using two mechanical cross draft cooling towers for environmental reasons in 1975. Cool water is supplied to the condenser from the towers by gravity flow. Just prior to the condenser inlet, dilution water from Lake Michigan is injected into each line augmenting the cooling capability. The flow exits the condenser and enters the cooling tower make-up basin, which is part of the discharge structure, where the cooling tower pumps return the water to the top of the cooling towers. Excess water due to dilution water injection flows over a weir and is discharged to Lake Michigan.

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Figure 2-2: Palisades Cooling Towers



The turbine was manufactured by Westinghouse and is a 1,800 rpm tandem-compound unit with external moisture separation and live steam reheating. The turbine generator has a guaranteed capability of 811 MWe gross at 1.8 inches Hg absolute back pressure and 0.25 percent makeup with inlet steam conditions of 770 psia and 509°F. The steam and power conversion equipment is designed for a maximum expected gross capacity of 865 MWe.

The condensate/feedwater cycle is a closed system with deaeration accomplished in the main condenser. Steam is discharged from the low-pressure turbine and passes around the tube bank area (shell side) of the single pass main condenser to be condensed and deaerated. The main condenser originally contained 511,490 square feet of surface provided by 26,550, 1-inch, 70-foot long Admiralty Brass tubes and by 1,426, 1-inch, 304-stainless steel tubes in the air cooler and

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impingement sections. In 1975 due to tube leakage problems, the entire Admiralty Brass tube section was retubed with 90/10 copper-nickel tubes. The 90/10 copper-nickel tubes were replaced with stainless steel tubes in 1991.

2.3.1 Updated Systems at Palisades

In 1991, Palisades' completed a replacement of the steam generators, including the steam domes. The tube material is mill annealed alloy 600 with a 0.75 inch outside diameter and a 0.042 inch tube wall thickness. Each steam generator has 8,219 tubes. The old steam generators replaced in 1991 are stored on-site in the Old Steam Generator Storage Building and the costs of disposing of the old steam generators are included in the Palisades site-specific Decommissioning Study.

In 1991, the main condenser, feedwater heaters E-5A/B & E-6A/B, and drain coolers E-7A/B were rebuilt to eliminate copper materials of construction in the secondary water/steam cycle. The new condenser contains 24,594 tubes with an effective surface area of 449,282 square feet. The new tubes are 1.00 inch diameter, 0.028 inch wall thickness and the material is 439 stainless steel. The tubes are approximately 70 feet in length and are supported by a total of 33 carbon steel support plates located on approximately 24.5-inch centers. The inlet and outlet tubesheets are manufactured from 304 stainless steel and are 1.25 inches thick. The design of the unit was changed to improve the heat transfer characteristics of the unit.

Table 2-3 below shows Palisades' major equipment installations and replacements.

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Table 2-3: Major Installation or Replacement

Major Installation or Replacement	Date
Two Mechanical Draft Cooling Towers Constructed	1975
Liquid Radwaste Processing Equipment Installed	1974
Main Condenser Brass Tubes Replaced With Copper-Nickel	1975
Meteorological Tower Installed on Site	1977
1 st Spent Fuel Pool Expansion from 272 to 798 Cells	1977
High Pressure Air System Added for Safety Related Valves	1977
On-Site Technical Support Center Constructed	1983
Control Room Heating and Ventilation System Replaced	1983
3rd Auxiliary Feed Water Pump and 2 nd AFW Train Installed	1983
Automatic Auxiliary Feed Water Actuation System Installed	1983
Reactor Head and Pressurizer Vent System Installed	1983
Auxiliary Hot Shutdown Panels Installed	1985
Main Generator Step-Up Transformer Replaced	1986
2 nd Spent Fuel Pool Expansion from 798 to 892 Cells	1987
Atmospheric Steam Dumps and Turbine Bypass Valve Replaced	1987
Reactor Vessel Neutron Shield Fuel Bundles Installed	1988
Normal and Shutdown Computerized Sequencers Installed	1988
Pressurizer Power Operated Relief Valves Replaced	1988
Underground Safety Related Bus Feed From Switchyard	1989
Pressurizer Power Operated Relief Valves Replaced	1989
Moisture Separator Re-Heater Relief Valves Replaced	1990
Steam Generators Including Steam Domes Replaced	1991
Feed Water Heaters E-5s, E-6s, & E-7s Replaced	1991
Main Condenser Tubes Replaced With Type 439 Stainless Steel	1991
Training Building Including Control Room Simulator Constructed	1991
Steam Generator Blowdown System Expansion	1991
Pressurizer Heater Transformers Replaced	1991
Steam Generator Level Control System Replaced	1992
New Spent Fuel and Refueling Machine Controls	1992
Turbine Generator Digital Electro-Hydraulic Controls	1992

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Major Installation or Replacement	Date
Digital Reactor Protective System Installed	1992
Reactor Vessel Neutron Flux Reduction Efforts Completed	1992
Independent Dry Fuel Storage Pad Constructed	1993
1 st VSC-24 Dry Fuel Storage Cask Loaded	1993
Safety Related Containment Air Coolers Replaced	1995
Both Plant 125 VDC Batteries Replaced	1995
New Plant Process Computer Installed	1995
Containment Building Polar Crane Controls Replaced	1995
Turbine Generator / End turn Vibration Monitoring System Added	1995
Reactor Cavity Seal Replaced	1996
Underground Diesel Fuel Oil Storage Tank Replaced	1996
Cooling Tower Control System Replaced	1996
Steam Driven Auxiliary Feed Pump Piping Modifications	1996
Permanent Feed Water Ultrasonic Flow Monitors Installed	1998
Both Low Pressure Turbine Rotors / Stationary Blades Replaced	1999
18 th and last VSC-24 Dry Fuel Storage Cask Loaded	1999
Dilution Water Pumps Replaced	1999
Switchyard Breaker Control System Replaced	1999
N-9000 Primary Coolant Pump Seals Installed	1999
Battery Chargers and Inverters Replaced	1999
Control Room Upgrades With Control Room Supervisor Panel Installed	2000
High Pressure Turbine Rotor and Stationary Blades Replaced	2001
Main Generator Rotor Replaced	2001
Control Rod Drive Upper Housings Replaced	2001
Safeguards Room Coolers Replaced	2001
Auxiliary Building Access Control Modifications	2002
Control Rod Drive Seal Housings Replaced	2002
New Single Failure Proof Spent Fuel Pool Crane Installed	2002
All Twelve 345kV Switchyard Breakers Replaced	2002
All Site Emergency Sirens and Control Systems Replaced	2002
Site Connected to South Haven City Domestic Water	2002

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Major Installation or Replacement	Date
Second Independent Spent Fuel Storage Pad Constructed	2004
First 4 NUHOMS-32 Dry Fuel Storage Casks Loaded	2004
Major Post 9/11/2001 Security Enhancements	2004
Instrument Air Compressors Replaced	2004
Replacement Reactor Head Ordered for 2007 Install	2005
All 2,400 VAC Safety Related Breakers Replaced	2005
Advanced Liquid Rad Waste Processing System Installed	2005
11 th NUHOMS-32 Dry Fuel Storage Cask Loaded	2005
Chemistry Lab Sample System and Coolers Replaced	2005

2.3.2 Safety Features

Palisades has multiple layers of safety features. Interlocks and automatic protective systems are in place along with administrative controls to ensure safe operation of the Plant. The reactor is equipped with a protective system that initiates a reactor trip if the reactor parameters exceed pre-established limits. Sufficient redundancy was installed to permit periodic testing of the Reactor Protective Systems and so that failure or removal from service of any one protective system component or portion of the system will not preclude reactor trip or other safety action when required. Offsite and emergency sources of auxiliary electrical power were provided to assure safe and orderly shutdown of the Plant and the ability to maintain a safe shutdown condition under all credible circumstances. Redundancy and separation criteria were incorporated into the associated cabling from the offsite and emergency power sources for safety-related systems/components. A Fire Protection Program consisting of Plant design considerations, fire detection and suppression equipment, and Plant procedures assures that Palisades can safely shut down after a major fire.

2.4 Buildings and Structures

The Plant includes a number of buildings and structures which are summarized in Table 2-4 below.

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Table 2-4: Major Buildings and Structures

Building/Structure	Use
Reactor Containment	Houses the NSSS, consisting of reactor, steam generators, primary coolant pumps, pressurizer and some of the reactor auxiliaries
Turbine Building	Houses the turbine generator, condenser, feedwater heaters, condensate and feed pumps, turbine auxiliaries, certain of the switchgear assemblies, electrical maintenance shop, laboratory and office space.
Auxiliary Building and Addition	Houses the waste treatment facilities, engineered safeguard components, heating and ventilating system components, emergency diesel generators, switchgear, laboratories, offices and control room. Spent fuel pool and new fuel storage facilities are in a different section of this building.
Condensate and Demineralizer (Feedwater Purity) Building	Houses the raw water filtration system, the reverse osmosis pretreatment system, the makeup demineralizer system, feedwater purity service and instrument air, chemical storage and a boiler room.
Intake Structure (Screenhouse)	Houses the service water, dilution water, and fire protection pumps, and diesel generator fuel oil transfer pumps.
Cooling Tower Pump House	Houses two vertical cooling tower pumps and warm water recirculation pump.
Cooling Towers	The cross-flow mechanical draft cooling towers each contain 18 cells and are located 500 to 1,000 feet from the Plant.
Rad Material Storage Buildings	3 storage buildings (solids radwaste, radwaste storage, and north radioactive materials) house radioactive tools, materials, and equipment and 2 storage buildings (east radwaste and old steam generator) store low level radwaste.
Service, Support and Security Building	Houses office and shop space for engineering, maintenance, administrative and security support personnel.
Training Center	Includes offices, classroom and the control room simulator
Dry Fuel Storage Building	Includes offices, storage, and shop space
Warehouse	Storage of spare parts and supplies
Meteorological Tower	Houses Consumers network radio system and Palisades meteorological monitoring system
Metallurgical Lab	Houses various equipment used for materials testing (located within the Dry Fuel Storage Building).
Miscellaneous Structures	Includes Construction Building, Buildings and Ground Shop, and miscellaneous equipment shelters

For a complete description of the buildings and structures included in the sale of Palisades, refer to the Final Safety Analysis Report (“FSAR”). This document may be found in the Engineering Folder in the Virtual Document Room.

2.5 Site and Real Estate

The Palisades site is approximately 432 acres and is bordered to the north by the Van Buren State Park and to the west by Lake Michigan. The area adjacent to the site is sparsely populated and the

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land within 50 miles of the site is used primarily as farmland with the exception of the City of Kalamazoo, Michigan and the cities of Elkhart, Mishawaka, and South Bend, Indiana, which are heavily industrialized. Much of the area around the site is devoted to recreation and tourism, which produces a fluctuating seasonal population. Using data from the U.S. Census Bureau's Census 2000, NMC estimates that 48,215 persons live within 10 miles and 118,667 persons live within 20 miles of Palisades.

The Covert Generating Plant, a gas-fired combined cycle facility, is located just east of Palisades on the east side of Interstate I-196 and has the nearest large natural gas pipeline to the Plant. This line is 5,800 feet from the Plant and 3,350 feet from Palisades' Independent Spent Fuel Storage Installation ("ISFSI"). Palisades has analyzed the consequence of a major rupture of the pipeline and determined that it does not pose a significant safety hazard to the Plant or the ISFSI. The nearest railroad is the Chesapeake and Ohio line about nine miles to the east of Palisades. At this distance, potential railroad accidents involving hazardous materials are not considered by Palisades to be a credible risk to the safe operation of Palisades.

The land surface on which Palisades resides is mantled by glacial drift that ranges from a few feet to several hundred feet in thickness. In the immediate vicinity of the Plant, sand dunes are the prevailing surface feature. Underlying the dunes are glacial deposits of varying types which were deposited on bedrock consisting of Paleozoic Mississippian shale. The dunes fronting Lake Michigan rise steeply from the shoreline (approximate elevation 582 feet MSL) to elevations ranging from elevation 820 feet MSL to elevation 780 feet MSL (near the site) and maintain an average width of about 5,000 feet for approximately two miles north to five miles south of the site. Easterly from the dune area is a drainage basin of about 17 square miles.

The FSAR includes a study of available seismic data that indicates that the Plant area should be considered slightly active seismically. This is confirmed by its location in the earthquake zone 1 (zone of minor damage) seismological region as defined by the Uniform Building Code. Only one earthquake has been reported within 50 miles of the site since 1804. No faults have been mapped in

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the vicinity of the Palisades site. Faults in the region are believed to have been dormant since late Paleozoic time, at least 200 million years ago.

Lake Michigan is the sole source of cooling water for the Plant as well as the source for the fire protection system. Dilution water, which is part of the circulating water system, and the service water system are the primary systems that draw cooling water on a continuous basis from Lake Michigan.

Palisades houses a Metallurgical Laboratory (“Met Lab”), located within the Dry Fuel Storage Building. The Met Lab is included as part of the sale, however, it is staffed, as needed, by non-Palisades personnel. As discussed in Chapter 9, *Terms of Transaction*, Consumers is willing to contract with the Buyer to provide Met Lab staff services as needed to the Buyer after the sale. The Met Lab has a nuclear approved quality program that allows for metallurgical testing and provides services to other facilities as well as instrument calibration and nondestructive exams. Met Lab test equipment includes:

- AMRAY 1820 Scanning Electron Microscope,
- Voyager Energy Dispersive Spectroscopy System,
- Noran Instruments Energy Dispersive Detector, Model #121E-SPS- S/N 2100,
- Simplimet 2 Mounting Press,
- Handimet 2 Roll Grinder,
- Ecomet 4 Polisher/Grinder,
- Clark Rockwell Hardness Tester,
- Clark Microhardness Tester,
- Bausch & Lomb Low Power Microscope,
- Thermo Neslab RTE 7 Chiller, and
- Buehler Low Speed Cutoff Saw.

To enhance training and site qualifications of the Plant security force, a firing range was built about a mile from the site, residing on Consumers’ property along the transmission system right-of-way. As

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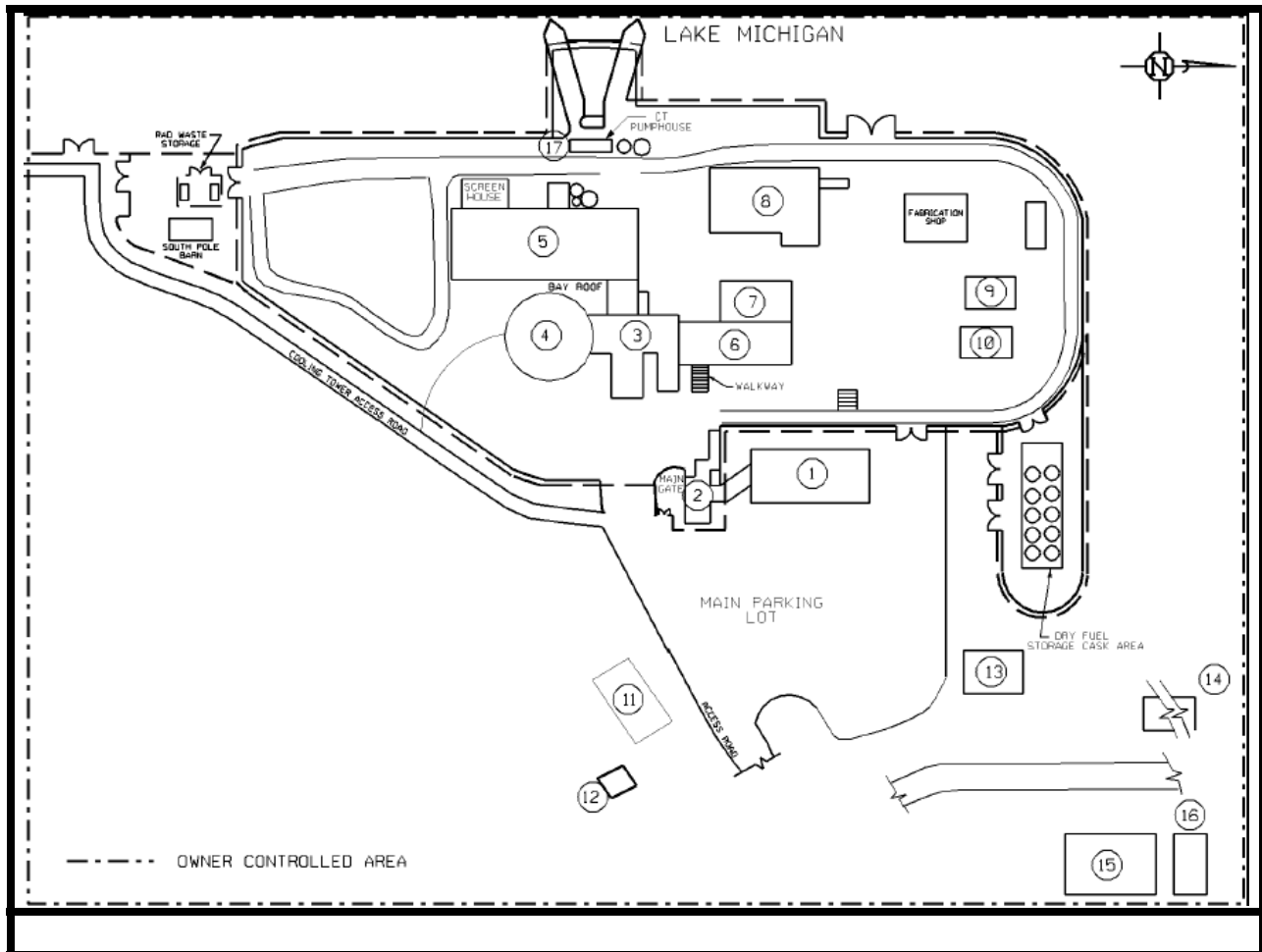
described in Chapter 9, *Terms of Transaction*, the firing range will not be part of the sale of Palisades, however, Consumers will make available to the Buyer a transitional lease for the firing range for continuing training and qualification.

Figure 2-3: Aerial Photo of Palisades Site



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Figure 2-4: Site Plot Plan



- | | | | |
|---|------------------------------------|----|---------------------------|
| 1 | Support Building | 10 | Construction Building |
| 2 | Security Building – Plant Entrance | 11 | East Storage Building |
| 3 | Auxiliary Building | 12 | Building and Ground Shop |
| 4 | Containment Building | 13 | Old S/G Storage |
| 5 | Turbine Building | 14 | Training Building |
| 6 | Service Building | 15 | Warehouse |
| 7 | Service Building Annex | 16 | Dry Fuel Storage Building |
| 8 | Feedwater Purity Building | 17 | Cooling Tower Pump House |
| 9 | North Storage Building | | |

Consumers undertook a survey of the site in anticipation of this Transaction and a copy is available in the Engineering Folder in the Virtual Document Room. A representative site plot plan is provided above as Figure 2-4.

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2.6 Transmission, Switchyard and Communications Facilities

Palisades' 345 kV switchyard is the interconnection point between the Plant and the transmission system power grid. The switchyard is designed in a breaker-and-one half arrangement with two main buses and connections for the generator main transformer, the Plant safeguard transformer, the Plant start-up transformer, and six outgoing lines. The Covert Generating Plant (1,170 MW) is also connected to the Palisades switchyard via a 345 kV line. There are twelve 345 kV circuit breakers in the switchyard. In 2002 and 2003, all twelve switchyard circuit breakers were replaced with new circuit breakers. No other modifications or major repairs are scheduled.

In May 2002, Consumers sold the Palisades switchyard to an independent owner, Michigan Electric Transmission Company, LLC ("METC"). Palisades and METC have entered into an agreement entitled "Amendment and Restatement of the April 1, 2001 Generator Interconnection Agreement between Michigan Electric Transmission Company and Consumers Energy Company (CE)", and certain other agreements related to the interconnection of the Plant to METC's system (together, the "Existing Palisades Interconnection Agreements" or "EPIAs"). The EPIAs may be found in the Legal Folder in the Virtual Document Room. The EPIAs allow Consumers to perform system protection services, switching and tagging services, maintenance services, and design and construction services as directed and at the discretion of METC. Consumers will enter into a mutually agreeable termination of certain of the EPIAs with METC as those agreements relate to the Plant, and will require the Buyer to execute an ICA based on the Large Generator Interconnection Agreement ("LGIA") under the MISO open-access transmission tariff ("OATT") that will include, to the extent applicable, those provisions of the terminated EPIAs that should govern the interconnection of the Plant with METC's system after the closing. A draft LGIA will be made available to Bidders prior to bid submission.

The Buyer will also be required to enter into a Nuclear Plant Operating Agreement ("NPOA") with MISO that reflects general terms and conditions relevant to nuclear plants operating within the MISO footprint. A draft NPOA will be made available to Bidders. The Buyer will also be expected

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to accept the terms and conditions of the Palisades Switchyard Protocol Responsibility Agreement that addresses communication needs between METC and Palisades when activity will take place within the substation. As described in Chapter 9, *Terms of Transaction*, METC-owned facilities are not included in the sale of Palisades and a sale of Palisades will be subject to METC's existing easement rights.

Consumers maintains an organization with transmission system expertise entitled Electric System Operations ("ESO") that currently performs system protection, engineering & design, maintenance & construction, tree trimming and real time operations services via a services contract for METC facilities at the discretion of METC. The Palisades switchyard is one of these METC facilities. The ESO also performs some of these services for those switchyard facilities owned by Consumers at the Palisades switchyard. ESO also provides some services to the Plant that include protective relay settings and circuit breaker over-current trip calibration. This group will work with METC through 2007, at which time METC may replace some or all of the services provided by ESO with its own employees, other contractors or continue some services with ESO.

There is one communication tower located at Palisades that is used by the Palisades Meteorological monitoring group. The tower also holds the Palisades Emergency Radio Repeater equipment. This tower is maintained by Consumers as part of its Network Radio System (800 MHz). As described in Chapter 9, *Terms of Transaction*, the tower will be included in the sale of Palisades, with easement rights being reserved by Consumers for continued access to and use of the tower.

2.7 Nuclear Fuel

NMC's Nuclear Fuel Services ("NFS") group procures nuclear fuel for Palisades. The mission of NFS is to provide fuel on time and with a focus of reducing fuel costs while assuring security of supply. During RFO-18, scheduled for April, 2006, Palisades will load 56 fuel bundles consisting of 52 fuel assemblies and four shield assemblies supplied by Areva (Framatome ANP) into the unit's core. All fuel assemblies and shield assemblies in the unit's core have been supplied by Areva (Framatome ANP).

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The reactor core is composed of 204 fuel bundles. The fuel is low enriched UO₂ (<5 percent) encapsulated in zircaloy fuel rods. The local power distribution is controlled by enrichment zoning within the assemblies and by the use of burnable absorber pins. The overall core is configured in a multiple batch loading pattern to achieve the desired cycle length and control the power distribution.

A typical reload fuel bundle consists of a square (15 by 15) array of 225 positions: 216 fuel rods, 8 Zircaloy-4 guide bars, and 1 Zircaloy-4 instrument tube. For a gadolinia assembly, typically 3 to 16 of the fuel rods would contain gadolinia mixed with the fuel. Fuel rods may be replaced with solid stainless steel rods to allow the bundle to serve a reactor vessel fast neutron shielding function when placed on the core periphery. Fluence reduction methods have been used since RFO-7.

The guide bars are solid Zircaloy-4 rods with threaded ends. They are located on the perimeter of the fuel bundle and serve three main functions. First, they serve a structural function. The zircaloy spacer grids are welded to the guide bars at equally spaced intervals and the end fittings are joined to the threaded end of the guide bars with cap screws. Second, they provide a guiding surface for the control rods. The guide bars protrude beyond both the fuel rods and perimeter strip of the spacer grids so that a control rod contacts only the guide bars. Third, they provide guiding surfaces which facilitate refueling and protect fuel rods from damage.

The tie plates and guide bars are connected with Inconel cap screws. The cap screws are torqued during cage assembly. This results in an initial tensile stress that depends upon the initial torque value and coefficient of friction. The minimum value is above the maximum load which could be exerted on the joint due to differential thermal expansion between the fuel rods and guide bars.

NMC buys fuel for the Plant pursuant to contracts with multiple vendors. The principal contracts are described in Table 2-5 below.

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Table 2-5: Fuel Contracts

Supplier	Commodity	Description	Joint NMC Contract or Consumers Contract	Delivery Years/Reload Cycle(s)
A	Fabrication Services	Contract for fuel fabrication services for Palisades	Consumers	Through 2007 Reload
B	Enrichment Services	Purchase of enrichment services	Consumers	Through 2007
C	Enrichment Services	Purchase of enrichment services	NMC	Through 2010
D	Conversion Services	NMC contract for all NMC Owners	NMC	Through 2010
E	Conversion Services (Distribution between NMC Owners)	NMC contract for all NMC Owners	NMC/Owners	Through 2007 (Currently being amended)
F	U ₃ O ₈ to UF ₆ Swap 239,739 lbs to 78,814.8 kgU	NMC Fuel Contract	NMC/Consumers	10/26/2006
G	Uranium Concentrates	NMC fuel contract for all NMC Owners	NMC	Through 2008
H	Uranium Concentrates (Distribution between NMC Owners)	NMC fuel contract for all NMC Owners	NMC/Owners	Under development pending new contract

The contracts shown above will be available for review in the Physical Document Rooms.

2.8 Spent Nuclear Fuel (“SNF”) Storage

The SNF pool is licensed for 892 units of capacity for the storage of SNF assemblies. During RFO-18, scheduled for April 2006, 56 new fuel bundles consisting of 52 fuel assemblies and four shield assemblies will be loaded into the core. Post RFO-18, there will be 488 (432 + 56) SNF assemblies stored in the pool, leaving 273 units available for storage in the pool. New fuel bundles also may be stored dry in the new fuel storage area which will accommodate up to 24 new fuel bundles. Table 2-6 below summarizes the Palisades SNF pool capacity.

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Table 2-6: Spent Fuel Pool Fuel Assembly Capacity as of 12/31/05

Status	Capacity / Term
Licensed fuel storage capacity ³	892
Installed storage capacity ⁴	771
Fuel Pool Capacity (minus unusable space and space occupied by items other than fuel) ⁵	761, 881 with 11x11 rack
Spent fuel currently in the fuel pool ⁶	432
New Fuel expected to be loaded in the pool (in RFO-18)	56 assemblies
Open space (after loading new fuel in the pool during RFO-18)	273
Currently in reactor ⁷	204 assemblies, 45 control blades
Installed Capacity sufficient through (year)	2012

2.8.1 Dry Cask Storage

Storage of additional SNF is accomplished via dry cask storage systems. At present, 18 vertical casks contain 24 assemblies each, for a total of 432 assemblies stored. In addition, 11 Horizontal casks contain 32 assemblies each, for a total of 352 assemblies. Thus, there are 784 fuel assemblies in dry cask storage.

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- ³ Licensed capacity does not include 4 cells blocked by the pool cooling system piping return line. 896 cells are potentially present, but 892 are licensed. Of the 4 cells blocked by the cooling return line, one cell contains a spare fuel cage, and one cell contains irradiated guide tube plugging clusters.
- ⁴ Current installed capacity is reduced because an 11x 11 rack is not installed. If installed, the rack would fill the dry cask load area. The NRC must be notified before installing this rack. Leaving the rack out improves pool circulation in the event of a loss of pool cooling event. This rack would add 121 cell positions, although, 1 position is not accessible for storage.
- ⁵ Fuel pool capacity is reduced by: 2 cells blocked due to storage cell swelling (Region I rack), 2 cells contain surveillance capsule transfer carriers (these carriers could potentially be removed), 4 cells contain spare irradiated control blades, 2 cells contain 'dummy' fuel bundles to test fuel handling equipment and train fuel machine operators. This is a total of 10 unusable cells. One additional cell contains an underwater light, but it is anticipated that this cell could be recovered if needed and is not listed in the above 10 unusable cells. The two pool capacity numbers shown in Table 2-5 above are with (and without) the 120 spaces added by the 11 x 11 rack.
- ⁶ Of the spent fuel in the pool, 8 fuel assemblies in the Region I racks cannot be moved due to rack swelling surrounding the assembly. These are not scheduled for reuse in the core. Also counted in fuel pool capacity include: 1 cell occupied by a permanent failed fuel rod storage can that contains failed fuel rods from reconstituted fuel; 1 cell occupied by a storage can that contains fuel rod fragments; and 1 cell occupied by a storage cage that is partially filled with fuel rods.
- ⁷ Control blade storage in the pool requires one cell per blade. Thus a full core off load requires 249 spaces in the fuel racks.

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In 1987, Consumers began investigating SNF storage options and selected dry storage as the most economical option. In 1989, Consumers contracted with Sierra Nuclear Corporation to supply the storage only VSC-24 (holds 24 PWR assemblies) cask system for Palisades. In 1992, construction of the initial ISFSI was completed. The ISFSI pad is 30 feet wide by 195 feet long and has the capacity to hold 25 casks. Palisades became the first user of an ISFSI general license. Between 1992 and 1999 a total of 18 VSC-24 casks were loaded and placed in service at the original ISFSI. The general license for VSC-24 will expire in 2013. The vendor must then request a license extension. Two extensions have been granted to date for other cask systems, and the NRC has extended these licenses for an additional 40 years from the original 20.

In 2001, Palisades selected the NUHOMS canisters supplied by Transnuclear for additional cask systems. In 2004, construction of a second ISFSI at Palisades was completed. The new ISFSI site is 180 feet by 523 feet and designed to store approximately 78 casks. The ISFSI has space for 44 present style NUHOMS horizontal casks and 18 VSC-24 casks, should the site choose to move the VSCs from the original ISFSI. Additional concrete pads may be poured within the existing ISFSI fence to support 8 additional NUHOMS casks and 8 Fuel Solutions Casks from the Big Rock ISFSI. The first four 32PT NUHOMS casks were loaded and placed in service at the second ISFSI in July and August of 2004. In 2005, seven additional NUHOMS casks were loaded. This ISFSI will support Palisades' license renewal period with no shipments of SNF to the DOE.

Palisades does not have a site requirement to maintain Full Core Off-Load ("FCOL") capability. Several times during the history of Palisades fewer than 60 open spaces were available in the Spent Fuel Pool. The most recent dry fuel storage strategy for Palisades has been to regain and then maintain FCOL capability.

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In 1994, Consumers identified crack-like indications in the VSC-24 Cask 4 longitudinal weld nondestructive examination records. These indications were evaluated and documented in engineering analysis. These evaluations demonstrated that Cask 4's pressure and containment functions are maintained and that the crack-like indications have a non-significant impact on the safe performance of the cask. Cask 4 poses no threat to employees or the community; however, Consumers' senior management has decided to unload Cask 4 to promote public confidence in Consumers' commitment to public safety. Consumers subsequently stated that the unload of Cask 4 would not occur until transportable casks were available.

Consumers has contracted with BNG Fuel Solutions, the current cask license holder for the VSC-24 system, to develop and submit a license change request for the storage only VSC-24 casks to become transportable. This application will be submitted to the NRC for review during the first quarter of 2006. Should the effort to license these storage casks as transportable be completed, this cask may not need to be unloaded.

Palisades anticipates that continuing dry cask loadings will be completed periodically, as shown in Table 2-7 below, to maintain pool open space to support a full core off load capability. As can be seen below, Palisades anticipates that NUHOMS-24 casks will be loaded in 2008 (7 casks) and 2011 (5 casks). These casks will store 24 fuel assemblies each. Beyond 2011 five 24 assembly casks will need to be loaded every three years in order to maintain FCOL.

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Table 2-7: Palisades Core Offload Contingency Plans

Cycle/ Refout	Number of Casks	Type	Start Date	End Date	Number Added/ Removed	Open SFP Spaces	With 11x11 Rack	Normal FCOL	Emerg. FCOL*
Cycle 18			10/19/2004	4/2/2006					
	7	NUHOMS-32	10/3/2005	12/10/2005	-224	329	449	TRUE	TRUE
		Fuel Receipt	3/6/2006	4/2/2006	56	273	393	TRUE	TRUE
Refout 06			4/2/2006	5/1/2006					
Cycle 19			5/1/2006	9/14/2007					
		NUHOMS-32	4/1/2007	4/1/2007	0	273	393	TRUE	TRUE
		Fuel Receipt	8/24/2007	9/14/2007	60	213	333	FALSE	TRUE
Refout 07			9/14/2007	10/12/2007					
Cycle 20			10/12/2007	3/13/2009					
	7	NUHOMS-24	7/1/2008	10/7/2008	-168	381	501	TRUE	TRUE
		Fuel Receipt	2/20/2009	3/13/2009	60	321	441	TRUE	TRUE
Refout 09			3/13/2009	4/10/2009					
Cycle 21			4/10/2009	9/17/2010					
		NUHOMS-24	4/1/2010	4/1/2010	0	321	441	TRUE	TRUE
		Fuel Receipt	8/27/2010	9/17/2010	60	261	381	TRUE	TRUE
Refout 10			9/17/2010	4/10/2009					
Cycle 22			10/15/2010	3/18/2012					
	5	NUHOMS-24	10/15/2011	12/24/2011	-120	381	501	TRUE	TRUE
		Fuel Receipt	2/26/2012	3/18/2012	60	321	441	TRUE	TRUE

*EMERG FCOL means the 11 x 11 rack is required to be installed to do the full core off load.

2.9 Low Level Radwaste

During normal operations, Palisades generates approximately 4,400 cubic feet of low level radwaste per year and approximately 2,200 cubic feet of low-level radioactive waste during a typical refueling outage. The overall historical and current operating conditions/performance of low-level waste programmatic compliance has been sufficient. There have not been any significant issues related to mixed low level waste or radioactive waste with respect to regulatory compliance.

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Palisades currently has only one option for disposal of Class “B” and Class “C” waste which is the Barnwell Waste Disposal Site. In July of 2008, Barnwell will no longer accept waste from Palisades and therefore Palisades will have to store this higher level waste on-site until another option is formulated. Currently this waste is stored in the East Radwaste Storage Building. This building has vaults to store high level waste. The vault which provides the best shielding for material is currently full of highly radioactive waste. Most of this waste will be shipped to Barnwell prior to the Barnwell closing in 2008. There is a small quantity (< 200 cubic feet) of Greater than Class C waste that cannot be shipped to Barnwell under current regulations.

There are three smaller vaults that provide less shielding, that have been or will store highly radioactive Dry Active Waste (“DAW”), or high dose rate liners with clean waste filters, or trinuic filters used to clean up the reactor cavity during refueling outages. In 2006, Palisades is expected to generate at least one additional Purification Filter which will likely be class “C” waste based on prior filter classifications. The Plant will continue to produce one purification filter every two to three years with limited space for storage. Additional Class “B” waste could be generated from highly radioactive spent resins. Highly radioactive spent resins are shipped to Studsvik, Inc. for volume reduction prior to shipping to burial. Any creation of Class “B” waste from resins after the closure of Barnwell would also result in additional on-site storage.

Not all waste is stored on site when produced. DAW is typically packaged and sent to GTS Duratek for volume reduction. Most recently High Integrity Containers containing solidified evaporator concentrates have been shipped to burial at Barnwell or shipped to GTS Duratek for processing prior to burial. The Plant Evaporator system has been retired and Duratek’s Advanced Liquid Processing System was installed to clean up clean and dirty liquid waste. This process will generate radioactive resins and charcoal. NMC plans to continue to ship waste off-site for processing and eventual burial as it is produced and to reduce the back-log of stored waste. The radwaste budget for 2006 is \$981,500.

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Please refer to the “Response to Supplemental Questions Concerning Radioactive Solid Waste Management” document located in the Environmental Folder in Virtual Document Room. This document provides data on disposal and storage history for 2000 through 2004. Waste stored on-site includes; DAW, Evaporator Concentrates HICs, H-14 Transfer Carriage trash and debris, Old Spent Fuel Pool cask pad, Incore liners, Purification Filters (F-54), Steam Generator Blowdown Resins, Roofing/debris, Metal Trash, trinu filters, and High Activity DAW.

The reactor vessel head replacement contract includes removing the old head and hardware from Palisades and disposing of it appropriately.

2.10 Environmental

The operating conditions and performance in regards to environmental compliance have been sufficient. There have not been any significant regulatory compliance issues related to air, water, or land management. Historically minor environmental issues were categorized as either small chemical spills or minor National Pollutant Discharge Elimination System (“NPDES”) exceedences. At this time there are no apparent environmental issues that would affect the Plant operation in the future.

Palisades, either directly or through the NMC, holds all of the necessary environmental permits and authorizations that are required to operate, including:

- NRC License to Operate,
- Michigan Department of Environmental Quality NPDES Permit,
- Michigan Department of Environmental Quality Renewable Operating Permit (Air Quality),
- Michigan Department of Environmental Quality Aboveground Storage Tank Registration,
- Michigan Department of Environmental Quality Wastewater Treatment Operator Certification,
- South Carolina Department of Environmental Quality Radioactive Waste License for Delivery,

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- Tennessee Department of Environment and Conservation Radioactive Waste License for Delivery, and
- Current Environmental Protection Agency Identification Number for Treatment, Storage, and Disposal (“TSD”) Requirements of Hazardous Wastes.

Consumers has commissioned an ASTM Environmental Assessment (Phase I Study). This study should be available in the Environmental Folder in the Virtual Document Room in late February.

Palisades submitted an Environmental Report in support of the NRC operating license renewal application. In addition, license renewal requires the following environmental authorizations:

- NRC consultation with the U.S. Fish and Wildlife Service,
- NRC consultation with the Michigan State Historic Preservation Office ,
- Michigan Department of Environmental Quality certification of compliance with the Clean Water Act, and
- Michigan Department of Environmental Quality certification of compliance with the Coastal Zone Management Act.

2.11 Non-Fuel Inventory

Consumers owns, and NMC stores and maintains, approximately 24,000 line items of materials and supplies. Palisades’ inventories are not pooled through NMC and Palisades is not a member of any inventory sharing programs. As of November 30, 2005, total current inventory for Palisades is valued at approximately \$25.1 million with \$25 million of Operations and Maintenance (“O&M”) materials and \$100,000 in capital inventory. Inventories are carried at their original purchase value, which includes the total cost to obtain each item, i.e. shipping costs. NMC tracks obsolescence and shelf life. In October 2005, NMC began using Indus Passport to manage all purchase orders and inventories for Palisades. EMPAC, NMC’s previous system, will be completely phased out of use by June 2006.

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One spare primary coolant pump motor with a value of approximately \$1.3 million resides in Palisades' inventory as of December, 2005. This item will be used in the April 2006 outage at which time the replaced coolant pump motor will be sent to Westinghouse for refurbishment and then sent back to Palisades for replacement in the scheduled 2007 outage.

Table 2-8 below shows Consumers' inventory items with a total value of \$25,000 or more.

Table 2-8: Inventory Over \$25,000

Stock Description	Qty.	Inventory Value
Flange, Pipe	6	33,339
Shaft Sleeve	1	36,088
Heat Exchanger	1	31,676
Heat Exchanger	1	30,872
Seal, Labyrinth	1	38,880
Seal, Mechanical	7	28,653
Bearing	34	61,762
Bearing, Ball	96	28,464
Bearing	119	32,463
Mechanical Seal	1	288,954
DP Transmitter	2	29,438
Valve, Check	1	26,880
Seal	2	88,860
Meter	4	28,161
O-Ring	130	30,330
Plate	11	45,193
Seal	22	178,297
DP Transmitter	3	47,907
Respirator	183	33,734
Valve, Butterfly	1	68,535
Valve, Butterfly	1	104,799
Radcal Probe	2	376,200
Radcal Probe	2	356,400
Incore Detectors	14	359,828
Flow Transmitter	5	81,250
Hollow Plunger	9	34,733
Pump	7	45,888
Gear, Bevel	9	70,500
Valve	2	108,259
Pump	4	26,903
Filter, Water	1	32,190
Transmitter, Pressure	2	33,202
Fluid	19	43,475
Shaft	6	39,396

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Stock Description	Qty.	Inventory Value
Gearbox	4	67,183
Extension	3	64,563
Seal	2	375,916
Sleeve	8	30,563
Motor, Electric, AC	9	55,523
Kit, Splice	199	34,166
Nut	1	65,188
Filter	92	26,900
Housing	3	205,704
Disc, Valve	4	28,994
Shoe, Bearing	1	29,008
Plunger	23	52,250
Chemical	10	48,063
Motor, Valve Actuator	2	28,239
Shaft	12	26,352
Stud	12	52,424
Module	6	27,000
Connector	16	27,199
Plug, Complete Assembly, Governor Valve	2	165,768
Ring, Turbine Governor Valve, Pressure Seal	14	121,128
Valve, Solenoid	8	38,083
Filter	23	57,597
Kit	6	78,966
Shoe, Bearing	3	33,286
Shoe, Bearing	3	38,355
Valve, Gate	5	58,246
Valve, Globe	4	46,848
Board	805	44,849
Pump Bowl	1	81,760
Bearing	18	70,539
Motor, Electric, AC	1	1,294,000
Disc, Valve	4	35,548
Radcal Instrument	1	111,000
Radcal Probe	1	111,000
O-Ring	9	72,113
Transmitter, Pressure	2	34,009
High Voltage Bushing	1	35,985
High Voltage Bushing	1	58,918
High Voltage Bushing	1	49,471
Shaft	9	25,871
Motor	3	34,932
Encoder	4	26,092
Shaft Sleeve	1	28,835
Diode	98	39,298
FAN, TUF LITE II FAN ASSY; APT-28H-8	6	87,094
Valve, Butterfly	4	95,752

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Stock Description	Qty.	Inventory Value
Detector	1	118,000
Detector	3	75,741
Valve	18	29,764
Seat, Valve	14	26,285
Bearing	28	25,447
Shaft	24	32,398
Disc, Valve	3	26,669
Ring, Wear	7	31,897
Housing, Income	5	569,250
Motor, Electric, AC	1	25,516
Stem, Valve	4	62,903
Seal	9	58,990
Seal	6	52,800
Cable	6	58,351
Board, Printed Circuit	11	53,912
Transmitter, Temperature	6	33,846
Resin	48	29,918
Seal, Mechanical	12	190,344
Solenoid Valve	1	26,232
Trim	4	53,735



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2.12 Insurance

Palisades' insurance policies are held by Consumers and NMC as indicated in Table 2-9 below.

Table 2-9: Insurance Policies

	Description	Renewal Date	Limit	Deductible	Annual 2005 Premium	Transfer
Palisades Insurance Policies						
Nuclear Electric Insurance Limited	Insures against radioactive contamination and all other risks of direct physical loss.	October 1	\$500,000,000	\$1,000,000	\$647,200	NEIL will issue a replacement policy upon sale
Nuclear Electric Insurance Limited	On-site decontamination liability and physical damage to property on site.	October 1	\$2,250,000,000	\$500,000,000	\$1,412,744	NEIL will issue a replacement policy upon sale
Nuclear Electric Insurance Limited	Extra Expense of replacement electricity and business interruption during an outage period, due to an insured peril.	October 1	\$490,000,000 \$4,500,000 Weekly Value	12 week waiting period	\$591,844	NEIL will issue a replacement policy upon sale
American Nuclear Insurers	Covers obligations assumed and expenses incurred because of bodily injury or property damage under all new workers' claims	January 1	\$300,000,000	None	\$43,450	Transfers with authorization of ANI
American Nuclear Insurers	Third party nuclear hazard legal liability arising from operations.	January 1	\$300,000,000	None	\$569,650	Transfers with authorization of ANI
Secondary Financial Protection	Mandated by Price-Anderson Act	January 1	\$10,461,360,000	Excess of \$300,000,000 primary nuclear energy liability policy	No Premium Charge	Transfers with authorization of NRC
Consumers Insurance Policies						
American Nuclear Insurers	Supplier's & Transporter's Coverage - provides protection in the event that nuclear material, contaminated equipment, waste, etc is shipped to and/or worked on at locations other than a nuclear Plant site and is the source of a third party nuclear liability claim.	January 1	\$300,000,000	None	Allocated Cost \$38,005	Not Transferable
Consolidated Property Insurance	Insures nuclear property located offsite, i.e. Outage Bldg, Warehouse, Office Bldg & Dry Fuel Storage Facility	August 31	Reported value \$60,107,453	\$500,000	Allocated Cost \$ 21,701	Not Transferable
General Liability Insurance	Third party legal liability and automobile liability.	June 30	\$35,000,000	\$500,000	No specific cost	Not Transferable
Excess General Liability Insurance	Third party legal liability	June 30	\$100,000,000	\$35,000,000	No specific cost	Not Transferable
Excess Workers' Compensation	Michigan Statutory Workers' Compensation	June 30	\$35,000,000	\$500,000	\$685,433	Not Transferable
NMC Insurance Policies						
Workers' Compensation Insurance	Insures Employees of Nuclear Mgt Co	January 1	Statutory	None	\$834,248	Not Transferable

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2.13 Information Technology

Palisades' information technology consists of fleet (NMC) applications and Plant specific applications running on both fleet and site servers. There are a few remaining Consumers mainframe applications that are part of the Plant portfolio as well. These mainframe applications are accessed through a T1 line to the parent company. The Plant IT infrastructure is generally standardized with Dell laptops and desktops (W2K3 operating system), Xerox copiers/printers, HP servers (W2K3 operating system), Plant Processing Computing DEC Vax Network, Unix Server (plant in-core analysis), Cisco routers, and utilizes ethernet connectivity. The overall Palisades IT strategy since the formation of the NMC has been to become independent of Consumers and to be integrated into NMC fleet application systems. To enable this integration, the NMC IT organization centralized in 2005, which includes the staff at Palisades.

All fleet wide applications and software contracts have been entered into directly by NMC. A major transition to the Indus Passport application was implemented at Palisades in September of 2005. This implementation has been an integral part of the fleet standardization and optimization process. It has enabled an integrated business and IT solution in support of work orders, purchase orders, engineering changes, action requests, document control, tagging and total exposure as well as allowing for the retirement of over 35 stand-alone applications at the Plant.

The majority of the Plant specific applications contracts have been entered into by NMC as agent for Consumers. Site database development is done within Microsoft SQL Server and Oracle. There are a few minor databases that remain in Sybase.

2.13.1 Plant-Specific Applications:

- Drawing Application – Purchased Plant application called Micro Plant,
- Non-Controlled Documents – Purchased Plant application called Knowledgebase,
- Process Computer – DEC Vax Network running VMS/DEC Net, UNIX system running PIDAL (Palisades In core Detector Algorithm),

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- LAN – Purchased Site application. Includes Windows 2003 Server, Windows XP and MS Office, and
- Dose Assessment - Consumers developed straight-line gaussian, site specific program developed for accident dose assessment.

2.13.2 NMC Fleet-Wide Applications:

- Finance – Purchased NMC fleet application (SAP),
- HR – Purchased NMC fleet application (SAP),
- Time and Expense – Purchased NMC fleet application (SAP),
- Work Control – Purchased NMC fleet application (Indus Passport),
- Equipment Database – Purchased NMC fleet application (Indus Passport),
- Procurement – Purchased NMC fleet application (Indus Passport),
- Action Tracking – Purchased NMC fleet application (Indus Passport),
- Clearance (Tagging) – Purchased NMC fleet application (Indus Passport),
- Radiation Protection – Purchased NMC fleet application (Indus Passport),
- Scheduling – Purchased NMC fleet application (P3e),
- EDMS – Purchased NMC fleet application (Sharepoint),
- Financial Reporting – Purchased NMC fleet application (Everest Outlooksoft),
- Training Records – Purchased NMC fleet application (Plateau), and
- LAN – Purchased NMC fleet application. Windows 2003 for Server and MS Exchange.

Over the past five years the Palisades IT hardware infrastructure has moved toward standard platforms. The Consumers standard Dell laptop and desktop configurations were adapted. There are 722 Plant work stations on-site, all of which are four years old or newer. The 27 business application servers on-site are HP models, with a DEC Vax network for Plant processing and a UNIX server for in-core analysis. There has been no asset management replacement program for these, thus they are of varying ages. The Xerox copier/printers are leased through a joint agreement with Consumers. There are approximately 24 of these on

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site with lease expiration dates varying from January 2007 through 2010. There is an 800 MHz radio system utilized by Operations and Security. Its infrastructure is part of the state-wide Consumers 800 MHz system. The Palisades emergency offsite facility resides north of the Plant in South Haven at the Consumers Conference Center and the IT support for that facility comes from Consumers IT.

2.14 Security and Emergency Planning

Access and egress to all “protected” areas of the Plant are monitored and controlled through the utilization of card readers. Access to the Plant is controlled at the security entrance via explosive detectors, metal detectors, security officers, and card readers. A physical security force is always present.

Physical security services are contracted by NMC through The Wackenhut Corporation (“TWC”). At this time, Palisades Security has implemented all required modifications and changes to meet the design basis threat order that became effective in October 2004. Since that time, Palisades has undergone the NRC Triennial Force on Force (“FOF”) Inspection and Exercise and two routine region-based inspections. The FOF exercise was very successful and resulted in no violations, findings or unresolved items. The two other inspections have resulted in two unresolved items and three green non-cited violations. Palisades is currently scheduled to have three NRC routine security inspections during 2006: Security Access Control/Performance Indicator Verification, March 13-17; Security Training, July 10-14; and Fitness For Duty, September 11-15.

Significant changes in security have been at made at Palisades since September 11, 2001. These changes were implemented based on direction from the NRC including required changes to meet the NRC mandated interim compensatory measures (“ICM”) and the subsequent security-related Orders issued by the NRC including work hour controls, training and the revised design basis threat (“DBT”) including development and adoption of the new standard Security Plan.

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Significant additional security costs have been incurred since September 11, 2001. These costs include both O&M and capital budget items. The security O&M budget prior to September 11, 2001 was approximately \$4 million and is now estimated at \$6.4 million for 2006. The capital budget, for modifications made necessary by the DBT order for implementation in October 2004, was approximately \$12 million in 2004. An additional \$3.1 million was spent for the remaining work related to the DBT that did not require implementation prior to October 2004.

In the unlikely event of a Plant accident resulting in, or potentially capable of, allowing offsite releases of radioactivity in excess of federal regulations, a system of emergency warning sirens is in place. Established "emergency implementing procedures" in conjunction with the Plant's "Emergency Plan" have been developed to assure minimum risk to the general public.

The emergency operations facility, owned by Consumers, is located approximately nine miles north of Palisades at the South Haven Conference Center. As described in Chapter 9, *Terms of Transaction*, Consumers will make available to the Buyer a transition lease of the emergency operations facility. Throughout the Emergency Planning Zone, there are 61 sirens owned by Consumers, attached to individual poles also owned by Consumers. In January, 2003, the Public Warning System was replaced. The current system is controlled and monitored by radio signals transmitted over an FCC assigned radio frequency. The new system includes 61 sirens and three control points located at the Van Buren County Sheriff Department, South Haven Police Department, and the Covert Fire Department. The system is capable of alerting essentially 100 percent of the public within a 10-mile 190° arc to the east of the Plant, the remaining 170° arc being Lake Michigan. Each siren has a back-up power supply capable of activating the unit. As described in Chapter 9, *Terms of Transaction*, all sirens will be conveyed to the Buyer as part of the Transaction.

2.15 Major Contracts, Licenses and Permits

Palisades either directly or through NMC has all necessary federal licenses, permits, and certificates, including those issued by the NRC and the Federal Communications Commission ("FCC"). Please

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see the Legal and Environmental Folders in the Virtual Document Room for a list of all contracts, licenses and permits.

2.16 License Renewal Status

The NRC was notified on June 14 2001, of NMC's intent, on behalf of Consumers, to apply for renewal of the Palisades operating license in the first quarter of 2005. In 2001, a Readiness Assessment was performed, and the project was initiated in the spring of 2002. The NMC project team includes a Project Manager and six discipline Leads (Licensing, Mechanical, Electrical, Civil/Structural, Programs, and Time Limiting Aging Analyses). The site NMC team is managing all technical work with the assistance of contractors.

The license renewal application was submitted to the NRC on March 31, 2005. The NRC accepted the application for review, and published a schedule with March 5, 2007, as the renewed license issue date without hearings, and November 5, 2007, as the issue date if a hearing is ordered. The application, review schedule, and supporting information can be found on the NRC website, www.nrc.gov. A hearing before the NRC could be ordered. An Atomic Safety and Licensing Board (“ASLB”) is considering a petition to intervene which requests a hearing on “pressurized thermal shock” (“PTS”) and “reactor vessel embrittlement” issues (see below).

Since submittal in March 2005, the license renewal team has focused on supporting the application through the NRC headquarters reviews, on-site team audits, NRC regional office team inspection and responses to formal Requests for Additional Information (“RAI”). In 2006, the license renewal team will focus on continued support of NRC’s safety review and draft/final Safety Evaluation Report (“SER”) preparation, including participation in an Advisory Committee on Reactor Safety (“ACRS”) subcommittee and full committee meetings; support for NRC's issuance of the draft and final Supplemental Environmental Impact Statements (“SEIS”); support for legal and technical defense against a petition to intervene and ASLB hearings, if ordered; and development of the plans and site infrastructure for implementation of license renewal inspections, commitments, and new requirements for operating the Plant with an extended operating license.

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The present schedule calls for the draft SEIS to be issued for comment by February 27, 2006, and the final SEIS to be issued by October 13, 2006. A public meeting for NRC to present the results of its environmental review in the draft SEIS is currently scheduled for April 7, 2006.

There are no known safety or environmental barriers that would prevent NRC from issuing the new license. The only technical issue of concern is Palisades' status regarding a reactor vessel PTS event. On May 27, 2004, the NRC published guidance on an approach they consider technically acceptable to support renewal of a license, and Palisades has followed that guidance. However, the petition to intervene by the Nuclear Information and Resource Service, et al, in the Palisades license renewal process raises PTS and "reactor vessel embrittlement" as its most significant issue. The NMC believes this is the only issue that has the potential to be admitted by the ASLB for a hearing. If a hearing is held, the estimated overall schedule for issuance of the renewed operating license is expected to be extended by eight months to November 2007.

2.16.1 Reactor Vessel Embrittlement and Pressurized Thermal Shock Event ("PTS")

The reactor vessel is subject to accelerated aging due to neutron leakage from the reactor. The toughness of the reactor vessel is determined from testing and from calculations that are based on testing. Two parameters are monitored to determine the status of the reactor vessel. Those parameters are the reference temperature and the upper shelf energy.

Neutron irradiation of steel causes a decrease in fracture toughness, and a shift in the temperature range at which the material transitions from ductile to brittle behavior. 10 CFR 50.61 requires all PWR reactor vessels to meet certain screening criteria for transition temperature, which is calculated using a defined methodology. If the screening criteria are exceeded, physical actions (e.g., annealing) or additional analyses, and explicit NRC review and approval, are required to permit Plant operation. The Palisades vessel is currently projected to exceed the screening criteria in 2014.

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A PTS event considers the condition of the reactor vessel with a small break Loss Of Coolant Accident (“LOCA”). The vessel is assumed to have a minor flaw that may propagate into a thru-wall break due to a temperature reduction during safety injection and a subsequent re-pressurization.

Current Palisades PTS analysis as accepted by the NRC in a Safety Evaluation Report (“SER”) dated November 14, 2000 identifies that the screening criteria of 10 CFR 50.61 will not be reached until 2014. NRC has recognized that the 10 CFR 50.61 criteria are overly conservative. The NMC’s initial assessment of the impact of the proposed revision to 10 CFR 50.61 has been completed, with the conclusion that the Palisades reactor vessel will be able to operate well beyond the extended license expiration date in year 2031 without exceeding the revised PTS screening criteria.

For license renewal purposes, the NRC provided guidance on this issue in a May 27, 2004, memorandum to the Commissioners. This memorandum indicated that it is not necessary to show that the reactor vessel will be acceptable for the entire extended operating period before a renewed license can be issued. It found that an applicant's admission that the issue of PTS will be managed under a program consistent with the regulatory requirements provides a sufficient basis to issue the renewed license.

2.17 Uprate and Expansion Opportunities

In 1997, a power uprate study was performed for Palisades. Results of the study indicated that a maximum power increase of 10 percent is achievable within the technical and economic guidelines established under the study. This increase is above the current maximum license of the Plant. Increases of 2 percent or 4.5 percent are possible with lower capital investment. The study did not take into consideration extended operation due to license renewal. The Plant is currently limited to a maximum net output of 820 MWe by contract with the transmission system owner, METC. Any increase above this value will require approval by METC, and would likely require a significant upgrade of the main generator to meet current transmission system standards.

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The NRC approved a change to 10 CFR 50, Appendix K, providing licensees the option of maintaining the 2 percent power margin between the licensed core power level and the assumed core power level for emergency core cooling system (“ECCS”) evaluations, or applying a reduced margin to the ECCS evaluations. Palisades achieved a 1.4 percent increase in power to 2565.4 MWt (thermal power) by implementing this rule change demonstrating that the uncertainty in power measurement was less than 0.6 percent and obtaining NRC approval of a License Amendment in 2005.

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3.1 Overview

NMC has managed Palisades since May, 2001. Plant performance, both in terms of capacity factor and operational costs, has continued to improve under the NMC management. For example:

- Palisades staffing, which exceeded 650 people (excluding security personnel) prior to 2001, has declined to less than 495 people by the end of 2005,
- Nine of the Plant's best production years have occurred in the last ten years,
- Palisades concluded its longest sustained power production run of 478 days on August 10, 2004,
- The Plant recorded its highest annual production of 6.6 million Net MWh in 2005, a significant improvement from the previous peak of nearly 6.4 million Net MWh in 2002, and achieved a capacity factor of approximately 95.6 percent, and
- Except for several minor power reductions, the Plant operated at full capacity from January 19th through September 1st, 2005, its fourth longest continuous power production run.

This chapter provides certain operating and financial information for Palisades. Bidders seeking further information should access the Financial Folder in the Virtual Document Room established for this Transaction process.

3.2 Strategic Initiatives

NMC has identified several key strategic initiatives related to Palisades' longevity and improvement, as follows:

3.2.1 License Renewal

Palisades' current NRC license expires in 2011. In March, 2005, NMC submitted a license renewal application for a 20-year license extension to 2031. NMC expects approval in the 1st quarter of 2007.

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3.2.2 Reactor Head Replacement

Because of the degradation of reactor vessel heads observed in the nuclear industry and the more stringent inspections that must be performed on older reactor heads at each refueling outage, NMC and Consumers have decided to replace Palisades' Reactor Vessel Closure Head ("Reactor Head"). The replacement Reactor Head installation for Palisades is currently scheduled during the refueling outage in the fall of 2007 (RFO-19).

Fabrication of the replacement Reactor Head is underway and NMC expects to take delivery at the site in July, 2007. Total cost of the replacement project is budgeted at \$81 million, of which \$30 million has been committed and under contract as of December 19, 2005 (\$9 million was spent by the end of 2005). As shown in Table 3.7, approximately \$35 million (including \$7 million accrual for the Reactor Head's cost of removal) is budgeted for this project in 2006 with the remainder, \$37 million, budgeted for 2007.

3.2.3 Steam Generator Preservation

The steam generators that are currently in use at Palisades are replacement steam generators that were installed in the fall of 1991. NMC believes that the steam generators can last through the extended license renewal period given appropriate care and maintenance, including water chemistry control. The tube material for the installed generators is mill annealed Alloy 600, which is now being phased out in other plants. However, it is possible that a steam generator replacement will be required prior to the end of its life. The timing of such a replacement, if necessary, is likely to be after 2015.

3.2.4 Management of High and Low Level Radioactive Waste

Palisades requires storage in addition to the spent fuel pool to store future core discharges to retain the ability to perform full core offloads. NMC has developed a spent fuel management strategy that assures some form of full core offload ability. This strategy will necessitate a dry fuel loading campaign in 2008 given current planning assumptions. Additionally, Palisades will promote strategic use of low-level waste facilities to assure that

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waste is not allowed to accumulate unnecessarily on site, and will work to minimize waste generation through improved equipment and tooling.

3.2.5 Engineering and Procurement of Replacement Moisture Separator Reheaters

The moisture separator reheaters at Palisades are an original design that uses demister wire for moisture separation. The demister wire degrades over time and migrates to the steam generators where it can lodge in the steam generator tube bundles and contribute to contaminant collection that causes tube degradation. NMC believes that as part of steam generator preservation, the moisture separator reheaters should be replaced with current designs that do not include demister wire. Current moisture separator reheater designs also provide improved efficiency, which NMC expects to contribute to an increased net electrical output for the Plant. Engineering on this project will begin in 2007 with final installation scheduled during the 2009 refueling outage, for a total estimated cost of \$13.4 million.

3.3 Plant Performance Assessments

Palisades has performed well in its most recent assessments on the major performance indicators tracked by the NRC, INPO and World Association of Nuclear Operators (“WANO”).

3.3.1 NRC Oversight Program

The NRC requires plants to report monthly on eighteen specific Performance Indicators (“PIs”). Each of the PIs has criteria for measuring performance within seven primary cornerstones:

- Initiating events,
- Mitigating Systems,
- Barriers,
- Emergency Preparedness,
- Occupational Radiation Safety,
- Public Radiation Safety, and
- Physical Protection.

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The NRC designed each PI to determine acceptable levels of operation within substantial safety margins. These objective criteria reflect risk according to established safety margins, as indicated by a 4-level color coding system, with “Green” being the highest measure of performance. All of Palisades’ 2005 indicators were “Green”, as were all NRC inspection findings.

3.3.2 NRC Plant Performance Reviews

On August 30, 2005, the NRC submitted its annual Plant Performance Review for Palisades indicating that it had not identified any significant performance issues during the assessment period, and noting the following:

- All inspection findings and PIs indicate performance at a level requiring no additional NRC oversight (Green),
- Palisades was operated in a manner that preserved public health and safety, and
- The NRC plans only baseline inspections at Palisades through March 31, 2007.

3.3.3 WANO Peer Review

A WANO team from three WANO regions conducted a peer review at the Plant in May 2004. The review team examined operational focus, radiation protection, equipment reliability, configuration management, performance improvement programs, event history, and organizational effectiveness. In addition, the team evaluated performance in the following functional areas: operations, chemistry, radiological protection, maintenance, work management, engineering, training, and industrial safety.

The WANO team noted the following beneficial practices and accomplishments:

- Leaders have communicated a consistent vision of desired performance over a sustained period, promoting vertical organizational alignment and contributing to noteworthy improvements in operational performance,

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- Managers have used the Plant health committee to provide focus and accountability for resolving several long-standing equipment problems in important systems and for minimizing operator challenges,
- Effective operations leadership has contributed to improved operational decision-making, consistent work prioritization, and coordinated organizational response to unexpected Plant conditions,
- Corrective action program coaches contribute to early identification, trending, and analysis of issues at the precursor level, and
- Line manager support of and involvement in training, including the use of dynamic learning activities and mockups, have resulted in tangible improvements in Plant performance.

The team also identified areas in need of improvement, with the following being considered the most significant:

- Radiological Protection Standards – associated with a large number of instances of radiation exposure to workers, release of radioactive material to clean areas, and personnel contaminations. Improvements are required in job planning and control, supervisory oversight, individual accountability, and response time for corrective actions,
- Maintenance Work Practices – require improvement in the areas of supervisory oversight in the field, clear communication of instructions to workers, and application of human error-reduction practices, and
- Operating Experience – a few specific instances were noted where operating experience was narrowly applied and appropriate actions were not taken to avoid or mitigate potential problems.

3.3.4 INPO Performance Index

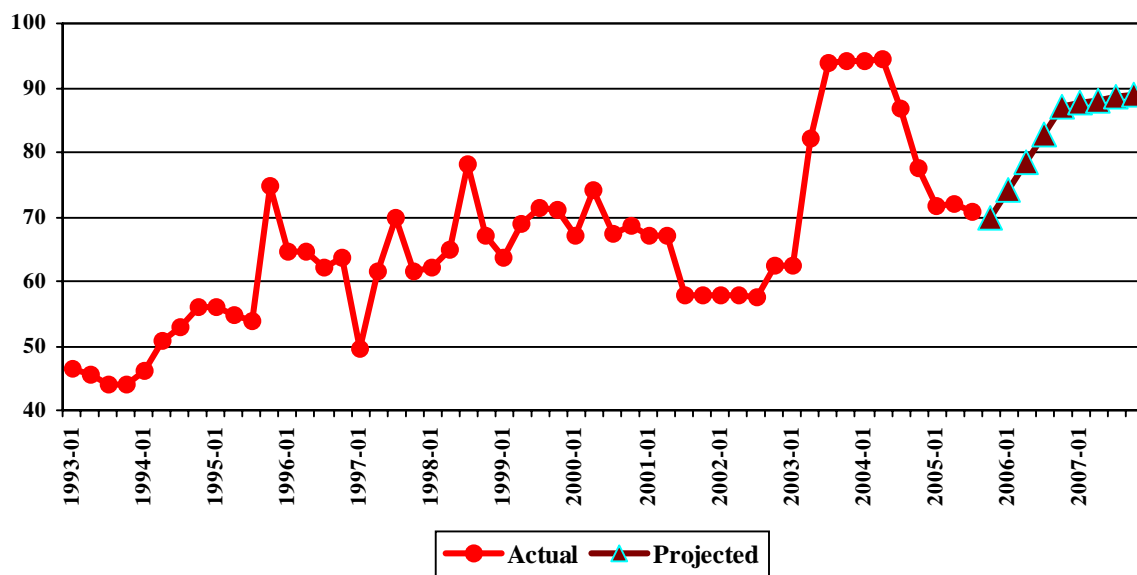
The INPO Index measures the overall Plant performance based on an eighteen month rolling average of the monthly scoring of the following nine indicators:

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- Unit capability factor,
- Forced loss rate,
- Unplanned automatic scrams per 7,000 hours critical,
- Safety system performance (3 Indicators),
 - PWR H.P. Inject./Heat Removal
 - PWR Auxiliary Feedwater
 - Emergency AC Power
- Fuel reliability,
- Chemistry performance, and
- Collective radiation exposure.

Palisades' monthly INPO Index since January 1993 is shown below in Figure 3-1.

Figure 3-1: Palisades' INPO Index



Palisades' INPO performance indicators are all receiving full credit with the exception of Unit Capability Factor, Forced Loss Rate, and Collective Radiation Exposure, where events

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over the past 18 months have caused a reduction from the 100 percent weighting of the performance indicator value in those areas. As Figure 3-1 demonstrates, the indicators have been negatively affected by the following events in 2004 and 2005: the power reductions and an outage in July and August 2004, the last refueling and reactor head repair outage in the fall of 2004, the loss of vacuum shutdown in January 2005, the manual reactor trip in September 2005 due to main generator hydrogen leakage, the power reduction in October 2005 for turbine vibration indication, and the November 2005 power reduction due to accumulation of debris in the cooling tower screens. Projected increases in years 2006 and 2007 are primarily the result of rolling off of low performance from the 18 month rolling average index computation. NMC currently projects that Palisades' INPO index will reach 100 percent by year end 2009, primarily attributable to the expected benefits to be realized from the Reactor Head replacement.

3.4 Operational Statistics

Table 3-1 below highlights Palisades' historical operational statistics.

Table 3-1: Palisades Operational Highlights

	1999	2000	2001	2002	2003	2004	2005
Max. Dependable Net Capacity (MW) ⁽¹⁾	785.4	780.9	782.2	788.4	788.4	788.5	794.0 ⁽²⁾
Net MWh	5,115,234	5,748,023	2,355,631	6,369,371	6,158,154	5,345,760	6,645,839
Capacity Factor (%) ⁽³⁾	74.4%	83.8%	34.4% ⁽⁴⁾	92.2%	89.2%	77.2% ⁽⁵⁾	95.6%
Forced Outage Rate (%)	3.2%	15.8%	0.4%	8.4%	0.9%	6.7%	4.6%
Planned Outage Rate (%)	21.9%	1.3%	65.2%	0.1%	10.4%	16.5%	0.4%

⁽¹⁾ Max. Dependable Net Capacity based upon annualized monthly ECAR ratings in effect during applicable year. Capacity factor, forced outage rate, and planned outage rate may not total 100 percent due to the variance of actual conditions from those projected in the ECAR rating.

⁽²⁾ Reflects mid year uprate of 1.4 percent effective June 2005. The current annualized ECAR rating is 798 MW.

⁽³⁾ Capacity factor is calculated by dividing net generation by the product of annualized MW ECAR rating and hours in the applicable year (8760 hours or 8784 hours for a leap year).

⁽⁴⁾ Extended outage to replace all control rod seal housings in 2001.

⁽⁵⁾ Extended refueling outage for reactor vessel head repair in 2004.

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3.5 Refueling Outage Overview

Palisades currently operates on an approximately 18-month refueling cycle. Recent and planned refueling outage durations and costs are shown on Table 3-2 below:

Table 3-2: Palisades Recent and Planned Refueling Outages

Year	Refueling Outage (RFO)	Scheduled Days	Actual Days	O&M Cost (\$ millions)	Capital Cost (\$ millions)
2001	15	42	41	22.6	19.4 ⁽¹⁾
2002	--	--	--	--	---
2003	16	25	35	19.7	3.2
2004	17	28	59	35.5	3.0
2005	--	--	--	--	---
2006	18	30	--	32.6	50.2 ⁽²⁾
2007	19	60	--	39.1	54.9 ⁽²⁾

⁽¹⁾ Major refueling outage capital projects are: replacement of high pressure turbine \$8.7 million and replacement and assembly of a primary coolant pump and motor \$4.8 million in 2001.

⁽²⁾ Includes capital costs associated with reactor vessel head replacement project in 2006 and 2007.

3.5.1 2004 Refueling Outage (RFO-17)

Palisades' most recently completed refueling outage (RFO-17) ran from September 19 through November 17, 2004. Table 3-3 below summarizes some of the key initiatives and accomplishments during that outage:

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Table 3-3: 2004 Refueling Outage (RFO-17) - Significant Initiatives and Accomplishments

Key Outage Initiatives	Significant Accomplishments
<ul style="list-style-type: none"> • One-third of the core was refueled • Reactor Vessel Head CRD Thermal Sleeve Removal • Reactor Vessel Head Bare Metal and Volumetric Inspections • Reactor Vessel Head Repairs (Two RVH Penetrations were repaired) • Incore Detector Replacements (22) • Reactor Vessel Debris Inspection • Steam Generator Eddy Current Testing, Tube Plugging and Sludge Lancing • Replacement of Primary Coolant Pump P-50C Motor and Seal • Control Rod Drive Seal Housing Rebuilds (4) • NE-05 Power Range Nuclear Detector Replacement • Pressurizer Heater Nozzle Inspection • Main Condensor Eddy Current Testing and Tube Plugging • Flow Accelerated Corrosion Inspections • In-service Inspections • Eddy Current Testing of Multiple Heat Exchangers • Turbine Generator Maintenance • Feedwater Pump P-1A Rebuild 	<ul style="list-style-type: none"> • Cooldown to Mode 5 (<200F) took 13 hours, a new Palisades best time. The previous Palisades best time was 25 hours. • Fuel Shuffle / verification was performed in 70 hours, a new Palisades and CE best time. The previous CE best time was 80 hours. • There were zero lost time accidents. • Crane and Rigging received an NEI Top Industry Practice Award for Containment mobilization and Demobilization.

3.5.2 2006 Refueling Outage (RFO-18)

The next outage (RFO-18) is scheduled to commence on April 2, 2006 and finish on May 2, 2006. NMC anticipates 2006 expenditures for the outage to be \$82.8 million. A list of projects planned for the outage, along with projected costs, is provided in Table 3-4 below.

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Table 3-4: 2006 Refueling Outage (RFO-18) - Outage Projects and Projected Costs

Outage Project	2006 Projected Cost (\$ millions)
Refueling Outage Services	8.1
Reactor Vessel Head Inspection	4.7
Turbine Generator Maintenance	2.0
Crane Repairs and Services	1.3
Contract Health Physics Tech Support	1.1
Other Minor O&M Projects	5.8
Total O&M Projects	\$ 23.0
Reactor Head Replacement	28.4
Cost of Removal Reactor Head Replacement	6.6
Cost of Removal PCP Motor	4.1
Polar Crane Upgrades	2.6
Containment Sump Modifications	2.4
Main Generator Stator Rewind	2.0
Other Minor Capital Projects	4.1
Total Capital Projects	\$ 50.2
Departmental Incremental Maintenance Costs	9.6
Total Refueling Outage Costs	\$ 82.8

3.5.3 2007 Refueling Outage (RFO-19)

RFO-19 is presently scheduled to commence September 9, 2007 and finish on November 8, 2007. NMC estimates RFO-19 to last 60 days, during which it expects to disassemble and replace the Reactor Head. Once the Reactor Head is in place, NMC expects to realize ongoing O&M savings through the elimination of costly vessel head inspections, which currently are required to be performed every refueling outage, compared to every 3 refueling outages, or every 5 years, once the new Reactor Head is in place.

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In addition to the Reactor Head replacement, NMC plans the following projects for RFO-19:

- Full Core Offload with one-third of the fuel being replaced,
- Core Barrel ISI (UT/VT) Inspection,
- Steam Generator Eddy Current Testing, Tube Plugging and Sludge Lancing,
- Replacement of Primary Coolant Pump P-50D Impeller,
- Control Rod Drive Seal Housing Rebuilds,
- Alternate Spent Fuel Pool Cooling for Service Water and Component Cooling Water Valve Repairs,
- Shutdown cooling, engineered Safeguards System and Safety Injection Refueling Water Tank Valve Repairs and Replacements,
- Replace Power Operated Relief Valves (PORV's),
- Main Feedwater Pump P-1B Rebuild,
- Low Pressure "B" Turbine Inspection,
- Main Generator Stator Rewind or Replacement,
- Main Condenser Eddy Current Testing,
- Flow Accelerated Corrosion Inspections,
- In-Service Inspections, and
- Eddy Current Testing of Multiple Heat Exchangers.

3.6 Financial Performance Overview

A summary of certain financial aspects of Palisades' operations from 2001 through 2005 and budget for 2006 is provided in Table 3-5 below.

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Table 3-5: Palisades Financial Overview

Description (\$ millions)	2001	2002	2003	2004	2005	2006 Budget
Fuel Expense	9.7	24.2	23.1	19.7	25.1	23.6
Plant O&M Expenses:						
Labor:						
OM&C Labor	11.6	9.1	10.8	10.0	8.8	10.9
NMC Labor ⁽⁶⁾	38.9	49.6	53.4	48.7	44.8	39.5
Major Maintenance	49.5 ⁽¹⁾	17.4	16.4	30.4	6.8	37.6
Other	1.6	10.3	18.8	27.0	22.8	20.4
Subtotal	\$ 101.6	\$ 86.4	\$ 99.4	\$ 116.1	\$ 83.2	\$ 108.4
NMC HQ Allocations:						
HQ Allocations	3.0	8.2	8.4	8.9	7.5	11.4
IT Services	0.0	0.0	0.0	0.0	3.4	4.8
Training Services	0.0	0.0	0.0	0.0	0.0	5.0
Subtotal	\$ 3.0	\$ 8.2	\$ 8.4	\$ 8.9	\$ 10.9	\$ 21.2
Total Plant O&M Expenses	\$ 104.6	\$ 94.6	\$ 107.8	\$ 125.0	\$ 94.1	\$ 129.6
Owner Corporate O&M Expenses:						
OM&C Pension Expense & OPEB ⁽²⁾	n/a	n/a	3.6	3.6	3.6	3.6
OM&C Other Payroll Expenses	n/a	1.0	1.0	1.1	0.9	1.1
Insurance Premiums:						
Nuclear Property	0.6	0.6	0.6	0.6	0.6	0.6
NEIL I & II	1.7	1.8	1.8	1.9	1.9	1.9
Nuclear Liability	0.2	0.3	0.6	0.5	0.6	0.6
Other Insurance	0.1	0.1	0.2	0.2	0.1	0.1
Subtotal	\$ 2.6	\$ 2.8	\$ 3.2	\$ 3.2	\$ 3.2	\$ 3.2
Total Owner Corporate O&M Expenses	n/a	n/a	\$7.8	\$7.9	\$ 7.7	\$ 7.9
Property Taxes	7.2	7.0	6.8	6.9	7.5	7.7
State and Local Taxes ⁽³⁾	1.1	1.8	1.8	1.6	1.7	0.9
Plant Online O&M	n/a ⁽⁴⁾	93.7	88.1	89.5	93.1	97.0
Plant Outage O&M	n/a ⁽⁴⁾	0.9	19.7	35.5	1.0	32.6
Depreciation	0.0 ⁽⁵⁾	1.9	3.6	5.2	7.2	8.1
Decommissioning	6.1	5.8	5.8	5.9	6.1	6.0

(1) Extended outage to replace all control rod seal housings in 2001.

(2) CMS does not report OM&C estimated pension carve out and Other Payroll Employee Benefits at the Plant level. It is estimated that 2003-2006 Pension Expense & OPEB are \$2,681,000 and 894,000 respectively per Hewitt Freeman studies performed in 2005.

(3) These amounts represent an estimate of Single Business Tax (SBT) attributable to Palisades. Consumers pays SBT on all Michigan properties and does not provide for Palisades separately.

(4) Palisades transitioned to NMC during 2001; Operator O&M is n/a.

(5) No depreciation was taken due to the securitization of depreciable property as regulatory asset in 2000.

(6) Excludes the salaries and benefits of approximately 20 additional NMC employees that are expected to transfer with the Plant, at an estimated cost of \$2.5 million.

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Capital expenditures were \$31.4 million for Palisades in 2004, \$31.4 million in 2005, and are projected to be \$69.6 million in 2006. Table 3-6 below presents the historical and budgeted capital expenditures for the period 2002-2008. Increased capital expenditures in 2006 and 2007 are due to the reactor vessel head replacement project, which accounts for \$28.4 million in 2006 and \$37.0 million in 2007.

Table 3-6: Palisades Capital Expenditures and Removals (\$ millions)

	2002	2003	2004	2005	2006 Budget	2007 Budget	2008 Budget
Capital Expenditures	\$ 25.9	\$ 27.0	\$ 31.4	\$ 31.4	\$ 69.6	\$ 90.5	\$ 22.3

Significant projected capital expenditures are listed in Table 3-7 below.

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Table 3-7: Future Capital Projects (\$ thousands)

Project Title	Outage (Y/N)	2006 E	2007 E	2008 E	2009 E	2010 E
Reactor Head Replacement	Y	28,394	37,000	-	-	-
Palisades DFS Cask Loading	N	3,355	6,604	6,654	3,025	5,467
Capital Holding for Direct Charging to Projects	N	2,968	4,600	4,600	4,600	-
Replace/Upgrade Palisades Moisture Separator Reheaters	Y	-	140	5,240	8,120	-
Main Generator Stator Rewind	Y	2,000	8,800	-	-	-
Cost of Removal Reactor Head Replacement	Y	6,606	-	-	-	-
Refurbish and Reinstall PCP Motor	Y	-	4,329	-	-	-
Cost of Removal PCP Motor	Y	4,145	-	-	-	-
License Renewal	N	3,211	-	-	-	-
Polar Crane Upgrades	Y	2,584	-	-	-	-
Containment Sump Modifications	Y	2,393	-	-	-	-
Develop AC Power System Analysis Model/Update Design	Y	1,040	1,000	-	-	-
Replace Cooling Tower Hot Water Distribution Components	Y	-	950	950	-	-
Capital Holding Dollars for Project Distribution	N	1,689	-	-	-	-
NRC Security Order Phase II	N	1,548	-	-	-	-
Replace Containment Air Cooler VHX-4	Y	557	469	469	-	-
Load TAP Changing Transformer For SUT 1-2 (EX-04)	Y	1,308	-	-	-	-
Control Room Habitability	N	1,300	-	-	-	-
Incore Reactor Monitoring Instrumentation System	Y	52	1,083	-	-	-
Maintenance Services - Scaffold and Insulation	N	400	407	-	220	-
Upgrade K-7A/P-1A and K-7B/P-1B Monitoring Instruments	N	-	205	171	590	-
Replace Obsolete Recorders in Control Room	N	-	743	66	-	-
PE75 Palisades Information Technology Plan/LAN Expansion	N	-	395	395	-	-
Cost of Removal - PCP Motors Refurbish and Replace	Y	738	-	-	-	-
Primary Coolant Pump EY Phasor & Motor Vibration Probes	Y	-	14	262	451	-
Provide Alternate SFP Cooling Capability	Y	150	550	-	-	-
Cooling Tower Gearbox Replacement	N	198	297	149	-	-
NRC Security Order	N	623	-	-	-	-
Cost of Removal - Repair AFW Backup Steam Supply Piping	Y	-	95	516	-	-
Palisade's Simulator Upgrade	N	510	10	10	-	-
Service Water Piping Replacement	N	231	194	-	100	-
Service Water System Control Valves Improvements	N	380	125	10	-	-
Install Reactor Head Stud Cans/Plasma Bond	Y	-	459	-	-	-
Major Equipment Purchases for Maintenance Facility Upgrades	N	100	100	100	100	-
Replace Compressor C2B Compressor	N	-	387	-	-	-
Electrical Penetration for S/G Eddy Current Testing	Y	-	20	95	261	-
Five Year Roof Replacement Plan - Project Has Cost Removal	N	220	28	28	98	-
Repair AFW Backup Steam Supply Piping	Y	-	60	310	-	-
Misc. Power Plant Equipment and Small Tools Blanket GWO	N	90	90	90	90	-
Increase Fuel Handling Hoist Speed	N	-	30	80	242	-
Replace Containment Floor Plugs With Grading	Y	-	65	79	188	-
Turbine Supervisory Instrumentation (TSI) System Upgrade	Y	-	331	-	-	-
Control Rm HVAC (VC-10/11) Service Water Sys Piping	N	78	248	-	-	-
COR - Load Tap Changing Transformer for SUT 1-2 (EX-04)	Y	300	-	-	-	-
Radiological Services Small Tools Budget	N	145	50	50	50	-
Replace Temporary Power Panels W/Permanent	N	38	69	-	168	-
Replace Power Operated Relief Valves PRV-1042B and PRV-	Y	-	250	-	-	-
Flow Accelerate Corrosion (FAC) Program (Includes Cost of	Y	250	-	-	-	-
Replace CK-SFP930, SFP Cooling Pump Discharge Check Valve	Y	-	-	243	-	-
Radiation Monitor Reliability Upgrade Program	N	-	106	124	-	-
Cost of Removal for Domestic Water	N	202	-	-	-	-
Other & Uncommitted Capital / COR funds (1)	N	1,777	20,214	1,593	5,897	11,533
Total		\$69,580	\$90,515	\$22,284	\$24,200	\$17,000

(1) 2007 includes \$19.6 mil. uncommitted capital earmarked to replace cooling pump, cooling tower hot water deck, and nozzle dams.

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3.7 NMC Headquarter (Hudson) Allocations

NMC Headquarters Allocations represent costs of services provided to Palisades on a centralized basis by NMC. These costs include a variety of services, including training, supply chain, IT, and also include fleet corporate management and overhead costs. These costs may be incurred by personnel on site at Palisades or at NMC headquarters in Hudson.

In the past several years, NMC has been centralizing certain functions which has caused the related costs to be reclassified from direct operator O&M to NMC HQ Allocations. Table 3-5 above shows IT costs under the NMC HQ Allocations section for 2005, but not prior years. Training costs appear under HQ Allocations for both 2004 and 2005, but not prior years. These are not new costs, for the most part, but costs that were previously shown in NMC Labor or other direct Operator O&M costs and were shifted into the HQ Allocations categories. While this shifting of costs has increased the total NMC HQ Allocations costs, it has been at least partially responsible for the reduction of NMC Labor cost figures and other direct cost figures that occurred in 2004 and 2005.

3.8 Property Taxes

Palisades is in Covert Township, County of Van Buren. The township, the county, and various authorities within these jurisdictions assess taxes against the property. A Michigan state education tax is also assessed against the property. The total mill rate for all of these entities is assessed against the “Taxable Value” of the Plant. The mill rate was 46.7227 mills for 2005.

Property tax is assessed against both real and personal property at the Plant. Real property consists of the physical Plant. Personal property consists of fixtures, furniture, and, in this case, nuclear fuel. The same mill rate is used for both personal and real property. The mill rate is assessed against “Taxable Value”, which is equal to or less than “Assessed Value”. “Assessed Value” is defined to be 50 percent of “True Cash Value”. “Taxable Value” may be less than “Assessed Value” because

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Michigan law prohibits increases in “Taxable Value”, other than from a revaluation after a sale or from property additions, of more than the inflation rate or 5 percent each year, whichever is less.

The December 31, 2004 “True Cash Value” of the real and personal property, respectively, was \$266.9 million and \$49.6 million, and these values were used for 2005 tax calculations. There is no difference between the method by which the tax is assessed against utility or non-utility property.

3.9 Michigan State Taxes

State taxes which apply to Palisades are the Michigan Single Business Tax (“SBT”) and the Sales Tax. The SBT in Michigan is a form of value added tax and is in lieu of any corporate income tax. All business entities are subject to this tax, although a modified format is used for certain non utility industries (SBT applies to manufacturing as well as non manufacturing businesses).

The calculation of the SBT begins with the Federal Taxable Income of the tax paying entity, to which is added back compensation and benefits, depreciation, interest expense, and certain other defined items. Interest income is subtracted from the computation. The ending amount is the SBT taxable income, and a tax rate is applied to this amount. The 2005 rate was 1.9 percent. The rate is subject to change each year depending on the state budget surplus and other items.

There is a state Investment Tax Credit which is applied to reduce the SBT. A tax credit of 0.7 percent (2005 rate) of qualified investments can be applied against the SBT. The investment tax credit rate is also subject to change each year.

The SBT is scheduled to expire after 2009. State officials and the legislature are in discussions regarding a possible reformation of state business taxes. There were some changes in statutes passed at the end of 2005 that allow SBT credits based on property tax payments related to certain classes of property, however utilities are not eligible for these credits. Further work on business tax reform is expected to occur in 2006. Please refer to Table 3-5 above, State and Local Taxes, for an estimate of the SBT attributable to Palisades.

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The state sales tax in Michigan is 6 percent. There is, however, a broad exemption in the tax related to O&M and equipment purchased for electrical energy production. It is expected that purchases related to Palisades would be largely free of the state sales tax under current rules.

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4.1 Workforce Overview

As of January 1, 2006 the Palisades site workforce consists of 356⁸ NMC employees and 119 Consumers' employees who are members of the Utility Workers Union of America ("UWUA") Local 150, for a total of 475 employees. An additional 20 NMC employees are expected to transfer with the Plant. Twenty-one⁹ employees at Palisades hold a Reactor Operator ("RO") License and twenty-seven hold a Senior Reactor Operator ("SRO") License. An additional thirteen employees hold a SRO Certification or an inactive SRO License. The site workforce, including the Consumers' collective bargaining employees, will be transferred to the Buyer. See Chapter 9, *Terms of Transaction*.

NMC contracts for site security related services with an outside company, the Wackenhut Corporation, which employees approximately 119 security personnel. Approximately 30 other contractor employees perform various functions at the Plant. Consumers expects to transfer these contractors to the Buyer under the present contracts.

4.2 Highlights of Key Workforce Strengths and Accomplishments

The workforce at Palisades is focused on achieving excellence in the safe, reliable, and cost-effective operation of the Plant. Near-term initiatives emphasize standardization and centralization, execution excellence, and growth in energy output. Key performance measures include INPO ratings, outage duration, fuel, O&M, and depreciation expenses, and energy production. Highlights of key workforce strengths and initiatives are presented below.

- High Quality Management Team – Palisades' management team consist of 17 key personnel. Six of these positions are held by long-term Palisades employees, of which four have held SRO licenses or certifications at Palisades. An additional eight members of management

⁸ Excludes Interns

⁹ Two employees who hold RO Licenses at Palisades are currently in training to receive a SRO License for Palisades. Furthermore, there are currently six Palisades employees training for Senior RO Licenses. These employees are expected to receive SRO licenses in 2007.

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have held SRO licenses or certifications at other facilities, mostly top performing plants or fleets. The team possesses a strong mix of engineering, business, maintenance, and training skills. The senior management team members have been instrumental in preparing the Plant for its upcoming license renewal.

- Improving Performance – Since 2001, Palisades has worked to improve overall performance as part of the Plant’s “Picture of Excellence” initiative. The key strategies behind the program include:
 - Select and retain the right people in the right jobs,
 - Communicate and enforce the right picture of what excellence looks like,
 - Verify effective implementation of the right processes, and
 - Provide the right coaching and workforce engagement.

Since implementing the program, Palisades has significantly improved performance. Some notable achievements include:

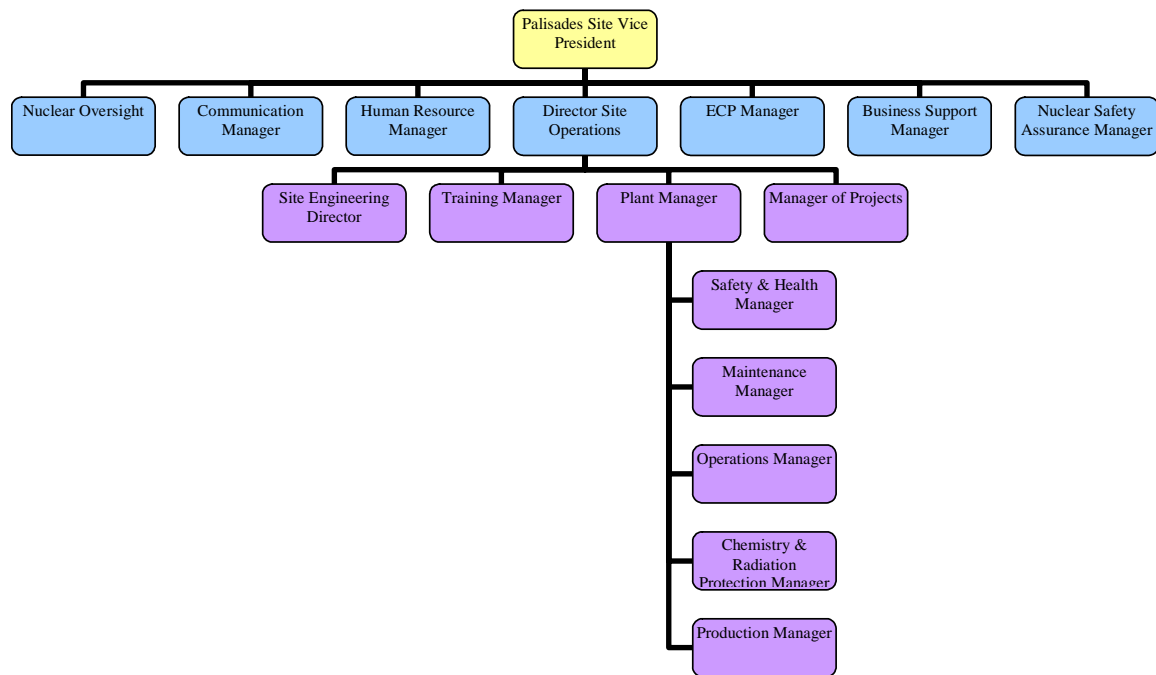
- The lowest monthly and annual radiation dose at Palisades for four consecutive years,
- Achieving the shortest refueling outage in the Plant’s history and the shortest fuel shuffle for a Combustion Engineering- designed U.S. nuclear plant,
- Reaching a top quartile INPO Index for the first time in Plant history and improving the INPO rating for Palisades from 3 to 2. This was followed by the first sustained stable performance review for two consecutive evaluations,
- Significantly improving the site industrial safety performance, including three years without a lost time accident, and
- Achieving three consecutive training accreditation renewals with no INPO team identified findings.

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4.3 Management Organizational Structure

As shown in Figure 4-1 below, Palisades is organized around a Site Vice President (“Site VP”) and seven major functions. The Site VP reports directly to senior management at NMC.

Figure 4-1: Palisades Organization



Each of the site specific managers for the Nuclear Oversight, Communications, Human Resources, and ECP departments report to the Site VP. Additionally, these positions report directly to a fleet manager at NMC. The Site Engineering Director, the Training Manager, and the Manager of Projects also report directly to a fleet manager at the NMC, in addition to reporting to the Director of Site Operations.

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Current staffing levels for the major organizational units are shown in Table 4-1.

Table 4-1: Staff at Palisades Site by Function as of January 1, 2006

Site Organization Unit	Sub Unit	Management	Bargaining	Total Staff
Site Vice President	Management & Staff	2		2
Site Director	Site & Plant Management	16		17
	Maintenance	50	49	99
	Operations	27	55	82
	Production	10		10
	Outage Management	9		9
	Radiation Protection & Chemistry	42	8	50
	Safety & Health	1		1
	Training	33		33
	Site Engineering	69		69
	Projects	18		18
	Subtotal	275	112	388
Site Business Support	Management	1		1
	Admin Support	28		28
	Business & Strategic Planning	2		2
	Information Technology	5		5
	Procedures	7		7
	Supply Chain	10	7	17
	Security	5		5
	Site Accounting	5		5
	Subtotal	63	7	70
Site Nuclear Oversight		9		9
Nuclear Safety Assurance		4		4
Site Human Resources		3		3
NMC Additional Employees ¹⁰		20		20
GRAND TOTAL		376	119	495

Staff organizational roles, compensation characteristics, and ages are shown in Table 4-2.

¹⁰ It is anticipated that these employees will transfer to the Buyer.

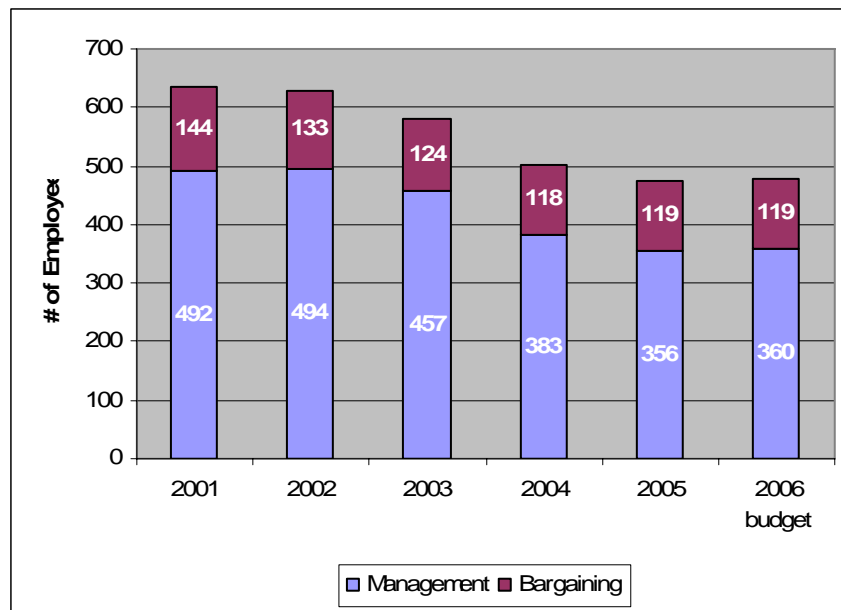
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Table 4-2: NMC Staff at Palisades

	#	Annual Earnings	Minimum Earnings	Maximum Earnings	Avg Age yrs.	Min Age yrs.	Max Age yrs.
Higher Level Managers	17	146,804	112,750	225,750	47	38	58
First Level Supervisors/Middle Management	83	101,082	67,336	134,225	46	31	59
Individual Contributors (Management)	256	77,505	30,501	114,664	47	20	66
UWUA Local 150	119	77,020	22,360	161,897	46	26	63
Total	475	\$84,070	\$22,360	\$225,750	48	20	66

NMC has employee retention agreements in place with five members of the Palisades staff that are expected to transfer to the Buyer. These agreements will be provided to Bidders in the Physical Document Rooms.

Figure 4-2: Staff at Palisades Site: Year-End Staffing¹¹



¹¹ Excludes the 20 “additional NMC employees.”

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In addition to the staff, the Plant relies on outside contractors for some services including security, maintenance, and facilities. In total the Plant used 162 contractors in 2004 and 150 contractors in 2005, exclusive of refueling outage support.

4.4 Collective Bargaining Agreement (“CBA”) Overview

Consumers has a CBA with one union representing 119 employees at Palisades. Local 150 of the UWUA represents primarily Plant operations and maintenance functions. In addition, this CBA covers operations, maintenance, and construction employees throughout Consumers. Article II of the CBA requires any successor to assume the terms of the CBA. The CBA is available to Bidders in the Human Resources Folder in the Virtual Document Room.

Key terms of the CBA are summarized in Table 4-3.

Table 4-3: Agreement Summary

	UWUA Local 150
Agreement Term	Ends May 30, 2010
Cost of Living Allowance	Currently \$0.64/Hr, Based upon the Bureau of Labor Statistics CPI
Last General Wage Increase	Average increase of 4.5% June 6, 2005
June 5, 2006	Average increase of 4.5%
June 4, 2007	Average increase of 3.5%
June 2, 2008	Average Increase of 3.5%
June 1, 2009	Average increase of 3.5%

Furthermore, approximately 85 members of the Plant’s contracted security force are members of the International Union of Security, Police and Fire Professionals of America (“SPFPA”). The current collective bargaining agreement between the SPFPA and Wackenhut is effective through December 31, 2006.

4.5 Training

4.5.1 Technical Training Programs

Palisades’ Technical Training Programs consist of the following:

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- Instrument and Control Technician and Supervisor,
- Electrical Maintenance Personnel and Supervisor,
- Mechanical Maintenance Personnel and Supervisor,
- Chemistry Technician,
- Radiological Protection Technician, and
- Engineering Support Personnel.

The National Nuclear Accrediting Board renewed Palisades' accreditation for the Technical Training Programs on February 12, 2004, following an INPO accreditation team visit the week of October 27, 2003. There were no INPO team-identified findings and one INPO team identified strength. The team identified the Plant Management's demonstrated, strong support of training by providing experienced line managers and supervisors to fill positions in the Training Department. The next National Nuclear Accreditation Team Visit ("ATV") is tentatively scheduled to occur in the 4th quarter of 2007 and the next National Nuclear Accrediting Board Meeting is tentatively scheduled to occur in March of 2008. In the two most recent INPO/WANO Site Evaluations, there were no team-identified areas for improvement or performance deficiencies associated with the site training programs. These evaluations were in 2002 and 2004, respectively.

Palisades' Operator Training Programs cover the following areas:

- Non-licensed Operator,
- Reactor Operator,
- Senior Reactor Operator,
- Shift Manager,
- Shift Engineer / Shift Technical Advisor, and
- Continuing Training for Licensed Personnel.

The accreditation for the Operator Training Programs was renewed on March 27, 2002 by the National Nuclear Accrediting Board, following the INPO Accreditation Team Visit.

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The Operator Training Programs were most recently reviewed by INPO during an Accreditation Team Visit in December of 2005. There were no INPO team-identified findings and two strengths were noted. One team-identified strength was the Plant's effective trending and analysis of Plant performance data, corrective action program data, operating experience, management observations, and other crew performance data by operations management that has allowed timely development of training activities which have directly contributed to improved operator performance. The Operator Training Programs are scheduled to appear before the National Nuclear Accrediting Board on March 15, 2006.

Palisades' staff uses the following three facilities for training purposes:

Palisades On-Site Training Center

The on-site training center houses the office area for the entire training staff, classroom space, laboratory space and the Palisades simulator. The majority of training for Plant personnel is conducted in the on-site Training Center.

Muskegon Skills Center

The Muskegon Skills Center is owned and operated by Consumers. Muskegon Skills Center instructors frequently travel to Palisades to deliver the safety block training classes. Training programs supported by Muskegon skills include initial training for maintenance personnel (mechanical, electrical, instrument & control) and safety block training for site personnel (CPR, first aid, confined space entry, hazardous material handling, etc). Costs associated with the facility are allocated to each of Consumers' plants based on the number of Plant employees undergoing training during the year. Costs for the facility are shown in Table 4-4 below. Consumers does not anticipate transferring this facility to the Buyer.

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Table 4-4: Muskegon Skills Center Costs

2003 (\$000s)	2004 (\$000s)	2005 (\$000s)
\$456	\$237	\$239

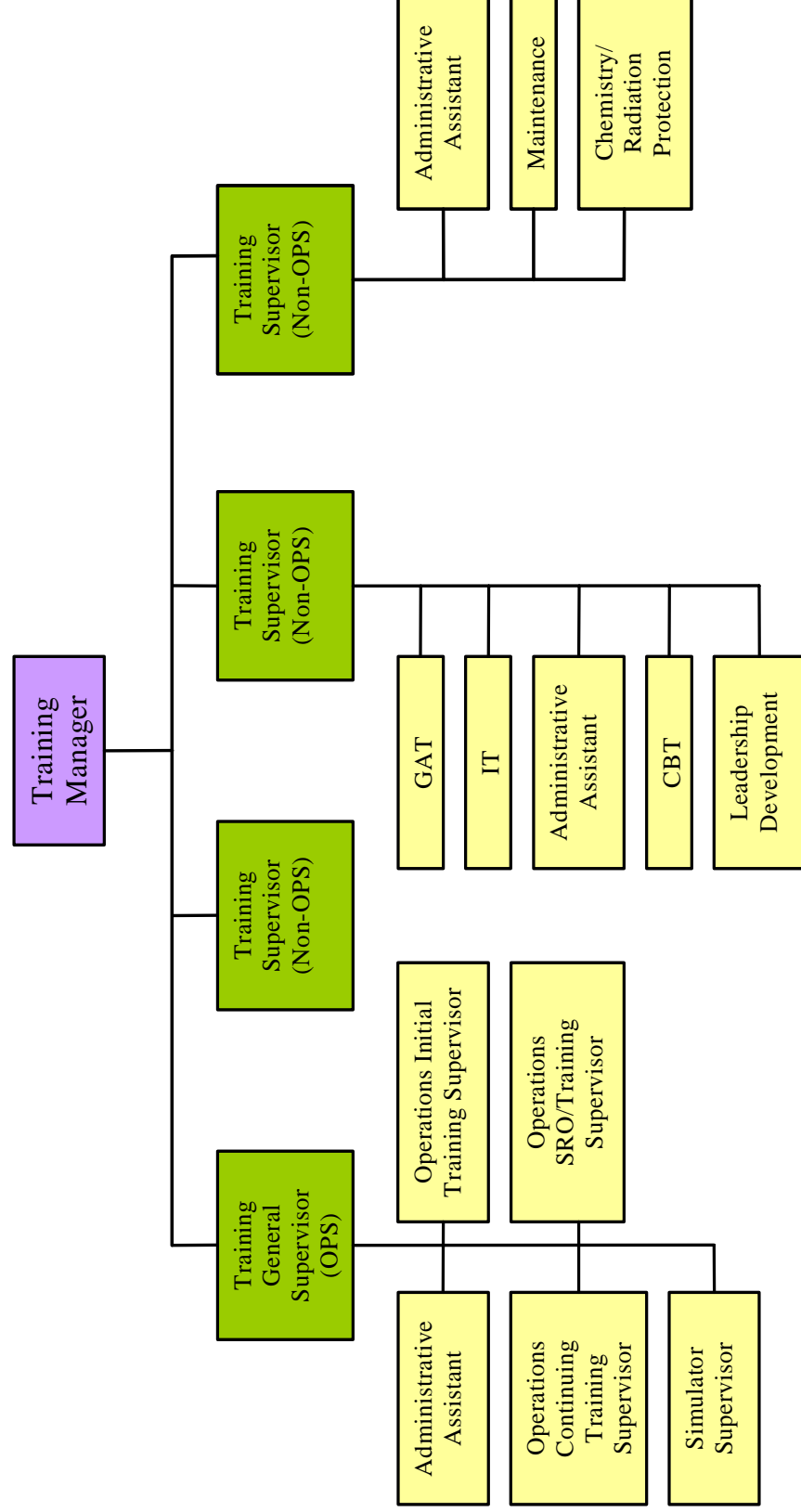
Benton Harbor Growth Center

Palisades leases classroom space from the City of Benton Harbor, Michigan, which is used primarily for in-processing of supplemental personnel prior to and during outages. Palisades' personnel periodically use the Benton Harbor facility for additional classroom or meeting room space throughout the year. The leased space includes two rooms used for computer-based training, a room for mock-ups, and other additional classroom space. The lease covers a five year period, of which three years remain. Consumers currently anticipates assigning this lease to the Buyer.

The Palisades training staff is currently part of the NMC fleet training organization. There are 36 approved training staff positions directly supporting Palisades' training program. The permanent training staff is augmented by three and a half (3.5) full time equivalent administrative assistants and one rotational reactor operator. The site training organization is depicted in Figure 4-1 below.

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Figure 4-3: Site Training Organization Chart



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4.6 Peer Review

The effectiveness of the various practices for optimizing workforce skills, focus and dedication are evident in the performance of the Plant and recognized in objective and formal performance assessments. Formal performance assessments are conducted by self-assessment teams that include Palisades, NMC, and industry peers. Palisades has recently undergone five different types of performance assessment:

- The INPO Mid-Cycle Assessment was completed in August 2005. The INPO Assessment was conducted to identify improvement opportunities for Palisades by evaluating existing performance, behaviors and results against industry standards. Overall, the team concluded that “[t]he site is focused on excellence and has made significant progress in implementing improvements,”
- The Operations Verification Assessment was completed in May 2005. This assessment was completed to evaluate the current verification practices in place in the Operations Department’s procedures to determine compliance to industry standards and best practices. The results of the self assessment indicated that operators are meeting the requirements of the administrative procedures governing verification practices and that these procedures are generally in compliance with industry best practices,
- The Emergency Preparedness Assessment was completed in May 2005¹². The purpose of the assessment was to evaluate the capability of Palisades to implement adequate measures to protect the public health and safety during a radiological emergency. One strength identified by the team was that “Palisades is the first plant in the United States to report a

¹² The assessment was based on NRC Inspection Procedures 71114, modules 2, 3, 4, and 5, NRC Inspection Procedure 71151, and INPO Performance Objective EP.1 (OTH012788).

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100 percent availability indicator for the Alert & Notification System Performance Indicator,”

- The Operations Training Assessment was completed in January 2005. The purpose of this assessment was to determine if the Operations Training Programs at Palisades met the guidelines for accreditation that are found in ACAD 02-001, The Objectives and Criteria for Accreditation of Training in the Nuclear Power Industry. Through this assessment, the team concluded that the Operations Training Programs are sound and meet the intent of the objectives. In addition, the team concluded that management has exhibited a strong commitment to the initial license training program, and
- The Technical Training Assessment, which was completed in January 2005, was conducted to determine how effectively management supports training to improve performance. The team concluded that the Plant is using training to improve performance.

Overall, the formal performance reviews at the Plant have concluded that Palisades’ workforce generally meets or exceeds the industry accepted best practices and requirements.

4.7 Non-Site Support Personnel

In addition to the Palisades operational workforce, the staff from the NMC headquarters provides various support services to the Plant. The areas of NMC support include:

- Nuclear Fuels and Nuclear Analysis and Design, including core analysis,
- Nuclear Assessment, which assesses the effectiveness of the Nuclear Assessment Quality Program, and provides quality verification and inspections to assure that items, services and activities affecting safety meet established requirements and conform to applicable documented instructions and procedures,
- Training (Effective 1/1/2006), which coordinates the training needs of the Plant and support organizations, maintains training records in accordance with accepted procedures,

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and implements the “Systematic Approach to Training” process to ensure that suitable personnel proficiency is achieved, maintained and utilized by each employee,

- Operations Support, which administers the Corrective Action Program for Operations, schedules operator resources to support Plant operation, and provides general support to shift personnel, and
- Regulatory Affairs, which coordinates on-site NRC inspection/enforcement activities for the Plant, coordinates Nuclear Energy Institute (“NEI”) activities for the Plant, and maintains the Plant’s licensing documents.

Additional areas of NMC headquarters’ support include:

- Plant life cycle management
- Program engineering
- Equipment reliability
- Information technology
- Employee Concerns Programs
- Security
- Purchasing
- Project management
- Government affairs
- Human resources
- Finance and accounting
- Legal
- Supplier assessment program

Approximately 20 employees from NMC headquarters are anticipated to transfer to the Buyer. These individuals specialize in the areas of fuel, supply chain, and employee concerns. The approximate cost associated with these employees in 2005 was \$2.5 million.

Labor-related costs for the NMC headquarters services, as well as for any services provided by staff from other NMC-operated facilities, are either charged directly to Palisades for a particular project or activity, or are allocated by one or more allocation ratios per the Nuclear Power Plant Operating Services Agreement between Consumers and the NMC. Details regarding Palisades’ labor costs overall, including allocations, are provided in Section 4.12.

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Palisades also receives support from Consumers' Electric System Planning and Protection ("ESPP") and Energy, Environmental and Technical Services ("EETS") Departments. The ESPP Department provides protective device settings for the Plant's electrical equipment and miscellaneous technical support. The cost of this support is approximately \$100,000 per year. The EETS Department provides ANSI N45-2.11 Level III Non Destructive Examination support by establishing training requirements and qualifying certified inspectors. Costs associated with this service are approximately \$1 million per year. As noted in Chapter 9, *Terms of Transaction*, these services may be available to a winning Bidder on a transitional basis.

4.8 On-going Contractor Usage

NMC uses contractors at Palisades to augment Plant staffing on a limited basis where appropriate to improve service quality and control costs. In December 2005, NMC utilized full- and part-time contractors to perform various tasks including site security, telephone connections, and engineering support. Approximately 150 of these contractors were at Palisades more than half the year. Major contracts are listed in Table 4-5 below.

Table 4-5: Palisades Major Contracts

Contractor	Services Provided
BCP Tech Services	License Renewal
The Wackenhut Corp.	Contracted security force
GCA Nuclear Facility	Janitorial services
The Atlantic Group	Temporary trade support

Site security represents the area with the most significant contractor use. The Wackenhut Corporation utilizes 119 contractors to provide site security and fire brigade services.

4.9 Outage Management and Contractor Usage

During scheduled Plant outages the use of contractors to complete projects increases the Plant workforce by more than 900. The 2006 refueling outage is scheduled to begin on April 2, 2006 and

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includes several large projects (e.g., replacement of start-up transformer, replacement of pressurizer shed fan motors, replacement of feedwater pump, condensate pump motor refurbishment, a service water pump rebuild, ten year in service inspections, and reactor vessel head inspections). As a result, the 2006 refueling outage is expected to require 959 contractors.

4.10 Health and Welfare Programs

NMC and Consumers provide employees at Palisades with a comprehensive package of health and welfare benefits which are summarized in Table 4-6. Generally, Consumers' bargaining unit employees have their choice of two preferred provider organizations ("PPO") plans from Aetna, Inc. and Blue Cross Blue Shield of Michigan. NMC provides non-bargaining unit employees their choice of several PPO plan options or an indemnity option. Each of these plans is provided through Aetna, Inc.

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Table 4-6: Health and Welfare Program Summary

	NMC Non-Bargaining	Consumers UWUA Local 150
Medical Plans	80% NMC/ 20% Employee Contribution with fixed monthly premium	100% Consumers Contribution for PPO Plans
Dental Plan	80% NMC/ 20% Employee Contribution	100% Consumers Contribution
Vision Plan	Included in medical plan	Voluntary
Employee Assistance Plan	Offered	Offered
Flexible Spending Accounts	Health and Dependent Care	Health and Dependent Care
Life Insurance	Basic Life, Accidental Death & Dismemberment, and Business Travel coverage equal to 150% of employees' eligible pay. Supplemental life, dependent life and A,D,D are offered	\$40,000 Basic Coverage, and Business Travel Insurance Also offer dependent & supplemental coverage
Short/Long-Term Disability	STD <ul style="list-style-type: none"> • 100% of pay for first 13 weeks • 70% of pay for second 13 weeks LTD <ul style="list-style-type: none"> • 60% of pay for duration of disability with the option of a 10% buy-up 	STD <ul style="list-style-type: none"> • Straight-time pay based upon service schedule – range is 30 full days/ 30 half days @ 6 months to 100 full days/ 100 half days @ 25 years LTD <ul style="list-style-type: none"> • None
Paid Time Off/Vacation	<1 year of service 1 day/month 1-4 years of service 17 days 5-10 years of service 22 days >10 years of service 22 days + 1 day for each additional year of service	1-5 yrs of service 2 weeks 6-13 yrs of service 3 weeks 14-21 yrs of service 4 weeks 22+ yrs of service 5 weeks
Holidays	8 “fixed” holidays 3 “personal” days	11.5 “fixed” holidays 2 “personal” days
Tuition Reimbursement	80% of eligible expenses Maximum of \$5250/year	Up to 90% of eligible expenses Maximum of \$5250/year

Additionally, there are less than 50 site employees who elected to retain coverage under Consumers’ legacy HMO Plan. NMC assumed sponsorship of the Plan upon the employees’ transfer to NMC in July 2001. These employees contribute 20 percent to the Plan premiums. The HMO plans are limited to those employees currently covered and are administered by Blue Cross Blue Shield of Michigan and Priority Health Corporation. Copies of these HMO plans are available to Bidders in the Human Resources Folder in the Virtual Document Room.

CHAPTER 4. WORKFORCE

4.11 Pension and Retirement Programs

In July 2001, Consumers transferred all non-bargaining unit Plant employees to NMC as part of the Nuclear Power Plant Operating Services Agreement signed in 2000, while retaining all bargaining unit employees. Transferred employees were given the choice of maintaining Consumers' Defined Benefit Final Average Pay Pension Plan ("DBFAP") and, if eligible, post-retirement healthcare and life insurance plans or selecting from NMC's 401(k) savings plan and Money Purchase Plan. NMC employees at the Plant hired after July 8, 2001 are only eligible to participate in the NMC retirement plans. Similarly, Consumers bargaining unit employees hired after August 31, 2005 automatically participate in the Consumers Defined Company Contribution Plan ("DCCP") and are excluded from participating in Consumers' DBFAP. The employer contribution to the DCCP is fully vested after 90 days of employment. The various pension plans available to NMC and Consumers employees at Palisades are identified in Table 4-7 and Table 4-8 below.

Table 4-7: Employees at Palisades: Pension Plan Participation

	Non-Bargaining Unit	Bargaining Unit	Total
Consumers DBFAP for Salaried Employees	144		144
Consumers DBFAP for UWUA Employees		114	114
Consumers DCCP UWUA Employees		5 ¹³	5
NMC Money Purchase Plan	212		212
Total Palisades Employees	356	119	475

¹³ Includes four Bargaining Unit Employees, who become eligible in April, 2006.

CHAPTER 4. WORKFORCE

Table 4-8: NMC Employees Expected to Transfer with Palisades: Pension Plan Participation

	Non-Bargaining Unit
Consumers DBFAP for Salaried Employees	11
NMC Money Purchase Plan	9
Total	20

An NMC-sponsored 401(k) Savings Plan is available to all NMC employees at Palisades. Employees may contribute up to 5 percent of their eligible pre-tax pay to the 401(k) Savings Plan. NMC matches 100 percent of the first 3 percent contributed and 50 percent of the next 2 percent contributed for a total of up to 4 percent of an employee's eligible pay. Employees are vested in the 401(k) plan on their date of hire. On January 17, 2006 NMC consolidated its retirement plans into a single 401(k) plan. Nonetheless, funds previously vested under NMC's Money Purchase Plan continue to be a funding source of the new, consolidated plan.

Additionally, all Consumers bargaining unit employees are eligible to participate in a Consumers sponsored 401(k) savings plan. Under this plan Consumers matches 60 percent of the first 6 percent contributed by each employee. Employees in the 401(k) savings plan are vested in the plan on a graduated basis over six years of service. Key features of the plans are outlined in Table 4-9.

CHAPTER 4. WORKFORCE

Table 4-9: Pension Plan Summary

	NMC Money Purchase Plan and Medical Plans	Consumers DBFAP and Medical Plans for salaried employees	Consumers DBFAP and medical plan for Bargaining-Unit Employees	Consumers' DCCP and Medical Plan for Bargaining Unit employees
Participants	NMC Salaried Employees who are not eligible or have elected not to participate in the Consumers' Final Average Pay Plan	NMC Salaried employees who are eligible and have elected to retain the Consumers' Final Average Pay Plan.	Bargaining unit employees hired before September 1, 2005 with 10 years of service.	Bargaining unit employees hired after August 31, 2005.
Type of Plan	Defined Contribution	Defined Benefit	Defined Benefit	Defined Contribution
Pension Benefit Calculation (overview)	5% of base salary. Fully vested after 3 years ¹⁴ .	Formula	Formula	5% of base salary. Immediately vested.
Post-Retirement Medical Benefits	Access Only	Retirees hired before January 1, 1991 with 10 years of service at retirement receive same benefit as active employees. Otherwise reduced via a formula. All retirees with 10 years of service also receive \$7,500 of life insurance coverage.	Retirees hired before June 1, 1992, with 10 years of service at retirement receive same benefit as active employees. Otherwise reduced via a formula. All retirees with 10 years of service also receive \$7,500 of life insurance coverage.	Retirees with 10 years of service at retirement receive same benefit as active employees, but with an employee contribution calculated based on the employee's service at retirement. All retirees with 10 years of service also receive \$7,500 of life insurance coverage.

Consumers' bargaining unit employees hired after May 31, 1992 may participate in the Consumers' retiree healthcare plan if they pay a contribution based on their years of service at retirement. Similarly, NMC salaried employees who were hired after December 31, 1990 and have elected to maintain their Consumers' retirement benefits may pay a contribution based upon their age and

¹⁴ It should be noted that an employee shall become fully vested in the NMC's money purchase fund following a change of control.

CHAPTER 4. WORKFORCE

years of service at retirement. The applicable Consumers and NMC benefit plans are available to Bidders in the Human Resources Folder in the Virtual Document Room.

4.12 Labor-Related Costs

Table 4-10 provides detail regarding site-related labor costs for Palisades.

Table 4-10: Palisades Site Labor Costs (\$, millions)¹⁵

	2003 Actual	2004 Actual	2005 Actual
Salaries	30.28	39.30	26.06
Overtime	5.67	4.26	2.61
Direct Labor	7.33	7.46	6.73
Incentives	2.91	1.27	3.42
Severance	0.15	0.02	0.07
Vacation	7.22	7.03	5.98
Benefits (Health, Pension, 401K, etc.)	11.22	10.55	10.03
Other	0.07	0.05	0.03
Payroll taxes	3.87	3.51	3.15
Total Operator Labor	\$67.72	\$63.45	\$58.08

NMC staff at Palisades generally work on Palisades O&M and capital activities. Nonetheless, the NMC staff at Palisades charges a small amount of time to other NMC projects or sites, as shown in Table 4-11.

¹⁵ Costs do not reflect approximately \$2.5 million associated with NMC headquarters employees who are expected to transfer with the Plant.

CHAPTER 4. WORKFORCE

Table 4-11: Palisades Site Labor Work Profile (\$, millions)

	2003 Actual	2004 Actual	2005 Actual
O&M	61.66	56.72	48.45
Capital	2.27	1.71	3.45
Charged Out to NMC Work	0.71	0.49	2.00
Total Operator Labor	\$64.63	\$58.92	\$53.90

In addition to site labor costs, Palisades is directly charged or allocated labor costs from NMC headquarters (Table 4-12). Labor costs can be directly charged by staff from NMC headquarters or at other operated sites. However, most of the labor charges are allocated to Palisades as a result of NMC headquarters support activities.

Table 4-12: Support Labor Costs for Palisades from NMC (\$, millions)

	2003 Actual	2004 Actual	2005 Actual
Direct Labor Charges (from NMC HQ or other Sites)			
O&M	2.52	1.72	0.91
Capital	0.06	0.63	0.75
Total	2.58	2.35	1.66
Allocated NMC HQ O&M (allocated expense)	0.93	0.77	0.90
Total Support Labor	\$3.51	\$3.12	\$2.56

CHAPTER 5. NMC OVERVIEW

5.1 Overview of NMC

On behalf of its owners, NMC is committed to nuclear excellence by focusing its operations on safe, reliable and economic nuclear generation. NMC operates each plant on behalf of the utility affiliates of its respective owners pursuant to Nuclear Power Plant Operating Services Agreements. NMC charges costs that are attributable to a specific plant to the utility affiliate owner of that plant; it apportions other costs in accordance with the NMC governing documents. Each utility continues to own and market the power produced by its individual unit(s) and is responsible for operating and maintenance costs and capital expenditures for its unit(s).

5.2 Management Organization and Workforce Highlights

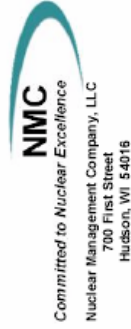
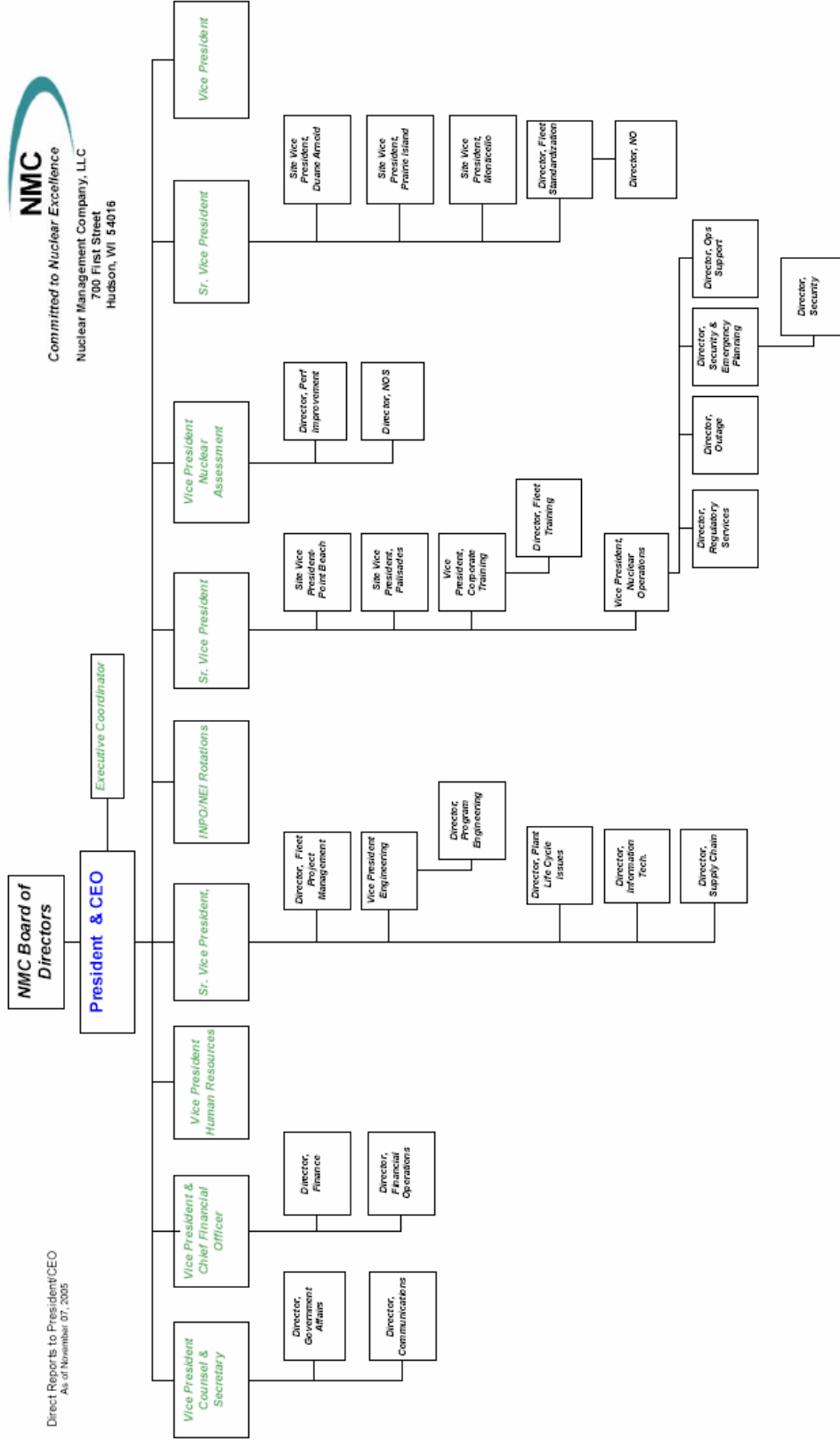
Reporting to a Board of Directors, which is comprised of a representative from each owner, NMC provides strategic direction and oversight for the site-based employees. Each utility affiliate has a designated contracting owner representative, commonly referred to as an asset manager, who is employed by the utility owner to oversee NMC operations and act as a liaison for the utility owner.

NMC's headquarters staff performs a number of site services including: Assessment, Nuclear Fuel Services, Information Technology, Nuclear Oversight, Supply Chain, Program Engineering, Security, Operations, Regulatory Services, Corporate Training, Engineering Support, Outage Services, Emergency Planning, Radiological Protection, Employee Concerns Program, Plant Life Cycle, Standardization, Procurement, and Project Management. In addition, NMC provides Administrative & General support including: Accounting & Finance, Administrative Services, Business Development, Communications, Executive Management, Human Resources, Government Affairs, Public Affairs, and Customer Relations. Finally, NMC provides support for Capital Projects such as high level waste projects.

Figure 5-1 below provides a current organization chart for NMC.

CHAPTER 5. NMC OVERVIEW

Figure 5-1: NMC Organization Chart



Direct Reports to President/CEO
 As of November 07, 2005

CHAPTER 5. NMC OVERVIEW

5.3 Performance Improvement Opportunities and Performance Measures

NMC has identified a number of performance improvement opportunities across the fleet of nuclear plants that it operates. Some of NMC’s strategies include: reduce costs of overall operations, create a services company to consolidate inventory, equipment, and services, jointly manage decommissioning funds, create a decommissioning fund insurance company, and accomplish plant life extension through license renewal. Chapter 3, *Operational and Financial Performance*, identifies NMC performance improvement initiatives specific to Palisades.

NMC establishes site-based performance metrics for each plant that it operates. Table 5-1 below depicts NMC’s target performance indicators for Palisades.

Table 5-1: Palisades Target Performance Indicators

Measures	
INPO Index	≥ 77.4
Days Between OSHA Recordable Events	≥ 122 days
External/Independent Assessments validate Internal assessments	< 20%
Unscheduled Effective Full Power Days < 100% Power	≤ 0.46 Days per month
Employee Communication	> 6.5 Index
Total O&M Costs	< \$96 M
Capital Costs	< \$29.97 M
Licensee Event Reports (Human Performance Related)	≤ 2
Submittal Quality	≥ 90%
Refueling Outage	All Milestones Met
Succession Planning	Execution in accordance with plan
Standardization	Fleet initiatives completed

5.4 Nuclear Regulatory Affairs

As the licensed operator for Palisades, NMC is responsible for all facets of interface with the NRC. As agent for Consumers, NMC is responsible for ensuring site compliance with regulatory requirements. The NMC Regulatory Affairs Department is actively involved in and supportive of plant operations and operational decisions and represent the plants before the NRC staff providing

CHAPTER 5. NMC OVERVIEW

guidance, products, and coordination of regulatory activities to improve regulatory margin and performance with the proper focus on safety, quality and cost effective operations.

5.5 Contracts and Insurance

In its role as the operator of Palisades, NMC takes an active role in negotiating major contracts for fleet-wide services. These contracts include fuel and fuel-related services, outage support, and virtually every aspect of nuclear plant operations. Through its fleet contracting capability and general operating and management services, NMC manages most of the major contracts for Palisades. Consumers will make available in either the Physical or Virtual Document Room the specific contracts affecting Palisades. To the extent possible, Consumers plans to assign or transfer all fuel and non-fuel contracts to the Buyer.

NMC holds the following insurance policies as a nuclear operating company:

Table 5-2: Insurance Policies – NMC

Type	Limits
Excess Liability /EPLI	\$35 million
EPLI	\$1 million
D&O	\$10 million
Fiduciary	\$5 million
Crime	\$5 million
Property – Hudson	\$6.2 million – Building 1 \$361,000 – Building 2 \$1.6 million – Contents 1 \$160,000 – Contents 2
Property – Flood/Quake	\$5 million
Non-Owned Aircraft	\$10 million
Worker's Compensation	Statutory
Worker's Comp (Employer's Liability)	\$1 million

Consumers will make available Certificates of Insurance in the Virtual Document Room.

CHAPTER 6. BIG ROCK

6.1 Overview

In addition to acquisition of Consumers' ownership interest in Palisades, Bidders in this auction process will have an opportunity to acquire Consumers' Big Rock ISFSI and associated land located at its Big Rock Point ("BRP") site. As discussed in Chapter 1, *Executive Summary*, a principal objective of this auction process is to minimize the costs and risks to Consumers' customers associated with the ownership of nuclear assets, including the Big Rock ISFSI. Upon the sale of Palisades and the successful decommissioning of the BRP site, the Big Rock ISFSI would remain as Consumers' sole nuclear power-related asset. Accordingly, Consumers is exploring the opportunity to exit completely the nuclear power sector by offering Bidders the opportunity to acquire and operate the Big Rock ISFSI.

As discussed below, Consumers plans to divide from the 630 acre BRP site an approximately 100 acre parcel on which the Big Rock ISFSI and associated security control area is located. Consumers is offering for sale the 100 acre Big Rock ISFSI property and the Big Rock ISFSI itself, including the Spent Nuclear Fuel ("SNF"), dry casks and pad, associated structures, contracts, etc. through this auction process.¹⁶ In addition to owning the 100 acre parcel, the new owner of the Big Rock ISFSI will assume liability for storing the SNF and other nuclear waste, operating the Big Rock ISFSI and, after moving the SNF and other nuclear waste to an off-site storage facility, decommissioning the Big Rock ISFSI. Please note that this asset is being offered on an optional basis from Palisades; those Bidders wishing to submit bids for the Big Rock ISFSI will be required to provide separate pricing for the Big Rock ISFSI asset.

6.2 Big Rock

The approximately 630 acre Big Rock Point site is located in Charlevoix County, Michigan, on the northern shore of Michigan's Lower Peninsula. In 1963, Consumers brought on-line the Big Rock

¹⁶ For clarification, Consumers does not plan to offer for sale the remaining portion of the BRP site in this auction.

CHAPTER 6. BIG ROCK

Point Nuclear Plant (“Big Rock Nuclear”), an approximately 75 MW Boiling Water Reactor designed by General Electric Company. Consumers shut Big Rock Nuclear down permanently in 1997 after research suggested that the small size of the unit and the newly deregulated market would make continued operation uneconomical.

Figure 6-1: Big Rock ISFSI

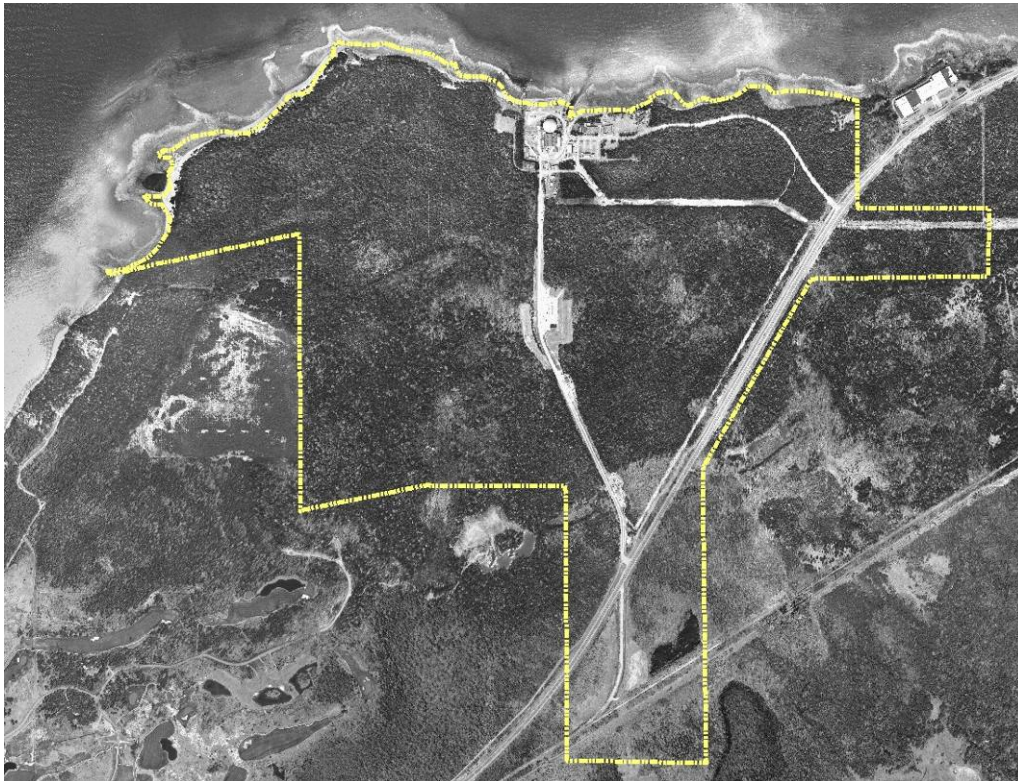


Following the shutdown of Big Rock Nuclear, Consumers notified the NRC of its decision to begin the site decommissioning process. From November 2002 through March 2003, Consumers removed used fuel bundles from Big Rock Nuclear and placed them in an ISFSI located on the BRP site. The Big Rock ISFSI consists of eight dry cask containers that stand in a secure, fenced, and monitored location comprising approximately 30 acres of the BRP site.

CHAPTER 6. BIG ROCK

Figure 6-2 provides an aerial photograph of the BRP site.

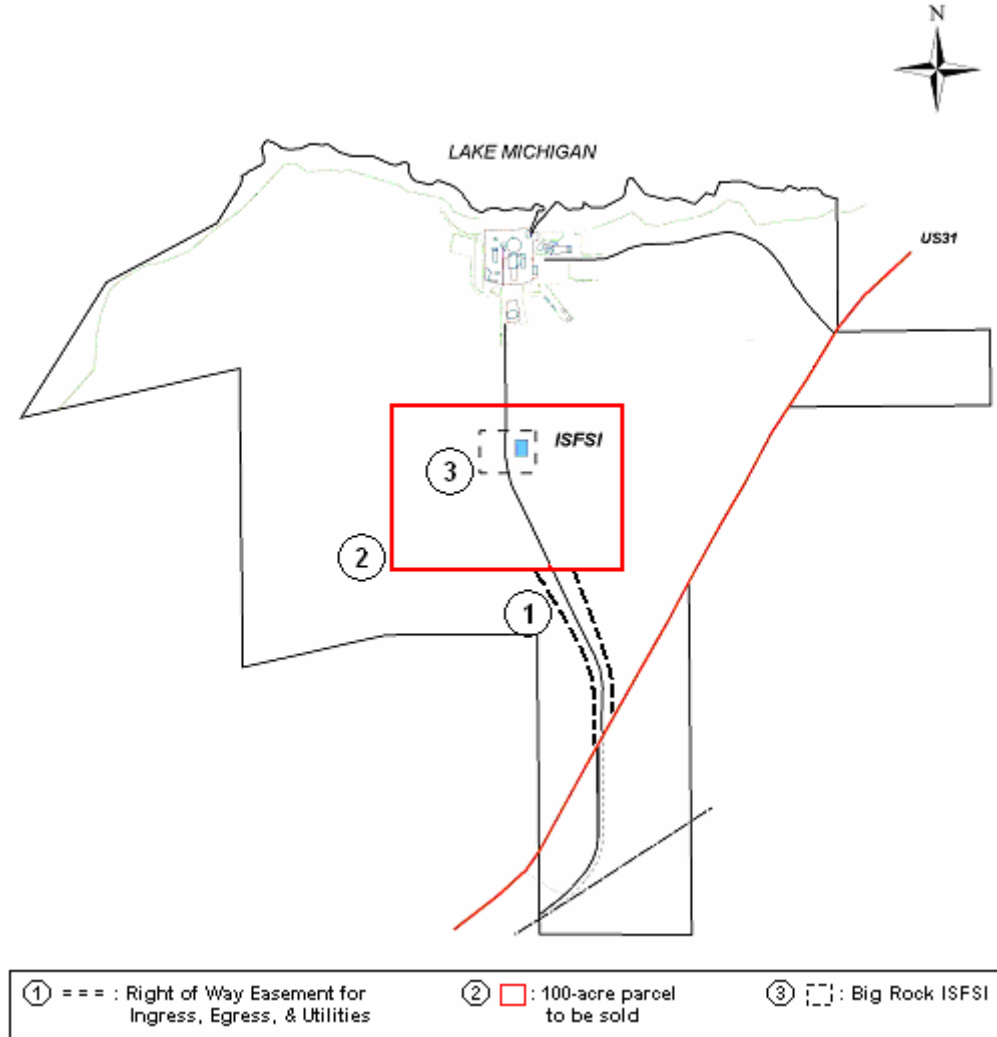
Figure 6-2: BRP Site



CHAPTER 6. BIG ROCK

Figure 6-3 depicts the BRP Controlled Area and the approximate location of the parcel to be sold and the Big Rock ISFSI.

Figure 6-3: BRP Controlled Area and Big Rock ISFSI Location



The Big Rock Certificate of Boundary Survey can be found in the Big Rock Folder in the Virtual Document Room.

CHAPTER 6. BIG ROCK

Consumers shipped the reactor vessel and vessel head offsite in 2003. Currently, Consumers is completing the demolition and removal of the Big Rock Nuclear buildings and structures, as well as a final site radiological survey, and expects to complete decommissioning the site by the end of 2006. The Big Rock ISFSI will remain on the BRP site until the SNF and other nuclear waste is transferred off-site to the U.S. Department of Energy (“DOE”) or other licensed storage facility.

Consumers operates the Big Rock ISFSI in accordance with the terms of NRC Operating License DPR-6 (the “Operating License”), issued in NRC Docket No. 50-155, and in accordance with the terms of an NRC general license under 10 CFR 72 issued in NRC Docket No. 72-043. Consumers applied for and received NRC approval of a plan (the “License Termination Plan”) for decommissioning both the Big Rock Nuclear site and the Big Rock ISFSI in those dockets. Upon completion of the License Termination Plan, the land and structures not needed for the Big Rock ISFSI or Big Rock ISFSI-related purposes as determined by the NRC pursuant to 10 CFR 72, would no longer be restricted by the conditions imposed under the Operating License. However, Consumers has not instituted a proceeding to formally terminate the Operating License and convert the Part 72 License into a Big Rock ISFSI-only license.

BNG Fuel Solutions (formerly BNFL Fuel Solutions) designed and fabricated the dry cask storage system components and holds the NRC Certificate of Compliance (Certificate number 1026, expiration date 2/15/21) for this storage system. The storage system design utilizes Fuel Solutions W74 canisters and W150 storage casks supported by a W100 transfer cask and auxiliary equipment. An additional modified W74 canister with a W150 storage cask holds Greater than Class C radioactive material that was formerly part of the reactor core upper grid structure. The fuel storage system canisters are designed and licensed to be transportable. The eight casks and transfer cask sit on a 75’x99’ reinforced concrete pad within a protected area. Adjacent to the pad is a 40’x60’ pole building used to store auxiliary and support equipment. Earthen berms surround the pad and building. The Big Rock ISFSI operations center is located to the South of the pad. Details of the NRC approved security facilities and procedures are safeguarded information.

CHAPTER 6. BIG ROCK

The Seller has commissioned an ASTM Phase 1 study for the Big Rock ISFSI and the 100 acre parcel of land on which it resides. This study is being done in conjunction with the ASTM Phase 1 study for Palisades. Both studies will be completed by the end of February 2006.

Table 6-1 contains an estimate prepared for Consumers in 2004 (in year 2003 constant dollars) of annual “To Go” costs to operate and decommission the Big Rock ISFSI from 2006 through 2012 (year assumed for Big Rock ISFSI decommissioning). Included in this table are direct costs associated with Big Rock ISFSI engineering, licensing, construction, dry fuel storage system licensing and procurement, Big Rock ISFSI operations until the SNF and other nuclear waste is transferred to the DOE (assumed to be completed in 2012), Big Rock ISFSI decommissioning costs, and allocated corporate overhead services. Table 6-1 includes Consumers’ current estimate of labor costs to operate and decommission the Big Rock ISFSI, which reflect the current mix of both Consumers employees and contract labor. By the time of a sale to a new owner, Consumers expects that it will have two full-time supervisor (exempt) positions at the Big Rock ISFSI, with the remainder of the Big Rock ISFSI workforce consisting of contract labor responsible for security and inspection support.

Table 6-1: To Go Big Rock ISFSI Costs (in 2003 Constant Dollars)

Category	2006	2007	2008	2009	2010	2011	2012	TOTAL
ISFSI Operations Staffing	1,286,054	1,439,336	1,439,335	1,439,335	1,439,335	1,439,335	758,426	9,241,156
Insurance & Taxes	233,581	235,131	236,691	238,270	239,861	241,471	243,098	1,668,103
Fixed Overheads	195,696	220,696	160,696	160,696	185,696	160,696	160,706	1,244,882
License Termination	0	0	0	0	0	0	2,413,002	2,413,002
Site Restoration	0	0	0	0	0	0	326,001	326,001
NRC ISFSI Fees	360,000	360,000	360,000	360,000	360,000	360,000	360,000	2,520,000
TOTAL	\$2,075,331	\$2,255,163	\$2,196,722	\$2,198,301	\$2,224,892	\$2,201,502	\$4,261,233	\$17,413,144

CHAPTER 6. BIG ROCK

A 2004 decommissioning cost study estimates that by 2012 Consumers will have incurred total costs of \$69.7 million (2003 constant dollars) to construct, operate, and decommission the Big Rock ISFSI (i.e., actual costs incurred to date plus estimated future costs from Table 6-1). Consumers' costs to construct and operate the Big Rock ISFSI and other SNF related costs fall outside the NRC definition of site decommissioning. However, since Consumers' Big Rock ISFSI costs fully result from DOE's failure to accept the BRP SNF and other nuclear waste, Consumers is attempting to recover its accrued costs to build and operate the Big Rock ISFSI through litigation against DOE in the United States Court of Claims.

Big Rock Nuclear and Palisades are both covered by a single nuclear waste disposal contract (the "DOE Contract") between Consumers and DOE. Consumers has asserted that DOE has failed to meet its obligations under that contract. In an April 29, 2005 decision, the Court of Claims has held that DOE "breached its duty" under the DOE Contract and is liable for such failure. The Court of Claims, however, granted DOE's motion to offset Consumers' liability for the pre-1983 SNF disposal fee against any award of damages in Consumers' favor.¹⁷ At present, however, the DOE litigation is being held in abeyance to allow for settlement discussions between Consumers and DOE. Those discussions are ongoing. Prior to closing, Consumers will take any and all actions necessary to preserve its rights under the DOE Contract and in the DOE litigation to the extent that those rights are not assigned to a purchaser.

6.3 Terms of Transaction

This section provides a summary of the principal commercial terms pursuant to which Bidders are invited to bid to acquire the Big Rock ISFSI. In April 2006, the Seller will distribute draft Transaction Documents, including the Asset Sale Agreement ("Big Rock ISFSI ASA") and ancillary agreements regarding easements necessary for the storage and shipment of spent nuclear fuel at the

¹⁷ Consumers believes that the holding regarding the pre-1983 fee is in error.

CHAPTER 6. BIG ROCK

Big Rock ISFSI site. Bidders are expected to provide their Binding Bids based on the final Transaction Documents.

6.3.1 Asset Boundaries

Consumers plans to divide approximately 100 acres of land, including the Big Rock ISFSI site and security-controlled land, from the larger BRP site and will make the divided parcel available for sale to the Buyer. See Figure 6-3.

6.3.2 Workforce Terms

The Seller expects that, at the time of the transaction, the Buyer will require the management workforce for the Big Rock ISFSI site (expected to be two full-time employees) to operate the ISFSI in a safe and reliable manner. The Seller will require the Buyer to offer employment for no less than 18 months, including comparable salary and benefits, to management employees employed at the Big Rock ISFSI at the time of the sale.

6.3.3 Decommissioning Terms

The Buyer will assume the obligation for 100 percent of the cost of (i) long term storage of spent nuclear fuel at the Big Rock ISFSI, (ii) decommissioning the Big Rock ISFSI in accordance with NRC regulations sufficient for termination of the NRC license, and (iii) restoring the Big Rock ISFSI site to a greenfield condition similar to its original condition at such time as the site is no longer used for storage of spent nuclear fuel. Other decommissioning terms include the following:

- Buyer will be responsible for the ongoing obligations to maintain the Big Rock ISFSI as a SNF and other nuclear waste storage site in accordance with the applicable NRC license,
- Buyer will decommission the Big Rock ISFSI site to a greenfield standard, consistent with the approved NRC License Termination Plan, upon the final transfer and disposition of the SNF and other nuclear waste,

CHAPTER 6. BIG ROCK

- Seller may consider providing annual support payments in connection with the maintenance and decommissioning of the Big Rock ISFSI site to the extent that the Buyer of the Big Rock ISFSI site is not the Buyer (or affiliated with the Buyer) of Palisades. Such support payments would be conditional upon approval by the MPSC in a form that is acceptable to Consumers,
- Buyer will indemnify the Seller or provide financial assurance in a form and amount satisfactory to the Seller, for claims or damages resulting from the storage, or transfer of SNF and other nuclear waste, or the decommissioning of the Big Rock ISFSI site, and
- Consumers, for itself or its designee, will reserve rights, e.g., a right of first refusal, with respect to a sale by the Buyer of the 100 acre parcel after completion of the decommissioning and release of the Big Rock ISFSI site by the NRC, at a price to be determined in the manner agreed to by the parties in the Big Rock ISFSI ASA.

6.3.4 Spent Nuclear Fuel

- The Seller will retain all rights against DOE relating to pre-closing damages resulting from DOE's failure to accept or avoid delay in the acceptance of spent nuclear fuel pursuant to the DOE Contract. The Seller will transfer to the Buyer the right to any claim for post-closing damages to the full extent allowed by the Nuclear Waste Policy Act of 1982. In addition, the Seller will retain any rights and obligations associated with the pre-1983 fee,
- To the extent that the Buyer of the Big Rock ISFSI is not the Buyer (or affiliated with the Buyer) of Palisades, the parties will develop a mutually-acceptable allocation of such post-closing rights and obligations, and
- Buyer will not store any spent nuclear fuel, other than that generated at Big Rock Nuclear. Big Rock spent nuclear fuel may be moved to Palisades or an out-of-state licensed facility at Buyer's expense if all appropriate approvals are obtained.

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6.3.5 Environmental

The Buyer will be required to assume all pre- and post-closing environmental liabilities and obligations associated with the Big Rock ISFSI and associated assets, except the limited liabilities specifically retained by the Seller in the Big Rock ISFSI ASA and will be required to indemnify and hold harmless the Seller from and against such assumed liabilities. The Buyer's assumed liabilities will include, but not be limited to, the following:

- Buyer will be required to assume all pre- and post-closing liabilities for waste stored at the Big Rock ISFSI, and
- The Buyer will be required to assume all pre- and post-closing liabilities for radiological and non-radiological waste shipped off-site.

Consumers is preparing an ASTM Phase 1 study for the Big Rock ISFSI and expects to make it available to Bidders in late February. Consumers does not anticipate commissioning an ASTM Phase 2 study.

6.3.6 Taxes

The Buyer will be subject to various state, local, and potentially federal taxes as a result of the contemplated Transaction. At the time of sale, the Buyer will assume full responsibility for these tax obligations accruing from and after the closing date, including all transfer taxes attributable to the closing of the Transaction. The Seller will remain responsible for all taxes accrued prior to sale and will be entitled to any tax rebates or refunds, which relate to the pre-closing period.

6.3.6.1 *Property Taxes*

The County Charlevoix, Hayes Township, and various authorities within these jurisdictions assess taxes against the value of the property. A Michigan state education tax is also assessed against the value of the property. The total mill rate for all of these entities is assessed against the "Taxable Value" of the Big Rock ISFSI. The mill rate was

CHAPTER 6. BIG ROCK

39.6746 mills for 2005. A more detailed description of the property tax and the method of valuation and assessment is contained in Chapter 3, *Operational and Financial Performance*, of this Offering Memorandum

6.3.6.2 Michigan State Taxes

State taxes which apply to the Big Rock ISFSI site are the Single Business Tax (SBT) and the Sales Tax. The SBT in Michigan is a form of Value Added Tax and is in lieu of any state corporate income tax. All business entities are subject to this tax. The 2005 SBT rate was 1.9 percent. The state Sales Tax rate in Michigan is 6 percent. A more detailed description of the SBT and the state sales tax is contained in Chapter 3, *Operational and Financial Performance*, of this Offering Memorandum. It is the Buyer's responsibility to determine all of the potential taxes that may apply to the Big Rock ISFSI under the Buyer's ownership, including methods of assessment that may take into account the Buyer's operations outside of Michigan.

6.3.7 Financing and Other Contingencies

The Seller will not accept Final Bids contingent upon Bidders' internal approvals or financing contingencies.

6.3.8 Regulatory Requirements

The NRC governs the safety and operation of United States nuclear reactors and storage of nuclear waste and has jurisdiction over Big Rock's Operating License. The Seller is responsible for compliance with applicable nuclear safety laws and regulations. Any transfer of ownership and/or NRC license will be subject to NRC approval under 10 C.F.R. 50.80 and 10 C.F.R. 50.72. Other required NRC approvals may include the transfer of nuclear materials licenses, conforming license amendments, and any disbursement of funds from the nonqualified decommissioning trusts. Consumers expects to seek all such NRC approvals in the same application and receive such approvals simultaneously in the same NRC order. In

CHAPTER 6. BIG ROCK

addition, Consumers will require approval of the Transaction by the MPSC in a form that is satisfactory to Consumers.



CHAPTER 7. REGULATORY AND OTHER REQUIRED APPROVALS

7.1 Overview

Consumers expects the sale of Palisades to be subject to approval by the following agencies:

- Nuclear Regulatory Commission (“NRC”),
- Federal Energy Regulatory Commission (“FERC”),
- Michigan Public Service Commission (“MPSC”), and
- Various other regulatory bodies (e.g., the Securities and Exchange Commission (“SEC”), Federal Trade Commission (“FTC”), and, as to certain facilities, the Federal Communications Commission (“FCC”).

The following sections provide a more detailed discussion of the key regulatory requirements. Chapter 9, *Terms of Transaction*, also describes Consumers’ required regulatory approvals for the Palisades sale.

7.2 NRC Requirements

The NRC governs the safety and operation of United States nuclear reactors and has jurisdiction over Palisades’ operating license. The Seller, and the NMC on its behalf, is responsible for compliance with applicable nuclear safety laws and regulations. NMC operates Palisades under Operating License DPR-20. Any transfer of Palisades’ ownership and/or operating license will be subject to NRC approval. Other required NRC approvals may include the transfer of nuclear materials licenses, conforming license amendments, and any disbursement of funds from the nonqualified decommissioning trusts. Consumers expects that all of these NRC approvals will be sought in the same application and obtained simultaneously in the same NRC order. Federal regulations and the Decommissioning Trust Agreement require that, with limited exceptions, notice be given to the NRC at least 30 working days before disbursement or payment from a trust which is being used to provide financial assurance.

7.3 FERC Requirements

Any Transaction involving Consumers’ ownership interest in Palisades will be subject to certain FERC approvals, including approval of the transfer of an “existing generating facility” under Section

CHAPTER 7. REGULATORY AND OTHER REQUIRED APPROVALS

203 of the FPA. Consumers and Buyer will require FERC approval under Section 205 of the FPA for the LGIA, NPOA, PPA, and any other jurisdictional agreements. In addition, a limited portion of decommissioning funding is FERC-jurisdictional.

7.4 State Regulatory Considerations

Consumers falls under the jurisdiction of the MPSC, which regulates Consumers' retail activities in Michigan including rate treatment of costs associated with Palisades. A sale of Palisades would require specific MPSC approval of the PPA and satisfaction of the requirements imposed in the 2000 order securitizing Consumers' investment in Palisades ("Securitization Order").¹⁸

With regard to the PPA, 1982 PA 304 (MCL 460.6j) requires that, in a power supply cost recovery reconciliation, the MPSC must "[dis]allow recovery of any capacity charges associated with power purchased for periods in excess of six months unless the utility has obtained the prior approval of the commission." In light of this provision, Consumers will apply to the MPSC for prior approval of the PPA.

With regard to the Securitization Order, the MPSC held that "should Consumers elect to sell Palisades, any profit arising from the plant's treatment as a regulatory asset designated for securitization must be passed on to the utility's customers." In particular, the MPSC held that "if Consumers sells Palisades for more than its book value following the Plant's treatment as a regulatory asset, or if the utility itself is purchased, Consumers (or its successor utility) shall immediately initiate a proceeding designed to compute and promptly return to the utility's ratepayers all economic benefit arising from Palisades' treatment as a regulatory asset. Similarly, if Consumers (or any successor utility) seeks to abandon Palisades subsequent to its being treated as a regulatory

¹⁸ October 24, 2000 Order in MPSC Case No. U-12505 authorized CECo to "securitize" Palisades' investment (net of depreciation) estimated as of December 31, 2000.

CHAPTER 7. REGULATORY AND OTHER REQUIRED APPROVALS

asset, the utility must first initiate a contested case proceeding to evaluate the effect of the proposed abandonment on its customers.”

Consistent with the Securitization Order, Consumers will make one or more filings that fully inform the MPSC of any proposed Transaction involving Palisades, fully explain the impact on rates, and seek approval of the disposition of the proceeds from the sale and the inclusion of PPA costs in rates. Completion of the Transaction will be subject to approvals being received from the MPSC in a form acceptable to Consumers.

Consumers anticipates that it will address the following matters, among others, in MPSC filings involving Palisades:

- The nature and detailed terms of the proposed transfer of ownership of Palisades and its impact on retail rates,
- The PPA pricing, terms and conditions, including future rate recovery thereof, associated with the Transaction,
- The disposition of net proceeds resulting from the Transaction,
- The transfer and/or disposition of assets from Consumers’ decommissioning funds and the dissolution of the Master Trust Agreement,
- How the Total Transaction Value (“ITV”) and risk profile compares against the Palisades Cost of Continued Ownership (“CCO”) and its associated risk profile; Consumers anticipates being able to provide clear and compelling evidence of customer benefit from the Transaction when PPA terms, decommissioning terms, purchase price, and risk transfer considerations are fully considered and compared against the CCO, and
- The treatment of decommissioning-related liabilities and funds (both transferred and retained).

7.5 Other Regulatory and Approval Considerations

In addition to the approvals described above, a sale of Palisades would also be subject to the jurisdiction and approval of the following regulatory bodies:

CHAPTER 7. REGULATORY AND OTHER REQUIRED APPROVALS

- FTC – Hart-Scott Rodino (“HSR”) Act notification,
- Internal Revenue Service (“IRS”) – private letter rulings (“PLRs”) regarding the treatment of Qualified Decommissioning Trust Funds will be sought. However a PLR is not currently expected to be a closing condition, and
- Federal Communications Commission (“FCC”) – As to certain facilities which are currently licensed by the FCC, approval from the FCC must be obtained for a transfer of those licenses.

We note that, due to repeal of PUHCA 1935 effective February 8, 2006, no approval from the SEC will be required under that statute.

CHAPTER 8. MIDWEST MARKET DESCRIPTION

8.1 Overview of the Midwest Market

The Midwest Independent Transmission System Operator, Inc. (the “Midwest ISO” or “MISO”) operates transmission systems in the following Midwestern states: Montana, Illinois, Indiana, Iowa, Wisconsin, Michigan, Minnesota, Nebraska, North Dakota, South Dakota, Ohio, Pennsylvania, Missouri and Kentucky. In addition, the transmission system of the Canadian Province of Manitoba is operated by MISO. Figure 8-1 below illustrates the footprint of MISO.

Figure 8-1: MISO Market Region



The Midwest ISO, in which Consumers is a Market Participant, began operation in February 2002, implementing its open-access transmission tariff (“OATT”). On March 31, 2004, the MISO filed a proposed Open Access Transmission and Energy Markets Tariff (“TEM”) pursuant to section 205 of the Federal Power Act (“FPA”), 16 U.S.C. § 824d (2000). Consumers currently receives transmission service under the TEM from METC as owner of the transmission facilities serving Palisades.

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The Midwest ISO began operation of a locational marginal price (“LMP”) based energy market on April 1, 2005. The Midwest ISO operates day-ahead and real-time energy markets to develop a joint transmission service and energy schedule of operation on a day-ahead basis and a dispatch schedule in real-time. These markets are based on centralized dispatch, using an LMP methodology to optimize costs for the entire regional footprint. The day-ahead market is a forward financial market in which Market Participants purchase and sell energy in the day prior to the operating day to hedge the real-time market prices. Hourly clearing prices are calculated for each hour of the next operating day. The real-time energy market is a “balancing” market where power not sold or purchased in the day-ahead market is settled. Clearing prices are calculated every five minutes, based on Midwest ISO dispatch instructions and actual system operations.

In addition to the day-ahead and real-time markets, the MISO also offers financial transmission rights (“FTRs”), which allow the holders to hedge the cost of congestion in the day-ahead market. Market Participants may acquire FTRs through the initial annual allocation, annual auctions, monthly allocation, monthly auctions, or a bilateral secondary market. The MISO has defined four trading hubs: the Cinergy, Michigan, Illinois, and Minnesota hubs that serve as pricing indexes for commercial trading, bilateral transactions and FTR delivery and receipt points. While these hubs do serve as a basis for pricing bilateral transactions, the bilateral markets in the MISO are not currently liquid.

The MISO also provides certain ancillary services to Market Participants. The six ancillary services that the MISO offers are:

1. Scheduling, System Control, and Dispatch Service,
2. Reactive Supply and Voltage Control from Generation Sources Service, required for every transaction on the transmission system to maintain transmission voltage,
3. Regulation and Frequency Response Service to assure continuous load and resource balancing and maintain system frequency within acceptable limits,
4. Energy Imbalance Service required when a discrepancy occurs between scheduled and actual energy delivery of energy by a generating resource,

CHAPTER 8. MIDWEST MARKET DESCRIPTION

5. Operating Reserve - Spinning Reserve Service required to serve load immediately in case of system contingency, and
6. Operating Reserve - Supplemental Reserve Service required to serve load within 10 minutes of system contingency and usually provided by off line resources that are capable of starting up and serving load in 10 minutes.

8.2 Generating Capacity

The Midwest ISO footprint is projected to contain 138,197 MW of generating capacity in 2006. Based on a projected summer peak load in 2006 of 120,942 MW, the reserve margin (defined as the percentage by which resources exceed peak load) in the Midwest ISO area will be approximately 14 percent.

Table 8-1 below shows that the Midwest ISO continued to have reserve margins in excess of 20 percent in 2004 with a decreased reserve margin in 2005

Table 8-1: Midwest ISO Generating Capacity

2004 – 2005 ¹⁹			
	2005	2004	Net Change
Total Resources	135,054	132,933	1.6%
Load (MW)	114,479	104,920	9.1%
Resource Margin	18.0%	26.7%	(8.7%)

Source: MISO

MISO can be divided into four sub-regions:

1. ECAR – the transmission-owning utilities in the NERC ECAR region that are members of the Midwest ISO,
2. MRO – the transmission-owning utilities in the NERC MAPP region,

¹⁹ The 2005 numbers are MISO projected summer peak numbers for 2005

CHAPTER 8. MIDWEST MARKET DESCRIPTION

3. MAIN – the transmission-owning utilities in the NERC MAIN region (excluding non-Midwest ISO members Commonwealth Edison and Illinois Power and excluding the WUMS utilities)²⁰, and
4. MAAC – the transmission-owning utilities in the NERC MAAC region that are members of the Midwest ISO.

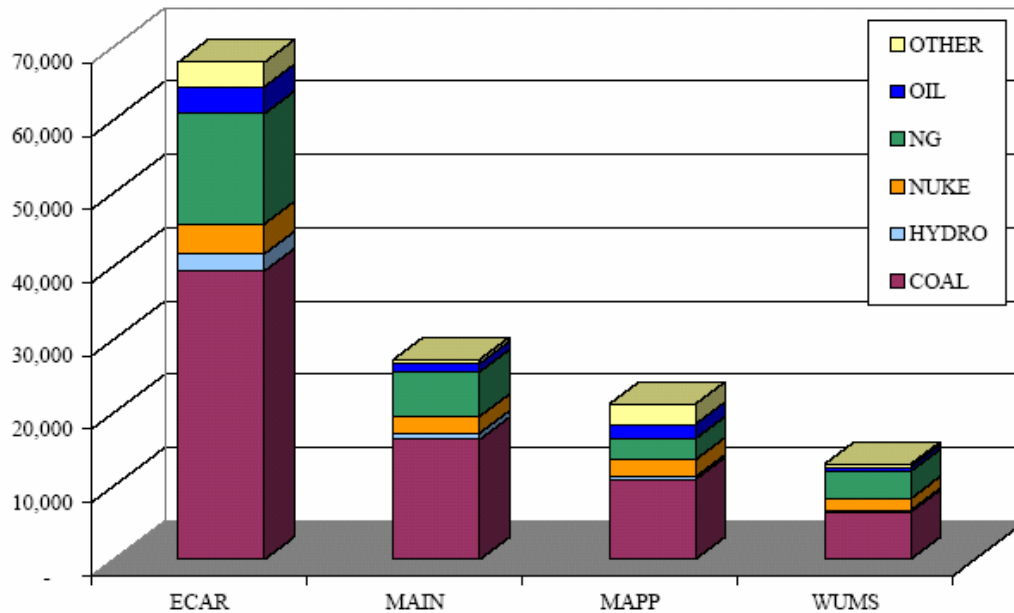
8.3 Generation Mix

The generation fuel mix in the Midwest is dominated by coal-fired resources, accounting for almost 60 percent of the capability. Most of the recent investment has been in natural gas resources, which currently account for 20 percent of the capability in the region. Although natural gas-fired generation constitutes a relatively low share of the total generation in the Midwest ISO, it is the marginal source of supply and sets the market prices in the region in a significant percentage of hours. The Midwest region relies very little on hydroelectric resources (less than 10 percent of the total capability) relative to other regions.

²⁰ Main includes WUMS – the transmission-owning utilities in the NERC MAIN region that are located in Wisconsin and Upper Michigan (excluding Northern States Power, which is included in MAPP)

CHAPTER 8. MIDWEST MARKET DESCRIPTION

Figure 8-2: Midwest ISO Capacity Mix by Fuel Type



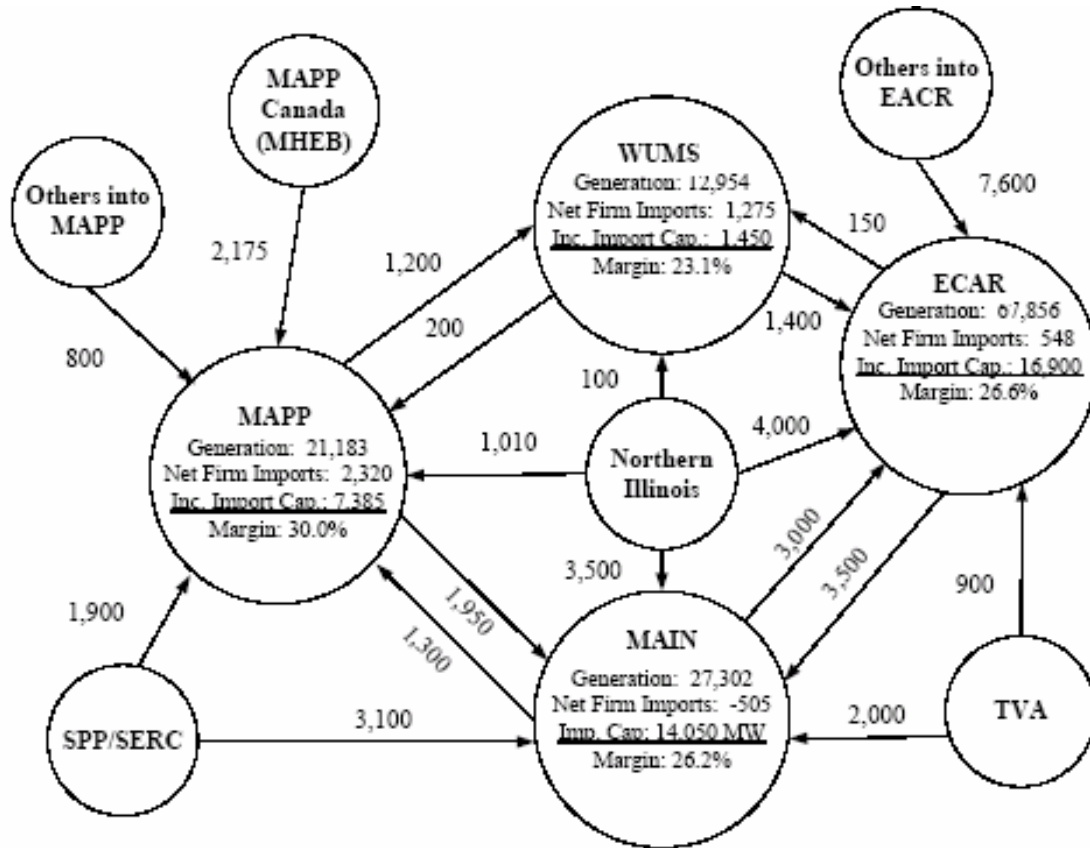
Source: Midwest ISO State of the Market 2004

8.4 Transmission Infrastructure

Figure 8-3 below provides a graphical representation of the transmission interconnections between Midwest ISO sub-regions and between the Midwest ISO and surrounding areas. Using data from the 2004 MAIN Summer Assessment, the Figure shows the transfer capability, total generation, and the reserve margin for each sub-region. The transfer capability is non-simultaneous capability, i.e., paths into an area may not be used simultaneously. This means that capability shown on each path into an area cannot be aggregated to calculate the total amount of power that can be imported into the area simultaneously.

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Figure 8-3: MISO Transmission Capabilities²¹



Source: Midwest ISO State of the Market 2004, p. 6.

8.5 MISO Markets, Services, and Capacity Requirements

8.5.1 Energy Markets

The MISO coordinates both day-ahead and real-time markets for energy. Load-serving entities (“LSEs”) must offer their resource to the MISO for dispatch for energy and operating reserves in the day-ahead and/or real-time market. Dispatched energy from these generators will receive the LMP at its pricing node, which will include three components:

²¹ As with other MISO data, material changes may be included in the 2005 update expected to be issued in April 2006

CHAPTER 8. MIDWEST MARKET DESCRIPTION

energy, congestion, and losses.²² In addition, LSEs will pay for energy consumed by its customers at the appropriate load zone LMP.

8.5.2 Day-Ahead Energy Markets

The day-ahead energy market provides for “financially firm” energy contracts between buyers and sellers through MISO. The Midwest ISO uses both a security constrained unit commitment process and a security constrained economic dispatch process to clear all supply offers and purchase bids for each hour in the day-ahead energy market. These methodologies determine the least cost solution for serving load during each hour of the next day. This market utilizes hourly forecasts of expected loads and generators’ price/quantity bids as well as bilateral transactions. Any purchases in the day-ahead energy market are settled at the day-ahead LMPs. MISO imposes an offer cap of \$1,000/MWh in the day-ahead market.

8.5.3 Real-Time Energy Markets

The real-time energy market functions as a real-time “balancing market”. The balancing market provides for reconciliation of the difference between energy reserved in the day-ahead market and actual energy required in the real-time dispatch market. The real-time market operates using a five minute security-constrained dispatch process. Market clearing prices are determined based on the LMP.

8.5.4 Ancillary Services

The MISO OATT provides for the following ancillary services:

- Scheduling, system control and dispatch service,

²² Congestion occurs when the least cost available supply cannot be delivered to the demand location due to transmission limitations

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- Reactive supply and voltage control from generation sources service,
- Regulation and frequency response service,
- Energy imbalance service,
- Operating reserve - spinning reserve service, and
- Operating reserve - supplemental reserve service.

Under the tariff, MISO is required to provide and the transmission customer is required to purchase, the following ancillary services: (i) scheduling, system control and dispatch, and (ii) reactive supply and voltage control from generation sources. MISO is required to offer to provide or to arrange for the following ancillary services only to transmission customers serving load within the Transmission Owner(s), or independent transmission company (“TTC”), or ITC Participant(s) Control Area(s): (i) regulation and frequency response, (ii) energy imbalance, (iii) operating reserve - spinning, and (iv) operating reserve - supplemental. Market Participants can choose to self-supply, or contract for, regulation and frequency response and operating reserves. In addition, MISO will be the provider of last resort of ancillary services and energy imbalance to serve any customer taking service under an Independent Transmission Company (“TTC”) Rate Schedule. The MISO will provide or procure ancillary services on a least cost basis.

8.5.5 Financial Transmission Rights

The Midwest ISO administers a system of FTRs to support the use of LMP for pricing congestion and transmission usage. As in other LMP-based spot markets, FTRs allow Market Participants to hedge the day-ahead costs of congestion resulting from the Midwest ISO’s security-constrained dispatch, whether those costs are reflected in the congestion components of the LMPs for spot purchases and sales or the resulting transmission usage charges for point-to-point transactions scheduled in the spot markets.

The FTRs in MISO are identical in concept to the FTRs used in PJM and ISO-New England and to the Transmission Congestion Contracts used in New York. Market Participants may

CHAPTER 8. MIDWEST MARKET DESCRIPTION

acquire FTRs through the initial annual allocation, annual auctions, monthly allocation, monthly auctions, or a bilateral secondary market. FTRs will be settled in the MISO-coordinated day-ahead energy market, based on the day-ahead energy market's LMP clearing prices.

8.5.6 Capacity Requirements

MISO requires all Market Participants to comply with the following guidelines in order to maintain capacity requirements: (1) Market Participants must continue to comply with all applicable regional reliability organizations' ("RRO") requirements for load served in the MISO region; (2) Market Participants must also comply with all state authority regulations regarding resource adequacy or reliability; (3) MISO will monitor resource adequacy compliance by Market Participants, including determinations as to whether a resource qualifies as satisfying RRO and state reliability requirements; (4) if MISO determines that no resource adequacy standard exists within a state, it will require an annual reserve margin of 12 percent to load served in that state; and (5) all resources identified by Market Participants as available to meet resource adequacy requirements must comply with the requirements for specification as designated network resources ("DNRs").

8.6 Integration of MISO and PJM

A joint operational agreement ("JOA") between the Pennsylvania-New Jersey-Maryland Interconnection ("PJM") and MISO was conditionally approved by FERC in 2004. The MISO/PJM JOA is a coordinating agreement only and does not represent the existence of a joint and common market at this time.

8.7 Retail Market Overview

The Michigan market has nearly 4.8 million retail customers with annual consumption of 106.6 GWh. As is demonstrated in Table 8-2 below, residential and commercial customers account for 99.7 percent of total customers and 67 percent of total load in Michigan. In contrast, the industrial class represents only 0.3 percent of the customers and 32.7 percent of the load.

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Table 8-2: Michigan Customer Mix

Customer	Percent of Customers	Percent of Consumption
Residential	89.1%	31.1%
Commercial	10.6%	36.2%
Industrial	0.3%	32.7%
Total	100.0%	100.0%

Source: Energy Information Administration Electric Power Annual 2005

The Michigan Customer Choice and Electricity Reliability Act was signed into law on June 3, 2000. Under Michigan's Electric Customer Choice, the generation and supply of power is open to competitive suppliers. The electric transmission and distribution businesses will remain under a regulated monopoly utility structure.

Since the law took effect in June 2000, the MPSC has issued many orders to implement its various provisions. Open access, or Choice, became available to all customers of Michigan investor owned utilities beginning on January 1, 2002. Customers of Michigan's member-owned cooperative electric distribution companies that have a maximum demand of 200 kilowatts or more also became eligible to participate. Other co-op customers became eligible on January 1, 2006.

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9.1 Introduction

Consumers invites Bidders to bid on Palisades and/or the Big Rock ISFSI and associated land. Bids for these Assets will be solicited on the following basis:

- Separate bids with separate pricing for Palisades and the Big Rock ISFSI,
- Bidders will be required to indicate whether any bid for the Big Rock ISFSI is contingent upon the acquisition of Palisades or vice versa, and
- Any exceptions to the Seller's proposed terms of sale and Transaction Documents must be noted.

The remainder of this Chapter summarizes Consumers' proposed terms of sale for Palisades (see Chapter 6, *Big Rock*, for the complete description of the Big Rock ISFSI and related terms of sale). The Seller anticipates that in April it will distribute draft Transaction Documents, including the Asset Sale Agreement ("ASA"), the Power Purchase Agreement ("PPA"), and the Large Generator Interconnection Agreement ("LGIA"). As discussed in Chapter 10, *Transaction Process and Schedule*, Bidders will have the opportunity to propose modifications to the Transaction Documents. The Seller will distribute final Transaction Documents by June 2006. Consumers expects Bidders to provide their binding bids based on the final Transaction Documents. As discussed below (see also Chapter 10, *Transaction Process and Schedule*), the Seller may consider bid-enhancing modifications or alternative bid structures on a case-by-case basis.

9.2 Palisades Asset Sale Agreement

The principal commercial terms associated with the Palisades ASA are described in the sections that follow.

9.2.1 Palisades Asset Boundaries and Associated Agreements

Palisades contains a combination of generating facilities, fuel handling and storage facilities, electric transmission facilities, and various support facilities. Consumers has drawn asset boundaries to separate Palisades generating assets and other associated assets being sold from those limited facilities which will not be conveyed in a sale. Consumers' primary

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objective in drawing these asset boundaries is to provide the Buyer with ownership and operating control of Palisades and assets and infrastructure necessary to run the Plant to the greatest extent possible. Certain Palisades assets will be handled as follows:

- The generation plant, buildings and structures, materials and supplies, real and personal property (including vehicles dedicated to Palisades and owned by Consumers, computer hardware, and other office equipment), and an approximately 432 acre site will be conveyed to the Buyer of Palisades (see Chapter 2, *Plant Site Assets*, for a more complete description),
- Electric Transmission facilities that are owned by the Michigan Electric Transmission Company (“METC”) and Covert Generating Plant (“Covert”) will be excluded from the sale of Palisades,
- Various utility lines and associated facilities owned by local utility service providers, located within the Palisades site, will also be excluded from the sale of Palisades,
- As noted in Chapter 2, *Plant and Site Assets*, METC owns the switchyard and certain transmission towers and electrical lines at Palisades. The land underlying these facilities is owned by Consumers, with METC having easement rights in such land for its facilities. A sale of Palisades will be subject to such existing easement rights of METC. While METC also has certain option rights regarding purchase of the land underlying its facilities, Consumers will be seeking a release or waiver from METC of those purchase-related rights, so that this land can be sold to the new owner of Palisades. The relationship between METC and the new owner of Palisades will be further described in the LGIA,
- Also as noted in Chapter 2, *Plant and Site Assets*, Covert owns an electric line running into the switchyard at Palisades. A sale of Palisades will be subject to Covert’s existing easement rights as well as the existing Palisades Switchyard Protocol Responsibility Agreement,
- Certain other electric lines, classified as generation, are owned by Consumers. These assets will be conveyed to the Buyer of Palisades,

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- The Meteorological tower and associated building which is used both for Consumers' Network Radio System and for Palisades' Meteorological monitoring system, and the Emergency Radio Repeater equipment will be transferred to the Buyer. Consumers will, however, reserve easement rights so it can continue to operate, maintain, and add to its non-Palisades systems and equipment, and
- Other assets, facilities and services owned by Consumers and currently utilized by Palisades that are not included in the sale are the firing range used by the security workforce located to the east of the Plant and the Palisades' Emergency Operations Facility located several miles north of the Station (see Section 9.2.7). The Seller is willing to enter into transitional leases of these facilities with the Buyer on mutually agreeable terms (see Section 9.2.11).

9.2.2 Workforce Terms

Palisades is operated and maintained by an experienced and dedicated on-site workforce of approximately 475 employees²³. Of these employees, 119 are represented by the Utility Workers Union of America Local 150 ("UWUA"), and are employees of Consumers ("Bargaining Unit Employees"). The Michigan State Utility Workers Council Executive Board is the bargaining representative for these employees. The remaining 356 members of the Plant staff are non-bargaining unit and are employees of NMC ("Salaried Employees"). Please refer to Chapter 4, *Workforce*, for a more detailed discussion of Palisades' workforce.

The following section summarizes the principal labor provisions included in the overall terms of sale for Palisades.

²³ There are an additional 20 employees that largely work at Palisades who are also expected to transfer to the Buyer.

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9.2.2.1 Bargaining Unit Employees

Consumers is a party to a collective bargaining agreement (“CBA”) with the UWUA, referred to as the Working Agreement, covering the terms and conditions of employment for Bargaining Unit Employees. This document may be found in the Human Resources folder in the Virtual Document Room. The term of the CBA is from June 1, 2005 through June 1, 2010. The Buyer must agree to assume Consumers’ obligations under the CBA, including the provision of retirement and insurance benefits, for the remainder of the term of such CBA. The successor provisions of the CBA are generally contained in Article II of that document. The CBA requires that:

- The Buyer must offer, for the remainder of the term of the CBA, the same position of employment to all affected Bargaining Unit Employees, including employees absent from active service due to illness or leave of absence, or those on active duty with the military,
- In providing Bargaining Unit Employees with benefits under the CBA, the Buyer must recognize such employees' years of service with Seller, including retention of seniority under the CBA. Regarding health care coverage, the Buyer must waive pre-existing condition exclusions and waiting periods and provide credit for deductibles and out-of-pocket expenses,
- All of the Bargaining Unit Employees participate in retirement, post-retirement medical and life plans sponsored by Consumers. Consumers anticipates transferring funds associated with the accumulated benefit obligations under these plans. The Buyer will be required to ensure that the post-closing benefit accrual will be equivalent to the currently applicable benefit formula for the term of the CBA. The Buyer will not be required to

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maintain the post-closing benefit accrual for any transferring employee who retires from the Seller at the time of closing.²⁴

- The Buyer must sponsor a 401(k) plan for Bargaining Unit Employees with deferral options and employer match that are equivalent to those provided under Consumers' plan, and
- The Buyer agrees to provide relocation assistance to any Bargaining Unit Employee transferred more than 60 miles from his/her current place of employment to one of the Buyer's other facilities, in accordance with the terms of the CBA.

9.2.2.2 *Salaried Employees*

The Seller expects that the Buyer will require the entire salaried workforce in place at the time of closing in order to operate Palisades in a safe and reliable manner. The Seller will require the Buyer to offer employment, including comparable salary and level of responsibility, to all Salaried Employees employed on behalf of Palisades whose responsibilities are primarily associated with Palisades' operations. The Seller will require that:

- Each transferred Salaried Employee may not be terminated for any reason other than cause for a period of eighteen (18) months after closing. In the event the Buyer terminates a transferred Salaried Employee for any reason other than cause, that employee shall be paid any outstanding salary for the remainder of the 18 month period after closing, and any severance applicable under the Buyer's severance policy. The Buyer will be responsible for meeting all COBRA requirements associated with all transferred employees.

²⁴ Past service should, however, continue to be recognized for matters such as vacation accrual.

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- Certain of the Salaried Employees currently participate in a retirement plan and post-retirement medical and life plan sponsored by Consumers. The Buyer must provide Salaried Employees with retirement and post-retirement medical and life insurance benefits no less than the retirement and post-retirement medical and life insurance benefits that they would have received had they remained employed by NMC. Consumers anticipates transferring funds associated with the accumulated benefit obligations under these plans. For a period of eighteen (18) months after closing, the Buyer will be required to ensure that the post-closing benefit accrual for transferred individuals is no less than that provided by their currently applicable benefit formula (i.e., had they remained employed by NMC). The Buyer will not be required to maintain the post-closing benefit accrual for any transferred employee who retires from the Seller at the time of closing,
- All Salaried Employees' years of service with Consumers and/or NMC must be recognized for benefit and eligibility purposes. Regarding health care coverage, the Buyer must waive pre-existing condition exclusions and waiting periods and provide credit for deductibles and out-of-pocket expenses, and
- It is expected that the Buyer will provide comparable defined contribution plans for all NMC employees (currently 212 participants) participating in the NMC retirement plan.

9.2.2.3 *Transfer of Pension Assets and Liabilities*

Consumers intends to transfer pension assets and liabilities for all transferred Bargaining Unit Employees and Salaried Employees participating in its DBFAP Plan (currently 145 Salaried and 114 Bargaining Unit) consistent with IRS 414 regulations. As of April 30, 2005, Consumers' liability under its pension plan was estimated at approximately \$35 million. Consumers notes that both the fund balances as well as the affected employee population are subject to change.

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9.2.2.4 Transfer of Post-retirement Health Care Assets and Liabilities

Consumers intends to transfer post-retirement healthcare/life insurance assets and liabilities for all transferred Bargaining Unit Employees and Salaried Employees participating in the plans (currently 145 Salaried and 114 Bargaining Unit) consistent with FAS 106 regulations. As of April 30, 2005, Consumers' liability for these plans was estimated at approximately \$20 million. Consumers notes that both the fund balance as well as the affected employee population is subject to change.

9.2.3 Decommissioning Terms

The Buyer will assume the obligation for 100 percent of the cost of (i) long-term storage of spent nuclear fuel, both at the site and following removal, for permanent disposal by the federal government, (ii) decommissioning in accordance with NRC regulations sufficient for termination of the NRC license, and (iii) restoring the site to a greenfield condition similar to its original condition at such time as the site is no longer used for an electric generating Plant or for storage of spent nuclear fuel. In addition, other decommissioning-related terms include:

- The NRC minimum decommissioning fund estimate (pursuant to 10 CFR 50.75 (b) and (c)) for Palisades as of March 31, 2005 was \$351.2 million. The estimated minimum decommissioning amount as of December 31, 2005 was approximately \$359.2 million. Based on a license expiration date of 2031 and a real investment growth rate of 2 percent, the current funding (as of 12/31/05) associated with the NRC minimum is approximately \$221.7 million; the same calculation assuming a real growth rate of 3 percent would produce a current funding estimate of approximately \$173.4 million.
- Consumers current decommissioning assets are as follows:

CHAPTER 9. TERMS OF TRANSACTION

Table 9-1: Consumers' Decommissioning Funds

Funds	Amount (as of 12/31/05)
Qualified Funds	356.1
Non-Qualified Funds	188.8
Total	\$544.9

- At closing, the Seller will transfer to the Buyer the decommissioning amount to be specified in the ASA to be submitted by each Bidder.
- Consumers is planning to close without receipt of an acceptable private letter ruling from the IRS regarding the transfer of decommissioning trust funds and expects the Buyer to close on that basis as well,
- The transfer of decommissioning funds and liabilities is assumed to take place in a tax efficient manner, and
- To the extent that the Buyer decommissions Palisades to the “greenfield” standard discussed above and the funds transferred by the Seller exceed the amount actually required to decommission the Plant, any positive difference will be refunded to the Seller.

9.2.4 Spent Nuclear Fuel

The sale terms associated with Spent Nuclear Fuel (“SNF”) matters include the following:

- Buyer will assume title to and responsibility for management and storage, removal, transportation and disposal of SNF associated with Palisades,
- Seller and Buyer will enter into an appropriate arrangement for assignment or partial assignment of the Standard Contract for Disposal of Spent Nuclear Fuel and/or High Level Radioactive Waste (“DOE Contract”),
- Buyer will not store any SNF on the site, other than that generated at Palisades, except that Buyer is not precluded by this transaction from storing Big Rock SNF at Palisades if all appropriate approvals are obtained and to the extent that the Buyer acquires both Palisades and the Big Rock ISFSI,

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- Seller will retain all rights against DOE relating to pre-closing damages resulting from DOE's failure to accept or avoid delay in the acceptance of spent nuclear fuel pursuant to the DOE Contract. The Seller will transfer to the Buyer the right to any claim for post-closing damages to the full extent allowed by the Nuclear Waste Policy Act of 1982. In addition, the Seller expects to retain any rights and obligations associated with the pre-1983 fee, and
- To the extent that the Buyer of the Big Rock ISFSI is not the Buyer (or affiliated with the Buyer) of Palisades, the parties will develop a mutually-acceptable allocation of such post-closing rights and obligations.

9.2.5 Environmental

The Buyer will be required to assume all pre- and post-closing environmental liabilities and obligations associated with Palisades and associated assets, except those limited liabilities specifically identified and retained by the Seller, and will be required to indemnify and hold harmless the Seller from and against such assumed liabilities. The Buyer's assumed liabilities will include, but not be limited to, the following:

- Buyer will be required to assume all pre- and post-closing liabilities for mixed waste stored at Palisades,
- The Buyer will be required to assume all pre- and post-closing liabilities for non-radiological waste shipped off-site, and
- The Buyer will be required to assume all pre- and post-closing liabilities for radiological waste shipped off-site.

An ASTM Phase 1 study is being prepared for Palisades. The ASTM Phase 1 study is expected to be available to Bidders in late February. An ASTM Phase 2 study is not anticipated.

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9.2.6 Fuel Contracts

To the extent permissible, the Seller will assign to the Buyer all rights and obligations under (i) fuel contracts, and (ii) contracted fuel inventories (including inventories in-transit). See Chapter 2, *Plant and Site Assets*, for a description of Palisades' fuel supply.

9.2.7 Off-Site Emergency Preparedness and Related Facilities

Various facilities necessary to support Palisades' operation are located off-site and either will be transferred to the Buyer or a transition support arrangement will be developed.

- Palisades' Emergency Operations Facility is located in South Haven, approximately nine miles from Palisades, and is owned by Consumers. As noted in Section 9.2.1, Consumers is willing to enter into a transitional lease of this facility with the Buyer,
- The Joint Public Information Center is located at the Lake Michigan Community College, in Benton Harbor, approximately 15 miles from the Plant. Consumers will work with the Buyer to facilitate its continued use of this facility,
- Off-site sirens owned by the Seller will be transferred to the Buyer, and
- A firing range used by the security workforce is located to the east of the Plant site. As noted in Section 9.2.1, Consumers is willing to enter into a transitional lease of this facility with the Buyer.

9.2.8 Taxes

The Buyer will be subject to various state, local, and potentially federal taxes as a result of the contemplated sale of Palisades. At the time of sale, the Buyer will assume full responsibility for these tax obligations accruing from and after the closing date, including all transfer taxes attributable to the closing of the transaction. The Seller will remain responsible for all taxes accrued prior to sale and will be entitled to any tax rebates or refunds that relate to the pre-closing period.

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9.2.9 Financing and Other Contingencies

The Seller will not accept a Final Bid contingent upon a Bidder's internal approvals, financing or any other contingencies.

9.2.10 Regulatory Matters

The Transaction will be subject to the receipt of various federal and state regulatory and administrative approvals. The Seller and the Buyer also will be required to make the requisite notification filings with the Department of Justice and the Federal Trade Commission under the Hart-Scott-Rodino Antitrust Improvements Act. The principal federal and state regulatory authorizations that will be required are summarized below. See also Chapter 7, *Regulatory and Other Required Approvals*. Buyer will be expected to cooperate with Seller in supporting regulatory approvals.

9.2.10.1 Federal Regulatory Approvals

- FERC – The sale of Palisades will be subject to approval of the FERC under Section 203 of the Federal Power Act (the “FPA”). FERC approval also will be required under Section 205 of the FPA for the terms and conditions of the LGIA, Nuclear Plant Operating Agreement (“NPOA”), and any other jurisdictional agreements. In addition, the Buyer may wish to seek authority under Section 205 of the FPA to make wholesale sales of power from Palisades.
- NRC – The sale or transfer of Palisades and associated assets will require the approval of the NRC. Such authorization also may include the approval of conforming administrative license amendments.

9.2.10.2 State Regulatory Requirements

MPSC approval of the Transaction in a form satisfactory to Consumers will be required. In particular, MPSC approvals described below are required:

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- Approval of the PPA – 1982 PA 304 (MCL 460.6j) requires that, in a power supply cost recovery reconciliation, the MPSC must “[d]isallow recovery of any capacity charges associated with power purchased for periods in excess of 6 months unless the utility has obtained the prior approval of the commission.” In light of this provision, Consumers will apply to the MPSC for approval of the PPA,
- Satisfaction of Requirements Imposed by MPSC Securitization Order - the October 24, 2000 Order in MPSC Case No. U-12505 authorized Consumers to “securitize” the Palisades Plant investment (net of depreciation) estimated as of December 31, 2000 and addressed a potential sale of Palisades as follows: “should Consumers elect to sell Palisades, any profit arising from the Plant’s treatment as a regulatory asset designated for securitization must be passed on to the utility’s customers.” Consistent with this Order, Consumers will make a filing that fully informs the MPSC of any proposed transaction involving Palisades, fully explains the impact on rates and seeks approval of the disposition of the proceeds from the sale and the inclusion of PPA costs in rates, and
- Other MPSC Approvals – MPSC review of the treatment of decommissioning liabilities and funds is also anticipated.

9.2.10.3 Market Power Considerations

The Buyer will be expected to obtain any needed authorization from the FERC under the FPA to sell the Plant’s energy and/or capacity at “market-based” rates. The FERC has required applicants for wholesale “market-based” rate authority to demonstrate, among other things, that they do not exercise market power over generation resources or transmission access. In addition, FERC approval under Section 203 will focus on market power issues. Accordingly, Consumers may require Bidders to provide information regarding potential market power issues.

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9.2.11 Transition Services and Other ASA Considerations

As noted in the preceding sections, various transition arrangements are contemplated between the Seller and the Buyer, including:

- Lease by the Seller to the Buyer of the firing range,
- Lease by the Seller to the Buyer of the off-site emergency preparedness facility,
- Transition services from the Seller to the Buyer for services provided to Palisades by the Electric System Operations (“ESO”) group,
- Transition services from the Seller to the Buyer for staffing the on-site Metallurgical Laboratory which will be transferred to the Buyer as part of the sale (see Chapter 2, *Plant and Site Assets*, for a more complete description of the Metallurgical Laboratory),
- Transition services from the Seller to the Buyer to provide electrical equipment protection settings. Transition Services from the Seller to the Buyer for ANSI N45-2.11 Level III Non-Destructive Examination support, and
- Transition Services from the Seller related to training provided by the Muskegon Skills Training Center.

Other transition services may be considered by the Seller upon the request of the Buyer.

9.3 Power Purchase Agreement

Consumers seeks to purchase capacity, associated energy and ancillary services (the “Power Products”) after the sale of its ownership interest in the Plant from the new owner of Palisades (the “Power Seller”) for a minimum of ten to fifteen years to be paid for based on actual energy delivered. The principal terms of the PPA are set forth below. Consumers intends to include these terms in the form of a PPA that will be available to Bidders later in the auction process. Consumers will discuss these proposed terms with Bidders during the auction and reserves the right to modify them at any time prior to entering into a binding contract. Consumers intends to conduct a flexible bidding process designed to identify the highest value combination of overall Transaction terms,

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including PPA terms. To this end, Consumers will consider bids based on alternative forms of PPA or PPA pricing. Completion of the Transaction will be subject to approval of the PPA being received from the MPSC in a form acceptable to Consumers.

Please note that in the following sections, the term “Power Seller” refers to the new owner of Palisades acting as a seller under the PPA.

9.3.1 Power Products

Consumers seeks to buy the following Power Products under the terms described below:

- Capacity:

Consumers proposes the Power Seller shall have a fixed monthly capacity obligation in the amounts depicted on the table below. On an average annual basis, this monthly capacity value equals 798 MW. Capacity must be provided from a Designated Network Resource as defined in the MISO²⁵ Open Access Transmission Tariff (“DNR”), and Power Seller shall take all steps to enable MISO to recognize Consumers as having the applicable Capacity Entitlement. The following specified monthly capacity level shall be Consumers’ Capacity Entitlement.

²⁵ Or successor organization.

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Table 9-2: Consumers' Capacity Entitlement

Month	Capacity (MW)
January	813
February	811
March	809
April	801
May	794
June	786
July	781
August	778
September	783
October	800
November	809
December	810
Average	798

- Energy and Ancillary Services:

Consumers proposes that the Power Seller provide all energy and ancillary services from the DNR, or any replacement DNR, associated with Consumers' Capacity Entitlement whenever the DNR is operating. If the DNR is operating at less than Capacity Entitlement level, Power Seller must deliver all energy and ancillary services associated with the lower capacity level. Ancillary services include those services, recognized by MISO, during the term of the PPA that are necessary to support the generation and transmission of electric capacity and energy. Ancillary Services shall include, but not be limited to, reactive power, regulation, and frequency response service. Any revenues that Power Seller receives from the MISO for ancillary services will be transferred or credited to Consumers under the PPA. Power Seller will delegate to Consumers the right to reach agreement with the MISO as to the appropriate entitlement of the Plant to ancillary service revenues under the MISO tariff.

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- Other:
Consumers is interested in buying additional capacity, energy and ancillary services that may become available from the Power Seller as a result of any uprates to Palisades. However, Consumers does not require a right of first refusal to purchase incremental power from any such uprates.

9.3.2 PPA Pricing

Consumers proposes that pricing be specified in two parts, capacity and energy, for each year of the agreement, inclusive of ancillary services that are produced by the DNR. Both capacity and energy prices will be paid on a \$/MWh basis. It is Consumers' intent that the costs under the PPA, in conjunction with other deal terms, will yield an effective PPA price that is lower on a present value basis than both: 1) the expected market price for delivered energy, capacity and ancillary services; and 2) Consumers' real levelized cost²⁶ per MWh based on its projected cost of continued ownership of Palisades. In developing pricing alternatives, Bidders should be mindful that:

- Consumers' real levelized cost of continued ownership ("CCO") for the 15 years beginning 2007 is currently projected to be at or below \$40/MWh. Consumers reserves the right to modify this estimate during the auction process, and
- Consumers will consider PPA pricing within a reasonable range above and below the CCO so as to enable Bidders to optimize the total transaction value for Palisades. Capacity and energy components of the PPA pricing should reflect the proportions of these costs currently in Consumers' rates.

²⁶ The real levelized cost is inclusive of fixed and variable production costs as well as overheads from NMC and the decommissioning of Palisades. The real levelized cost is developed by escalating the 2006 costs at an assumed rate of inflation and discounting all costs at Consumers' cost of capital.

CHAPTER 9. TERMS OF TRANSACTION

Consumers intends to protect ratepayers from on-going operating risk by entering into a “pay for performance” PPA with hourly payments for both capacity and energy to the Power Seller.

- Capacity Pricing:

The capacity payment is intended to reflect the fixed costs that would be included in Consumers’ future rates. Consumers proposes a base capacity price that is approximately 85 percent of the total cost of power under the PPA at a capacity factor of 87 percent. The capacity payment will be calculated as the product of: (i) the base capacity price, (ii) the monthly Payment Shaping factors, provided in Table 9-3 below, and (iii) the hourly delivered energy.

- Energy Pricing:

Consumers proposes a base energy price that is approximately 15 percent of the total cost of power under the PPA at a capacity factor of 87 percent. The energy payment will be calculated as the product of: (i) the base energy price, (ii) the proposed Payment Shaping factors identified in Table 9-3 below, and (iii) the hourly delivered energy.

- Payment Shaping:

Consumers proposes to shape all capacity and energy payments to incentivize on-peak performance and enhance electric system reliability.

- The Payment Shaping factors provided in the table below are proposed to be applied to the hourly capacity and energy rates specified in the PPA, and
- Within each month the prices will be shaped to reflect deliveries during on-peak and off-peak hours.

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Table 9-3: Payment Shaping Factor Table

Month	On-Peak Hours	Off-Peak Hours
January	1.375	0.825
February	1.125	0.675
March	1.125	0.675
April	1.125	0.675
May	1.125	0.675
June	1.375	0.825
July	1.500	0.900
August	1.500	0.900
September	1.375	0.825
October	1.125	0.675
November	1.125	0.675
December	1.125	0.675

In addition to the price shaping discussed above, Consumers is interested in proposals that further insulate its customers against the cost of replacing energy at market prices in the event that the Power Seller does not provide the Power Products specified herein.

9.3.3 Power Seller's Delivery Obligations

- Power Products:

If the PPA's DNR is operating, the Power Seller is required to deliver all of the available capacity, energy and ancillary services associated with Consumers' monthly Capacity Entitlement.²⁷

²⁷ Consumers' intention is that the specified monthly Capacity Entitlement should not be considered a cap on capacity and energy provided through the PPA. To the extent that ambient conditions differ from the standard conditions used to develop the Capacity Entitlement and as a result the DNR can achieve a higher capacity, Consumers proposes to allow the Power Seller to provide the additional available capacity, energy, and ancillary services at the rates established in the PPA for these products.

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- Network Resource:

Power Seller is required to warrant that, throughout the term of the PPA, it will take all actions necessary to enable Consumers to claim 100 percent of the capacity and energy purchased under the PPA from an agreed upon DNR. Consumers notes that it is not necessary for Palisades to be the DNR. The Power Seller may change the DNR during the term of the PPA, with Consumers' approval of the proposed replacement DNR.²⁸ Any replacement DNR must be acceptable to the ReliabilityFirst Corporation²⁹ and MISO, or any successor organizations, and be of comparable reliability to the initially agreed upon DNR. Should the Power Seller and Consumers agree to a replacement DNR, the Power Seller will be responsible for all additional costs pertaining to the delivery of capacity, energy, and ancillary services from the replacement DNR to the commercial pricing node for Consumers' load or the commercial pricing node for Palisades.

- Replacement and Supplemental Energy:

The Power Seller may, upon Consumers' consent, deliver to Consumers' capacity, energy, and ancillary services, up to a 100 percent capacity factor based on Consumers' Capacity Entitlement, from any agreed upon DNR³⁰. If delivery of replacement energy is provided at a location other than the Palisades' commercial pricing node, then energy deliveries need to be scheduled with Consumers in advance, and in accordance with all applicable procedures and, once scheduled, become a firm delivery obligation. Consumers anticipates that replacement energy would be scheduled in sufficient blocks to cover all on-peak and off-peak hours within the replacement period.

²⁸ Consumers prefers that any replacement DNR be located in Michigan.

²⁹ ReliabilityFirst Corporation is a new regional reliability organization that has replaced ECAR, MAAC and MAIN.

³⁰ With Consumers' prior consent, short-term energy may be provided from other resources not specified as a DNR.

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- Replacement Capacity:
Consumers will view favorably any Power Seller that agrees to accept responsibility for liquidated damages for replacement capacity in the event that the Power Seller does not provide such capacity.

9.3.4 Delivery Point/Transmission

Consumers plans to take delivery of the purchased capacity, energy and ancillary services at the Palisades' commercial pricing node ("Delivery Point"). With permission from Consumers, an alternate commercial pricing node in MISO or at Consumers' load zone commercial pricing node via firm network or firm point-to-point transmission service may be used. For all capacity and energy delivered under the PPA, the Power Seller will be responsible for all transmission costs associated with delivery to the Delivery Point, including congestion and loss charges. Consumers will be responsible for transmission of power away from the Delivery Point(s).

9.3.5 Term

Consumers seeks a minimum PPA term of 10 to 15 years. Bidders should propose a PPA term that best enables them to provide the highest total transaction value to Consumers and its customers.

9.3.6 Conditions Precedent

Consumers anticipates that the effectiveness of the PPA will be conditioned on all of the following events:

- Closing the ASA/transfer of Palisades to the Power Seller, including Power Seller's posting of security,
- Applicable FERC approval, and
- Applicable State regulatory approvals.

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9.3.7 Security/Credit

The Power Seller's long-term non-credit enhanced unsecured debt shall be credit rated at least BBB-/Baa3 by S&P and Moody's, respectively. In the event that the Power Seller does not meet those standards, credit support shall be required, either in the form of a guarantee provided from an investment-grade affiliate of the Power Seller that is acceptable to Consumers or a letter of credit from a bank rated A- or better. Failure to maintain the minimum credit rating threshold will require the Power Seller, or the affiliate on the Power Seller's behalf, having to post a letter of credit or similar liquid credit support that is acceptable to Consumers. Failure to do so will constitute an event of default and will give Consumers the option to give notice of PPA termination.

9.3.8 Termination for Default

Consumers shall have the right to terminate the PPA and seek damages for certain material events of default committed by the Power Seller. Such default events will include the Power Seller's permanent or persistent failure to perform as provided under the terms of the PPA.

9.4 Interconnection Agreement

The interconnection of the Plant to METC is currently governed by the existing interconnect agreements. Consumers will enter into a mutually agreeable termination of certain of the interconnect agreements with the METC as those agreements relate to the Plant, and will require the Buyer to execute a LGIA based on the standard LGIA under the MISO OATT. The interconnect agreements will remain in effect with regard to the other generating facilities that Consumers will continue to own.

The LGIA will define the ongoing rights and obligations of the Buyer and Consumers of the transmission system to which the Plant is connected. The LGIA will specify procedures applicable to each party's operation and maintenance of their respective facilities and will include procedures for accommodating future changes to the generator or Consumers' transmission facilities, including those applicable to any potential capacity uprate of Palisades. In addition, the LGIA will include, to

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the extent applicable, those provisions of the terminated interconnect agreements that should continue to govern the interconnection of the Plant with METC's system after the closing. A draft of the LGIA will be made available to Bidders prior to bid submission. Buyer will also be required to enter into a NPOA with MISO that reflects general terms and conditions relevant to nuclear plants operating within the MISO footprint. A draft of the NPOA will be made available to Bidders. The Buyer will also be expected to accept the terms and conditions of the Palisades Switchyard Protocol Responsibility Agreement, which addresses communications needs between METC and Palisades when activity will take place within the substation.

9.5 Other Transaction Agreements

In addition to the ASA, PPA and LGIA, various other agreements will likely be executed in connection with a sale of Palisades. These agreements may include:

- Assignment and Assumption Agreement,
- Bill of Sale,
- Deed, and
- Buyer's Parent Guaranty.

CHAPTER 10. TRANSACTION PROCESS AND SCHEDULE

10.1 Overview and Key Milestones

Consumers has adopted a single-stage Transaction process. The major anticipated milestones are identified in Table 10-1. Chapter 11, *Due Diligence Process and Protocols*, provides a more detailed discussion of the due diligence avenues available to Bidders. The following sections discuss the bid process and requirements.

Table 10-1: Anticipated Auction Schedule

Key Milestones	Date
Initial Due Diligence Materials Available to Bidders (Confidential Offering Memorandum, Document Room, and Q&A)	Late January
Palisades On-Site Due Diligence (Site Tours and Meetings with Plant Staff)	February - March
Big Rock ISFSI Site Tours	April
Management Meetings	April - May
Bidder Comment Period on Transaction Documents	April
Binding Bid Instructions and Final Transaction Documents Issued	May
Confirmatory Due Diligence Post-RFO	Late May – Early June
Bids Due	June
Winner Announced	ASAP
Regulatory Filings	ASAP
Target Closing	ASAP

Please note that the Transaction process and schedule described herein represent Consumers’ current estimate and are subject to change. Consumers will promptly notify Bidders of any changes to the Transaction process and schedule.

10.2 Key Milestones

The Transaction process and schedule provides all Bidders with the opportunity to perform detailed due diligence and submit Binding Bids. Key elements of the Transaction process include:

Document Room and Q&A Access – With the issuance of this Offering Memorandum, Consumers has made available a virtual web-based Document Room which contains thousands of pages of detailed information regarding the Plant, the Big Rock ISFSI, and related matters (“Virtual Document Room”). The web site also provides the means for Bidders to submit written questions

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and receive confidential responses.³¹ In addition, Bidders may schedule access to a Physical Document Room which includes certain highly-confidential, view-only documents. An up-to-date index of the documents is available in the Physical Documents and will be made available in the Virtual Document Room. Chapter 11, Due Diligence Process and Protocols, provides additional details regarding due diligence processes and protocols, including Physical Document Room scheduling. These resources will be available throughout the due diligence process.

Palisades Site Tours – Palisades site tours will be available beginning February 20. Each Bidder will be allowed up to three days of site tours. Please see Chapter 11, Due Diligence Process and Protocols, for a more detailed description of Palisades’ site tours.

Management Meetings – Palisades is scheduled to begin a refueling outage (“RFO”) in April. During these activities, which Consumers expects to last through April and into May, Bidders may not access the Plant. During that time and continuing until Binding Bids are due, Bidders may participate in one day of meetings with management of Consumers (“Management Meetings”). Consumers will provide briefing materials highlighting the results of the RFO to all Bidders.

Big Rock ISFSI Site Tours – During the month of April, site tours of the Big Rock ISFSI will be made available to all Bidders. Each Bidder will be allowed a single day to conduct its tour of the site.

Transaction Documents and Bidder Comment Period – Consumers will make available to Bidders in April, 2006 its proposed Transaction Documents (e.g., for Palisades, an ASA, PPA, ICA, and for the Big Rock ISFSI, an ASA). Bidders will have the opportunity to submit written comments on the Transaction Documents and Consumers will distribute final documents by June, 2006.

³¹ Consumers and CEA reserve the right, in their absolute and sole discretion, to provide the responses to certain questions to all Bidders, without identifying the Bidder asking the question.

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Binding Bid Instructions – Consumers expects to issue Binding Bid Instructions in late May. The Binding Bid Instructions will include detailed requirements for the submission of Binding Bid Packages, final Transaction Documents, including schedules and exhibits, and a template for the Michigan regulatory filing which will need to be made very shortly after the selection of the winning Bidder(s).

Binding Bids – Binding Bids will be due in June, 2006. As discussed in Chapter 9, Terms of Transaction, Consumers is seeking Binding Bids for the purchase of Palisades. In addition, Bidders may submit separate, Binding Bids for the purchase of the Big Rock ISFSI asset.

Bid Evaluation and Selection - Shortly after the receipt of Binding Bids, Consumers may enter into limited negotiations as it deems appropriate in its sole discretion. If these negotiations lead to an accepted Transaction, following the execution of the Transaction Documents, Consumers will announce the winner or winners, and together with the winner(s), file for the necessary regulatory and other governmental approvals. Consumers intends to close as quickly as practicable following the receipt of all necessary regulatory and other governmental approvals.

10.3 Conclusion

Throughout the auction process, Concentric Energy Advisors, Inc. will be the sole and exclusive point of contact for the Transaction. If you have any questions about these instructions, or require any information about the Assets or the possible Transaction, please contact, Tara Nolan (508.263.6226, tnolan@ceadvisors.com), John Slocum (508.263.6288, jslocum@ceadvisors.com), or Carrie O'Neill (508.263.6250, coneill@ceadvisors.com).

Pursuant to the Confidentiality Agreements signed by each Bidder, Bidders are reminded that they are precluded from discussing with any person outside of this Transaction any aspect of the potential sale of the Assets. Please note that the content of this Offering Memorandum, the existence, content, and status of any bid and communications surrounding this process and the

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possible Transaction, are also subject to the Confidentiality Agreement. Further, Consumers expressly reserves the right, in its sole and absolute discretion, to negotiate with one or more parties at any time and to enter into a definitive agreement for a Transaction involving the Assets without prior notice. Consumers also reserves the right, at any time, to terminate the process or to modify any of the rules or procedures related to the possible Transaction without prior notice and without assigning any reason.

CHAPTER 11. DUE DILIGENCE PROCESS AND PROTOCOLS

11.1 Overview and Anticipated Schedule

With the issuance of this Offering Memorandum, Bidders are invited to commence their due diligence. Due diligence is scheduled to continue for approximately four months. Bidders' due diligence materials and resources include:

- This Offering Memorandum,
- The Virtual Document Room (provided via IntraLinks) available throughout the due diligence process,
- The Physical Document Rooms (one located in CEA's Marlborough, Massachusetts office and available upon request throughout the due diligence process; and one located at the Plant and only available during a Bidder's scheduled site tour³²).
- On-going Q&A (also provided via IntraLinks) available throughout the process,
- Site tours and on-site meetings at Palisades and the Big Rock ISFSI during specified times,
- Off-site management meetings and/or due diligence calls available throughout the process, and
- Post-outage briefing information available as soon as practicable following the successful restart of Palisades after the planned refueling outage.

In addition, Consumers expects to issue a supplement to this Offering Memorandum within the next few weeks, containing white papers on technical subjects and a CD with photographs of the Assets. All information and materials gained through due diligence are covered by the Confidentiality Agreement previously executed by each Bidder. To maintain confidentiality, only one Bidder and its team members, including outside advisors, will be allowed access to the Physical Document Room, site tours, and/or off-site management meetings at a time.

³² The same materials will be made available at both locations.

CHAPTER 11. DUE DILIGENCE PROCESS AND PROTOCOLS

Each Bidder will be assigned an individual from CEA (“CEA Bidder Representative”) who will provide support to that Bidder throughout the due diligence phase. As discussed in detail below, the Bidders will be required to coordinate through their CEA Bidder Representative to gain access to the Virtual and Physical Document Rooms, schedule Plant site tours, and participate in Management Meetings.

11.2 Document Room

11.2.1 Virtual Document Room

The Virtual Document Room is being provided through IntraLinks, and may be found at <http://www.intralinks.com>. Each individual from a qualified Bidder team that wishes to access the Virtual Document Room must first provide specific information identified in Attachment 11A to their designated CEA Bidder Representative before access to the Virtual Document Room will be granted. The Virtual Document Room includes documents compiled to facilitate Bidders’ evaluation of Palisades and the Big Rock ISFSI. For users not familiar with IntraLinks, the Virtual Document Room is set up in an index format, meaning that all documents are categorized and sub-categorized for easy reference and location. In the event that documents are added to the Virtual Document Room after the date of this Offering Memorandum, Bidders will be notified and the document index provided on the Virtual Document Room will reflect the additional documents. Bidders will be notified when new documents are added to the document index.

For a detailed description of how to gain access to the Virtual Document Room and utilize IntraLinks for purposes of Palisades due diligence efforts, please refer to Attachment 11A of this Offering Memorandum.

11.2.2 Physical Document Room

In addition to the Virtual Document Room, a Physical Document Room is also available. The Physical Document Room contains hard copies of certain highly-confidential, view-only documents for Palisades and Big Rock. Please note that no hardcopies of documents

CHAPTER 11. DUE DILIGENCE PROCESS AND PROTOCOLS

accessible via the Virtual Document Room will be provided in the Physical Document Room. An index of the documents provided in the Physical Document Room is available in the Virtual Document Room. In the event that documents are added to the Physical Document Room after the date of this Offering Memorandum, Bidders will be notified and the Physical Document Room index provided in the Virtual Document Room will be updated to reflect the additional documents.

Documents available solely in the Physical Document Room are provided in two locations. One Physical Document Room is located in CEA's Marlborough, Massachusetts office, in the vicinity of Boston ("CEA Physical Document Room"). Access to the CEA Physical Document Room is available on an as-requested, first-come, first-served basis and must be scheduled in advance through the Bidder's designated CEA Bidder Representative. Directions to CEA's office will be provided to each Bidder when access has been requested. Access to the CEA Physical Document Room is available upon issuance of this Offering Memorandum and ending on the date Binding Bids are due. In addition, a Physical Document Room will also be available to Bidders at Palisades during site tours ("Plant Physical Document Room"). Identical information will be contained in each Physical Document Room.

All fuel and fuel-related contracts ("Fuel Contracts") relating to Palisades will be contained in the Physical Document Rooms. The Fuel Contracts will be provided in the Physical Document Rooms when consents from the vendors are obtained, and as noted above, the updated list of documents available in the Physical Document Rooms will be available in the Virtual Document Room. In addition, certain non-fuel contracts relating to Palisades may also be available for Bidder review in the Physical Document Rooms. Prior to a Bidder's arrival at either of the Physical Document Rooms or participation in any meetings or calls regarding these commercially-sensitive contracts, the Bidder and any reviewing representatives must execute all necessary confidentiality agreements and/or non-disclosure agreements that may be required by the vendor(s) to gain access to the contracts located in

CHAPTER 11. DUE DILIGENCE PROCESS AND PROTOCOLS

the Physical Document Rooms. Each Bidder seeking access to these commercially-sensitive contracts is required to work through its designated CEA Bidder Representative to gain such access.

11.3 Q&A Process

Each Bidder may submit confidential questions concerning Palisades, the Big Rock ISFSI, and the Transaction via the IntraLinks website. **Please note, however, that all Bidders must review the information provided in this Offering Memorandum, as well as in the Virtual Document Room before submitting questions.** A detailed description of how Bidders should submit questions via IntraLinks is presented in Attachment 11B of this Offering Memorandum. Please note that all questions must be submitted via IntraLinks not later than ten days prior to the due date for Binding Bids. All questions will be considered confidential and an answer will be provided in a timely fashion. While answers generally will be considered confidential as well, the Seller reserves the right, as it deems appropriate in its sole judgment, to disseminate information contained in answers to all Bidders.

11.4 Palisades Site Tours and On-Site Meetings

Palisades site tours are anticipated to be available beginning on or about February 20. Each Bidder will be allowed up to three days of site tours (not including the RFO briefing described below). Each Bidder should identify its questions and areas of interest in advance of its scheduled Site Tour and communicate that information to its designated CEA Bidder Representative so that the appropriate Plant personnel and/or materials may be made available. Bidders are required to provide their designated CEA Bidder Representative with a list of all site tour attendees at least one week in advance of the scheduled tour. Bidders will be processed, as necessary, on the first day of their site visits. It is imperative that Bidders identify the access needs of each individual on their teams in order to efficiently process site tour participants. The Seller and CEA reserve the right to restrict access for those not on the site tour list. The Seller will try to accommodate as many individuals as the Bidder feels are necessary to support its on-site due diligence, but requires advance

CHAPTER 11. DUE DILIGENCE PROCESS AND PROTOCOLS

notification of the number and function of each of those individuals and reserves the right to limit the number of individuals.

Briefing information highlighting the results of the RFO will be distributed to all Bidders. When the RFO has been completed each Bidder will be given the opportunity to conduct up to one additional day of on-site due diligence.

The South Haven Conference Center (“SHCC”), located approximately ten miles from the Plant, is available to Bidders in the evenings, post site tours, for team dinners and meetings³³. Bidders are encouraged to use this facility as a private location for their evening wrap up sessions. The facility has internet access and fax machines for Bidders’ use while at SHCC. For more information regarding this facility, please contact your CEA Bidder Representative and also the SHCC web site at www.consumersenergy.com/shcc.

11.5 Big Rock ISFSI Site Tours

Bidders will be provided the opportunity to conduct site tours of the Big Rock ISFSI. Big Rock ISFSI site tours are anticipated to be available beginning in April 2006. Each Bidder will be allowed a single day to conduct a site tour of the Big Rock ISFSI. Each Bidder should identify its questions and areas of interest in advance of its scheduled site tour and communicate that information to their designated CEA Bidder Representative so that the appropriate personnel and/or materials may be made available. Bidders are required to provide their designated CEA Bidder Representative with a list of all site tour attendees at least one week in advance of the scheduled tour. It is imperative that Bidders identify the access needs of each individual on their team in order to efficiently process site tour participants. The Seller and CEA reserve the right to restrict access for those not on the site tour list. The Seller will try to accommodate as many individuals as the Bidder feels are necessary to

³³ The SHCE is also the location of Palisades’ EOF

CHAPTER 11. DUE DILIGENCE PROCESS AND PROTOCOLS

support its on-site due diligence, but requires advance notification of the number and function of each of those individuals and reserves the right to limit the number of individuals.

11.6 Off-Site Management Meetings

Starting in April 2006, Bidders will be allowed to participate in up to one day of meetings with management of Consumers (“Management Meetings”). Management Meetings will be held in Jackson, Michigan, must be scheduled in advance, and will be available on a first-come, first-served basis. The following is a list of topics which will be available for discussion via face-to-face meetings or conference calls:

- Transaction terms and Asset Sale Agreements,
- Power Purchase Agreement,
- Regulatory,
- License renewal,
- Decommissioning,
- Workforce-related terms and benefits,
- Real estate,
- Finance, tax, and budgeting,
- Environmental,
- NMC,
- MISO, and
- Big Rock ISFSI.

Access to the Management Meetings must be scheduled by contacting the Bidder’s designated CEA Bidder Representative. Bidders will be requested to propose an agenda for any Management Meetings at least five days in advance of any meeting or tour to ensure availability of all necessary personnel.

CHAPTER 11. DUE DILIGENCE PROCESS AND PROTOCOLS

11.7 Conclusion

CEA shall be each Bidder's sole and exclusive point of contact for the Transaction throughout the auction process. If you have any questions about these instructions, or require any information about Palisades or the Transaction, please contact Tara Nolan (508.263.6226, tnolan@ceadvisors.com), John Slocum (508.263.6288, jslocum@ceadvisors.com), Carrie O'Neill (508.263.6250, coneill@ceadvisors.com), or your specified CEA Bidder Representative.

ATTACHMENT 11A. ACCESSING THE VIRTUAL DOCUMENT ROOM

11A.1 Overview

This attachment to the Offering Memorandum provides an overview of the procedures for Bidders to access and view documentation in the Virtual Document Room via IntraLinks.

11A.2 Bidder and Bidder Group Setup in IntraLinks

11A.2.1 Required Information

Each individual from a qualified Bidder team that wishes to access the Virtual Document Room must first provide the information noted below to their designated CEA Bidder Representative before access to the Virtual Document Room will be granted. Please note that it is very important that each individual seeking access to the Virtual Document Room provide the information below:

- i. First and last name of the individual seeking access to the Virtual Document Room
- ii. E-mail address
- iii. Phone number
- iv. The name of the company for which the individual is employed (**NOTE:** this is NOT the Bidder Group name; see next)
- v. The name of the Bidder Group provided by CEA for which the individual is assisting in the Transaction
- vi. Sharing of Usernames and Passwords is not permissible and may result in termination of Virtual Document Room Privileges

After the above information has been provided to the CEA Bidder Representative, CEA will then establish that individual as a qualified user of the Virtual Document Room and that individual will receive a unique IntraLinks ID (the individual's e-mail address) and password via e-mail. (Note: If a user has used IntraLinks in the past, they will already have an IntraLinks ID and password, but will only be able to access the Virtual Document Room after receiving an e-mail granting them specific access to the Palisades Auction workspace. A new password will not be provided; however, access to the Palisades Auction workspace must first be granted in order to utilize the Virtual Document Room. If a user has forgotten

ATTACHMENT 11A. ACCESSING THE VIRTUAL DOCUMENT ROOM

their password, that user can either follow the prompts provided on the website to obtain their password, or call IntraLinks customer service directly. Also, please note that some spam and junk e-mail filtering programs may route e-mails from IntraLinks to a spam or junk e-mail folder. If a user does not receive an e-mail from IntraLinks soon after requesting access to the Virtual Document Room, please check these folders before contacting IntraLinks.)

11A.2.2 Bidder Groups

Each member of a specific Bidder team will be set up as a member of a “Bidder group” (“Bidder Group”) in the Virtual Document Room. For example, if John Smith is assisting Bidder XYZ in the Transaction, then John Smith will be set up as part of Bidder Group XYZ for purposes of the Virtual Document Room. Each member of a Bidder Group will be able to see the other members of that group and the documentation and information that are available to that Bidder Group, but will not be able to see information related to other Bidder Groups or specific members of other groups. Similarly, during the Q&A process, each member of a Bidder Group will be able to see the questions posted by other members of their Bidder Group and the corresponding responses, but will not be able to access the questions and responses of other Bidder Groups. In this way, individual access to the Virtual Document Room, as well as the Q&A process, is kept strictly confidential.

11A.3 Bidder Access to IntraLinks

11A.3.1 Accessing the Virtual Document Room Website

Upon receiving a unique username and password via e-mail from IntraLinks,³⁴ a user can access the website by visiting the IntraLinks website at any time

³⁴ As noted above, a password will only be provided to new users of IntraLinks. Individuals that have previously utilized IntraLinks should continue to utilize their previously established password.

ATTACHMENT 11A. ACCESSING THE VIRTUAL DOCUMENT ROOM

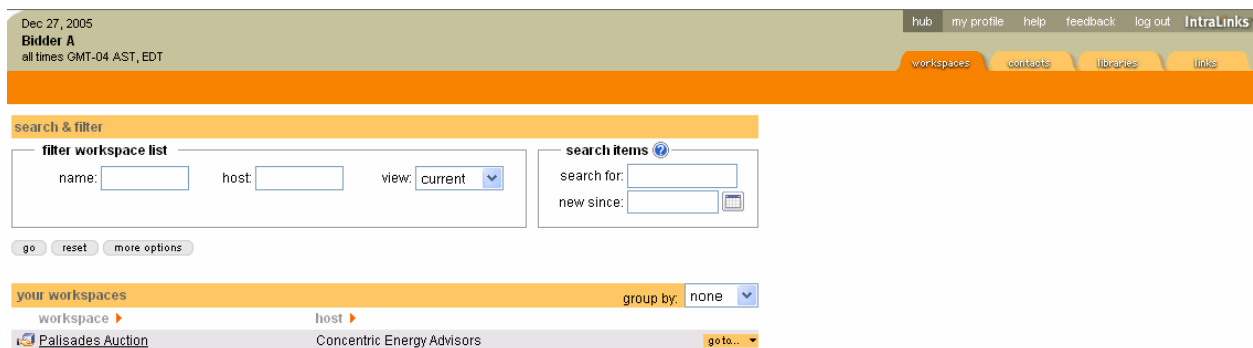
(<http://www.intralinks.com>). Once at the IntraLinks website, a user can click on the login button in the upper left-hand corner of the screen (see Figure 11A-1 below).

Figure 11A-1: IntraLinks Log-In Button



After entering the unique username and password, if a user has not previously used IntraLinks, they will be prompted to set up their user profile, which includes choosing a new password, before entering the Virtual Document Room. (Previous users of IntraLinks will not be required to set up/modify their user profile.) Once the profile has been established, the user will be asked to review and agree to the IntraLinks confidentiality agreement. Next, the user will enter the IntraLinks “hub”, which lists the Virtual Document Room as “Palisades Auction”, as shown below in Figure 11A-2.

Figure 11A-2: IntraLinks “Hub” View



From the “hub” screen, the user should click on “Palisades Auction”. This will bring the user to a screen describing the Palisades confidentiality provisions associated with the Virtual Document Room, which users must agree to with each use of the Virtual Document Room.

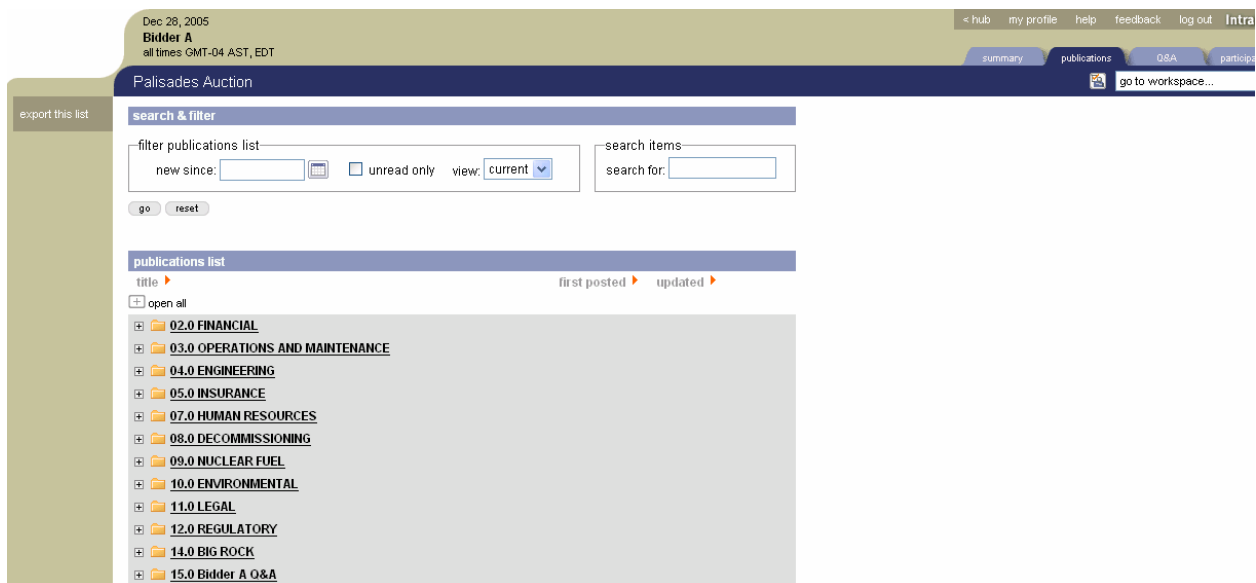
After agreeing to the confidentiality agreement by clicking in the upper left-hand corner, users will be directed into the “Publications” tab of the Virtual Document Room, which appears below in Figure 11A-3. From the “Publications” tab, users will be able to view

ATTACHMENT 11A. ACCESSING THE VIRTUAL DOCUMENT ROOM

expandable folders. Each folder contains a general category of documentation, such as “Financial”, “Engineering”, “Human Resources” and “Environmental”. In addition, each of these folders contains the follow elements:

- i. Sub folders, which provide further categorization of documentation; and
- ii. Publications, which contain groups of similar documents as attachments.

Figure 11A-3: IntraLinks “Publications” Tab View



Note: the screen above is presented for illustrative purposes and does not reflect the actual contents of the Virtual Document Room.

By expanding the folders and sub folders, users will be able to click on individual publications, and open individual documents attached to those publications. In addition, each Bidder Group will have a confidential folder specifically designated for their Q&A (“Confidential Q&A Folder”), which will include all of the questions that have been posed by various members of the Bidder Group, as well as the responses provided by Consumers to those questions. For specific details on the Q&A process and the use of IntraLinks for that process, please refer to Attachment 11B of the Offering Memorandum. Depending on the predetermined security level of the attachments, users will be able to print and save the

ATTACHMENT 11A. ACCESSING THE VIRTUAL DOCUMENT ROOM

majority of documents to their desktops. Please note, however, that all documentation reviewed and/or downloaded from the Virtual Document Room is subject to the confidentiality provisions agreed to by the user upon entering the Virtual Document Room.

11A.4 IntraLinks Customer Service

IntraLinks offers 24-hour telephone support and the toll-free number at which they can be reached is provided on the IntraLinks website to all qualified Bidders who have been issued a username and password. All technical questions regarding use of the Virtual Document Room for document review and Q&A should be directed to IntraLinks customer support.

ATTACHMENT 11B. Q&A PROCESS VIA THE INTRALINKS WEBSITE

11B.1 Overview

This attachment to the Offering Memorandum provides an overview of the procedures for Bidders to submit questions and receive responses from Consumers through the Virtual Document Room. The Virtual Document Room is provided using IntraLinks.

11B.2 Q&A

11B.2.1 General Guidelines

- i. Bidders are required to utilize the Virtual Document Room (i.e., IntraLinks) to submit all questions, and all responses to those questions will also be provided to Bidders via the Virtual Document Room.
- ii. Each Bidder team will be provided its own confidential folder (hereafter “Confidential Q&A Folder”) in the Virtual Document Room in which all of the responses to their specific questions will be available for review/download. Please note that only those members of the Bidder team designated by the Bidder when requesting access to the Virtual Document Room will be provided access to the Confidential Q&A Folder containing that Bidder’s responses.
- iii. To ensure timely and accurate responses to their questions, Bidders are required to submit one question at a time (i.e. one question per “new Q&A” screen on IntraLinks), using the procedures described herein.
- iv. To avoid misinterpretation of any question, and to improve the timeliness of responses, Bidders should reference in the text of their questions the index number of the document in the Virtual or Physical Document Room on which they have a question, or the specific information that was obtained in a meeting or conference call. For instance, if a Bidder has a follow up question regarding something they were told by Joe Smith on a conference call; please refer to Joe Smith and the date of the call in the text of the question.

ATTACHMENT 11B. Q&A PROCESS VIA THE INTRALINKS WEBSITE

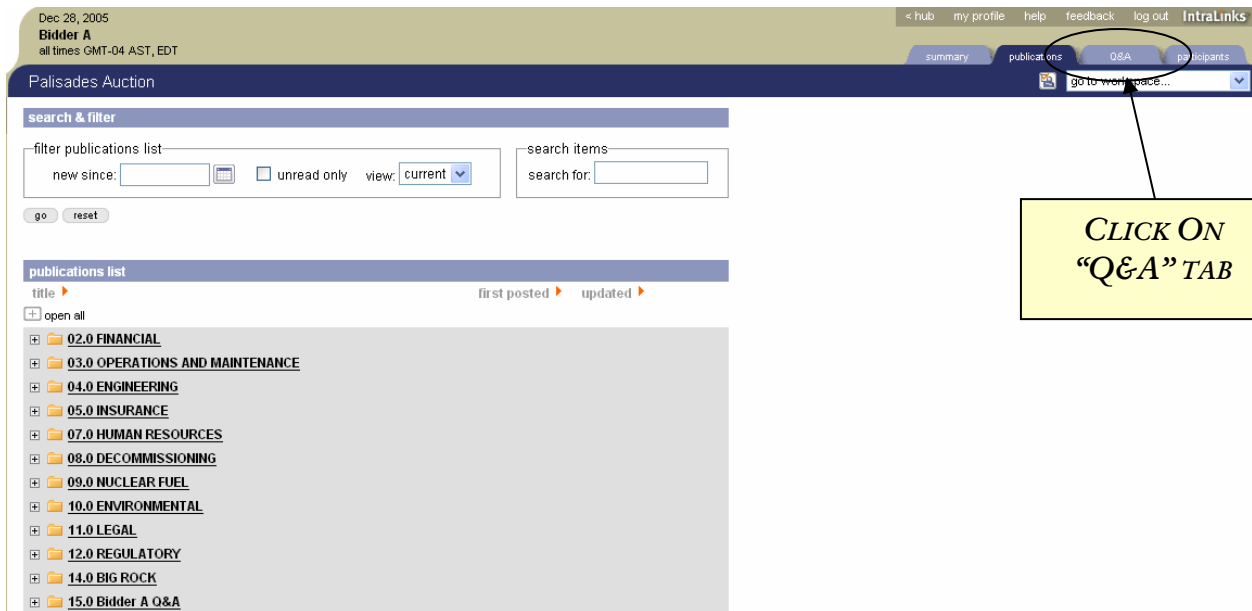
- v. If a Bidder chooses to follow-up on or seeks clarification to a written response they have received from Consumers, the Bidder is required to submit such follow-up questions as new questions. If the new question is in relation to a prior response provided by Consumers, the Bidder should reference the original question in the follow-up question. This will ensure that any follow-up questions are processed accurately and in a timely manner. Please see Section 11B.2.4 “Follow-Up Questions/Clarification Questions” for details on submitting follow-up questions.
- vi. IntraLinks provides 24-hour telephone support and the toll-free number at which they can be reached is provided on the IntraLinks website to all qualified Bidders who have been issued a username and password. All technical questions regarding use of the Virtual Document Room for document review and Q&A should be directed to IntraLinks support. It is important to note, however, that in order to maintain simplicity and a streamlined due diligence process for Bidders, not all functionality available through IntraLinks is being used for the Palisades Transaction. Bidders should specifically follow the guidelines provided herein, as deviation from them may result in delays in providing responses to Bidder questions.

11B.2.2 Posting Questions

Bidders seeking to submit questions to Consumers must log onto the IntraLinks website (<http://www.intralinks.com>) using each individual’s unique IntraLinks username and password just as they would to review documents in the Virtual Document Room. Once logged onto IntraLinks, Bidders should click on the Q&A tab in the upper-right hand portion of the workspace, as shown in Figure 11B-1 below.

ATTACHMENT 11B. Q&A PROCESS VIA THE INTRALINKS WEBSITE

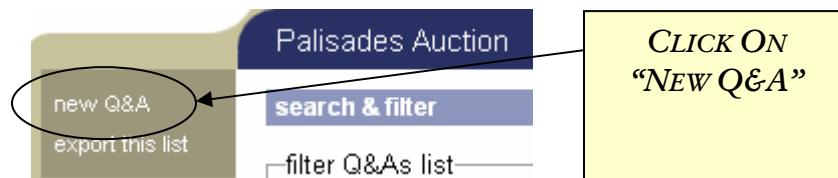
Figure 11B-1: IntraLinks Main Workspace View



Note: the screen above is presented for illustrative purposes and does not reflect the actual contents of the Virtual Document Room.

Bidders should then select “new Q&A” in the upper left-hand corner of the Q&A screen, as shown in Figure 11B-2.

Figure 11B-2: Q&A View



Bidders will now be able to submit a new question. An illustrative example of the screen from which Bidders may submit new questions is shown below in Figure 11B-3. Bidders should adhere to the following procedures when submitting a new question and each of these steps is reflected in Figure 11B-3:

ATTACHMENT 11B. Q&A PROCESS VIA THE INTRALINKS WEBSITE

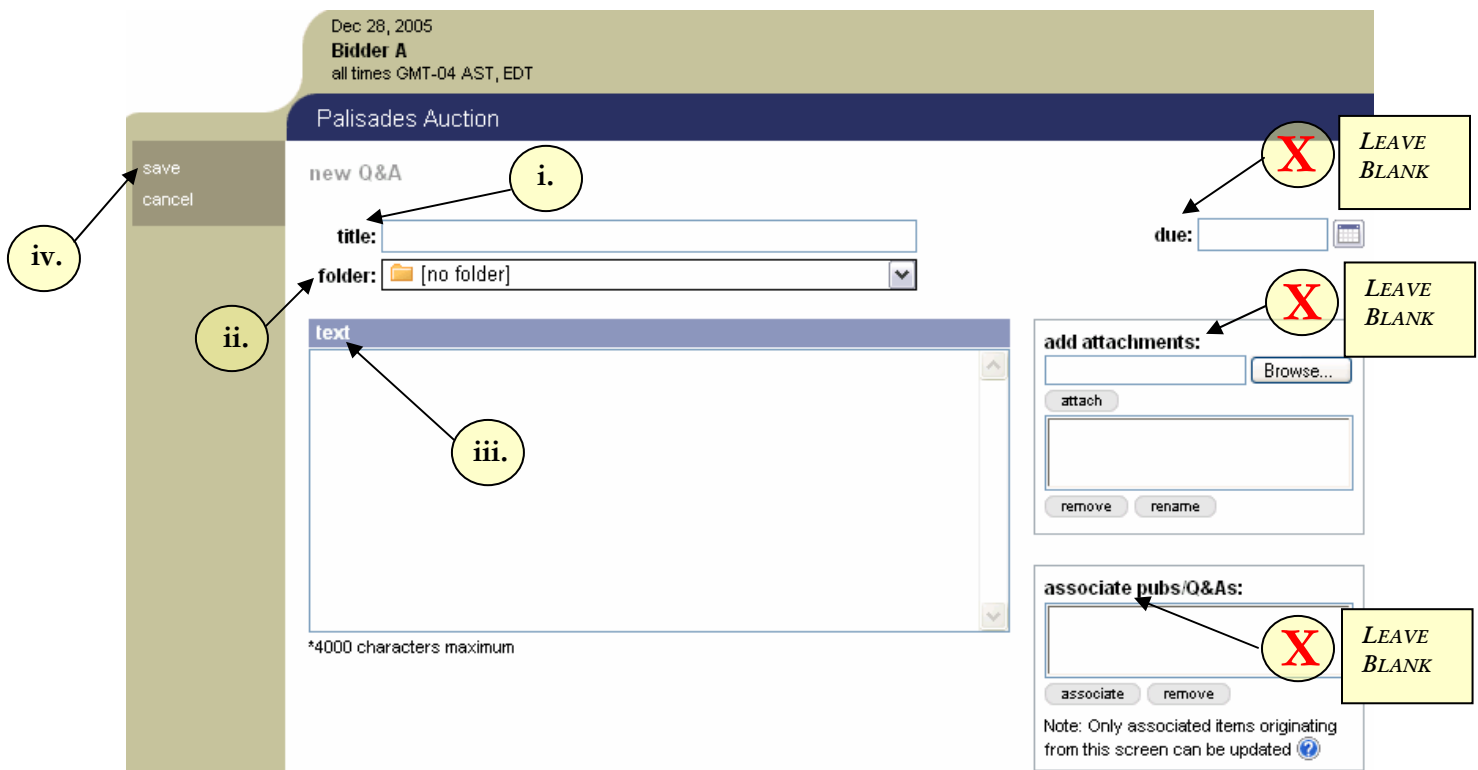
- i. **Title:** Bidders should provide a general description of their question in the “**title**” field in the new questions screen. Examples of titles may include “Environmental”, “Engineering”, “HR” or “Financial”.
- ii. **Folder:** Bidders have the option of associating a question with a particular folder in the Virtual Document Room that contains the document about which they have a question. It is also acceptable to leave this field blank. Please note that after a question has been submitted, CEA may change the title of the question so that it can be responded to in an efficient and timely manner.
- iii. **Text:** The “**text**” field is the location where Bidders type in the question for which they are seeking a response. Bidders should note that the “**text**” field is limited to 4,000 characters. Questions of length greater than 4,000 characters should be split into multiple questions. As noted above, whenever possible, Bidders should make reference in the text of their questions to the specific document, meeting, or conference call about which a question is being asked.
- iv. **Save:** Upon completion of the question, Bidders must click on “**save**” in the upper left-hand corner to submit the question to Consumers. This will automatically alert CEA that a new question has been submitted. Please note that if “**save**” has not been clicked, the question will not be submitted and thus the Bidder will not receive a response.
- v. **Fields to be Left Blank** (denoted by a “X” below in Figure 11B-3): Please leave the following fields blank:
 - a. **Due:** Bidders should leave the “**due**” fields blank, as all questions will be responded to in a timely fashion. Failure to leave this field

ATTACHMENT 11B. Q&A PROCESS VIA THE INTRALINKS WEBSITE

blank will result in the Bidder receiving false e-mail alerts regarding status of the response.

- b. **Attachments:** Bidders should not use the “add attachments” option when submitting questions, as no responses will be made to attachments. Please type all questions into the “text” field as noted above.
- c. **Associations:** Bidders also should not use the “associated pubs/Q&As” field. This field will be used by CEA to post responses to questions and thus should be left blank.

Figure 11B-3: IntraLinks “New Q&A” View



ATTACHMENT 11B. Q&A PROCESS VIA THE INTRALINKS WEBSITE

11B.2.3 Responses

Monitoring the Status of Questions

After a question is submitted, Bidders can check the status of their question under the “Q&A” tab of the Virtual Document Room. To do this, Bidders should click on the “Q&A” tab in the upper right-hand corner of the workspace. Once within the “Q&A” tab, all questions that the Bidder has submitted will be shown on the screen, and all questions that are in the process of being answered will appear as “pending” in the status column, as shown in Figure 11B-4 below.

Figure 11B-4: Q&A View

The screenshot shows the Q&A View interface. At the top, it displays the date 'Dec 28, 2005', the bidder 'Bidder A', and the time zone 'all times GMT-04 AST, EDT'. Below this is the 'Palisades Auction' header. A 'search & filter' section includes a 'filter Q&As list' with a 'new since' date picker, an 'unread only' checkbox, and a 'view' dropdown set to 'all'. There is also a 'search items' search bar. Below the search section is the 'Q&A list' table. The table has columns for 'title', 'first posted', 'modified', '# resp', 'status', and 'due'. A row is shown with a folder icon, a plus sign, and the text '[no folder]'. Below this, a question titled 'TestQuestion' is listed with the bidder 'Bidder A/Conc...', the date 'Dec 28, 05', and a status of 'pending'. A callout box points to the 'pending' status with the text: "PENDING" DENOTES IN-PROCESS QUESTIONS.

Once a question has been submitted, CEA will assign each question a unique numerical identifier (“Question ID”) that Bidders can use to track and later refer to that question. This is shown in Figure 11B-5 below; the unique identifier has been added to the Test Question so that it now appears as “A-001 TestQuestion”.

ATTACHMENT 11B. Q&A PROCESS VIA THE INTRALINKS WEBSITE

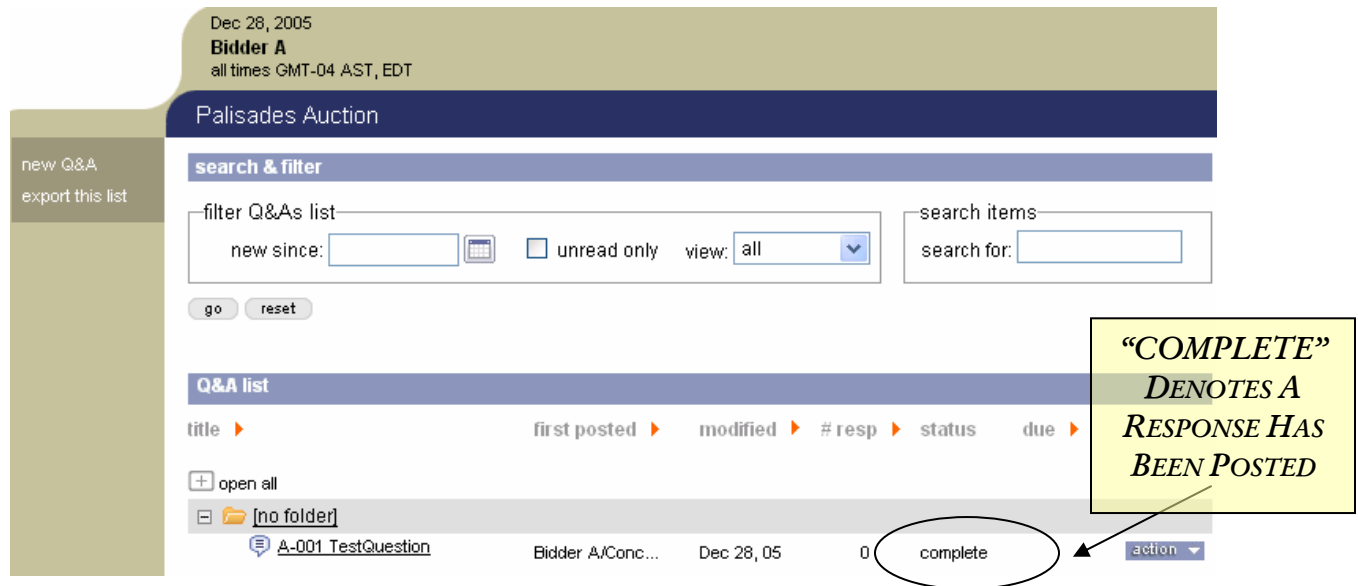
Figure 11B-5: Q&A View With Numerical Identifier

The screenshot displays the Palisades Auction Q&A interface. At the top, it shows the date "Dec 28, 2005" and "Bidder A" with the time zone "all times GMT-04 AST, EDT". The main header is "Palisades Auction". Below this is a "search & filter" section with a "filter Q&As list" area containing a "new since:" date picker, an "unread only" checkbox, and a "view:" dropdown menu set to "all". To the right is a "search items" section with a "search for:" input field. Below the search section is a "Q&A list" table with columns for "title", "first posted", "modified", "# resp", "status", and "due". A callout box labeled "CEA ADDS A QUESTION ID" points to the "A-001 TestQuestion" entry in the "title" column. The table also shows "Bidder A/Conc...", "Dec 28, 05", "0", and "pending" for this entry. A "go" and "reset" button are located below the search filters.

Once a response has been provided by Consumers to the question submitted, the “status” column shown in Figure 11B-6 below will reflect “complete”. This indicates that the Bidder’s question has been completed.

ATTACHMENT 11B. Q&A PROCESS VIA THE INTRALINKS WEBSITE

Figure 11B-6: “Q&A” Tab View Once Response Provided



Accessing Responses

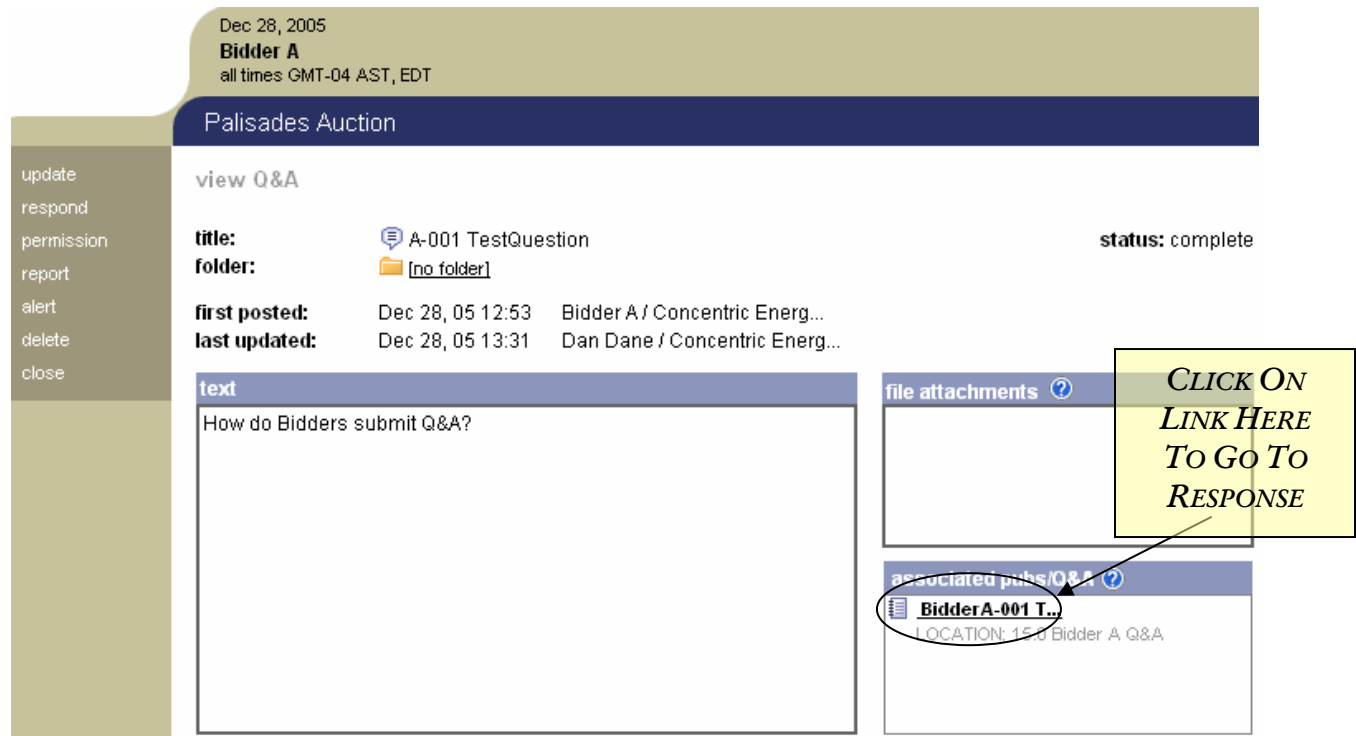
Bidders have two options for accessing responses to their questions: (1) via the “Q&A” tab; or (2) via the Bidder’s Confidential Q&A Folder located within the “publication” tab. Both options are described below.

Accessing Responses via the “Q&A” Tab

By clicking on the completed question in the “Q&A” tab, Bidders will be able to access the response through the “view Q&A” screen, shown in Figure 11B-7, by clicking on the link in the “associated pubs/Q&A” field.

ATTACHMENT 11B. Q&A PROCESS VIA THE INTRALINKS WEBSITE

Figure 11B-7: “View Q&A” Screen Once Response Provided

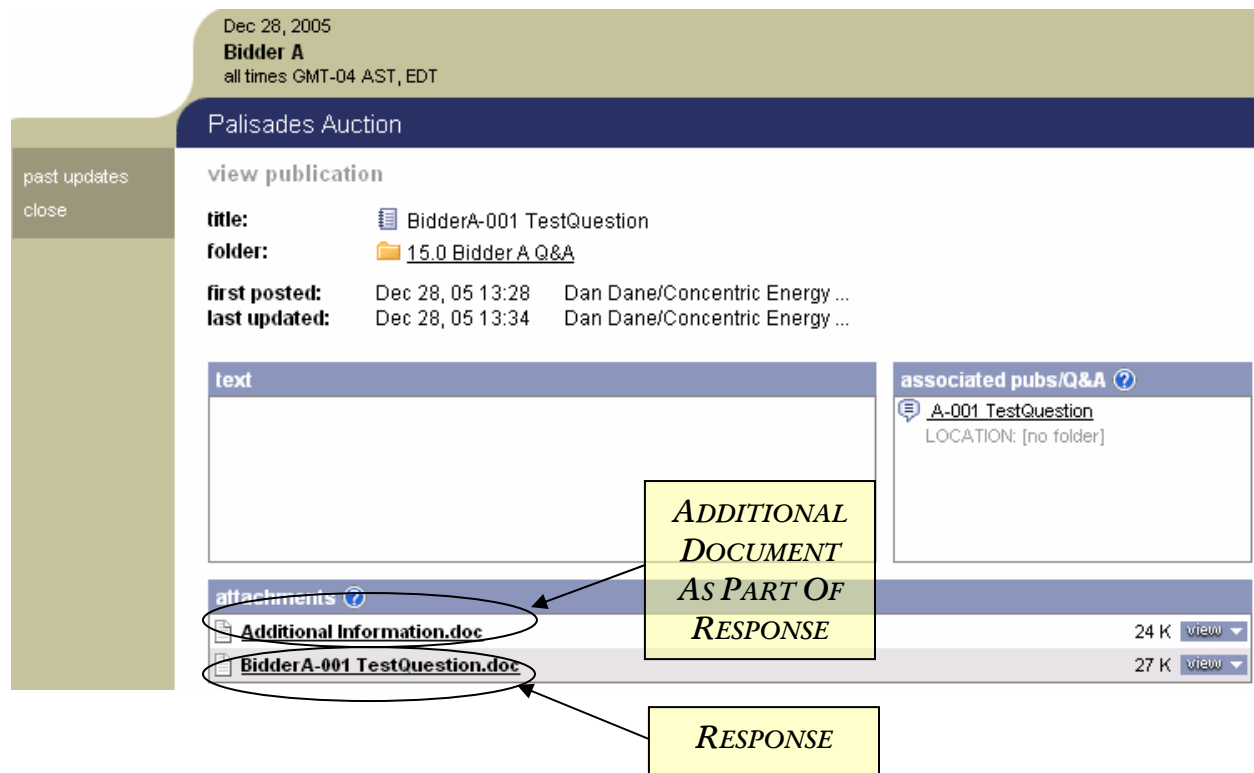


By clicking on the link in the “associated pubs/Q&A” field, Bidders will be directed to the publication to which the response document is attached (see Figure 11B-8). As can be seen in Figure 11B-8, the narrative response to each question will be provided in a Microsoft Word document in the “attachments” box. By clicking on the Word document therein, Bidders can open and view the response document. Any additional documents that are provided as part of the response will also be shown in the “attachments” box, and will be provided in either .PDF or .XLS format. It is important to note that Consumers reserves the right to disseminate responses and documents contained in responses provided to one Bidder to all other Bidders. In those cases, the publication to which the document is attached will

ATTACHMENT 11B. Q&A PROCESS VIA THE INTRALINKS WEBSITE

appear as an association, as opposed to the document appearing as a direct attachment.

Figure 11B-8: “View Publication” Screen Once Response Provided



Accessing Responses from the “Publications” Tab

Bidders may also check the status of their questions in the “Publications” tab. To do this, Bidders should click on the “Publications” tab in the upper right-hand corner of the workspace. Once within the “Publications” tab, the Virtual Document Room index will appear, including the Bidder’s Confidential Q&A Folder (shown as “15.0 Bidder A Q&A” in Figure 11B-9 below). Once the Bidder clicks on their Confidential Q&A Folder, all responses that have been provided to date will appear. This is shown in Figure 11B-9 below. Please note that if a response has not yet been

ATTACHMENT 11B. Q&A PROCESS VIA THE INTRALINKS WEBSITE

provided, the question WILL NOT APPEAR on this screen. By clicking on a particular response, Bidders will then be directed to the “view publications” screen, as described in the section above (see Figure 11B-8).

Figure 11B-9: “Publications” Tab

The screenshot displays the 'Publications' tab of the Palisades Auction website. At the top, it shows the date 'Dec 28, 2005' and the bid name 'Bidder A'. Below this is a search and filter section with options for 'new since', 'unread only', and 'view: current'. The main area is a 'publications list' with columns for 'title', 'first posted', and 'updated'. The list includes folders for various categories like '02.0 FINANCIAL' through '15.0 Bidder A Q&A'. The '15.0 Bidder A Q&A' folder is circled in red, and an arrow points to it from a text box stating 'ONLY BIDDER "TEAM A" CAN SEE AND HAVE ACCESS TO THIS FOLDER'. Below this folder, there are three documents listed: 'BidderA-001 TestQuestion', 'Additional Information.doc (24 kb)', and 'BidderA-001 TestQuestion.doc (27 kb)'. A yellow callout box on the right side of the screenshot contains the text: 'PUBLICATIONS LISTED IN THE BIDDER'S CONFIDENTIAL Q&A FOLDER INDICATE COMPLETED RESPONSES TO QUESTIONS. BIDDERS CAN ALSO CLICK DIRECTLY ON THE ATTACHED RESPONSE TO ACCESS THE...'. The 'BidderA-001 TestQuestion' document is also circled in red.

Note: the screen above is presented for illustrative purposes and does not reflect the actual contents of the Virtual Document Room.

11B.2.4 Follow-Up Questions/Clarification Questions

ATTACHMENT 11B. Q&A PROCESS VIA THE INTRALINKS WEBSITE

As noted above, Bidders are required to submit all follow-up and clarifying questions as new questions, or a response will not be provided by Consumers. Bidders are not permitted to submit follow-up or clarification questions by using the “update” or “respond” options in the Virtual Document Room shown below in Figure 11B-10. If a follow-up question is submitted by using the “update” or “respond” function, then a response will not be provided.

Figure 11B-10: “View Q&A” Tab Reflecting Answered Question

The screenshot shows a web interface for 'Palisades Auction'. At the top, it says 'Dec 28, 2005 Bidder A all times GMT-04 AST, EDT'. Below this is a navigation bar with 'Palisades Auction' and a 'view Q&A' link. A yellow callout box with a red 'X' and the text 'DO NOT USE THESE OPTIONS' points to the 'update' and 'respond' buttons in a left-hand menu. The main content area shows details for a question: 'title: A-001 TestQuestion', 'folder: [no folder]', 'status: complete', 'first posted: Dec 28, 05 12:53 Bidder A / Concentric Energ...', and 'last updated: Dec 28, 05 13:31 Dan Dane / Concentric Energ...'. Below the details is a 'text' field containing the question: 'How do Bidders submit Q&A?'. To the right of the text field are sections for 'file attachments' and 'associated pubs/Q&A', with the latter showing a link to 'Bidder A-001 T...' and the location '15.0 Bidder A Q&A'.

As noted above, if Bidders need to ask a follow-up question to a response provided by Consumers, then a new question must be submitted. Upon creating the new question, Bidders should refer to the original question in the “text” field by the Question ID (e.g. “A-001”). This is shown in Figure 11B-11 below. By referencing the Question ID of the original question in the new question, this will aid in the

ATTACHMENT 11B. Q&A PROCESS VIA THE INTRALINKS WEBSITE

timely execution of a follow-up response. While it is important to reference the original Question ID in the “text” field of the new question, please do not refer to the Question ID in the title field, as this will hinder the tracking of both the original and follow-up questions. All follow-up questions will also be assigned a unique identifier and will be processed as described above.

Figure 11B-11: “Q&A” Tab Associating Follow-Up Question with Original Question

Dec 28, 2005
Bidder A
all times GMT-04 AST, EDT

Palisades Auction

save
cancel

new Q&A

title: Follow Up Question

folder: [no folder]

text

Follow up to question A-001. Please provide more information on the Q&A process.

*4000 characters maximum

add attachments:
attach [Browse...]
remove [rename]

associate pubs/Q&As:
associate [remove]

Note: Only associated items originating from this screen can be updated

THE FOLLOW UP QUESTION IS POSTED AS A NEW QUESTION

THE ORIGINAL QUESTION ID IS REFERENCED IN THE TEXT