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MPSC cuts to $142 million amount Consumers Energy can use to buy out its Palisades power contract

LANSING, Mich. – The Michigan Public Service Commission (MPSC) today approved just over $142 million for a securitization plan Consumers Energy Co. has proposed for buying out the remainder of its Palisades nuclear plant power purchase agreement with Entergy Nuclear Palisades, LLC.

The $142,151,600 for securitization bonds is less than the $184.6 million Consumers sought when it filed its financing application (Case No. U-18250) with the Commission in February. The MPSC-approved total includes roughly $5.5 million in transaction costs, leaving $136,650,000 for Consumers' proposed payment to Entergy Corp. Consumers requested $172 million for its payment to Entergy and $12.6 million for transaction costs.

If Consumers and New Orleans-based Entergy come to a buyout agreement, it will be Entergy’s decision on whether it will permanently close the nuclear plant in Van Buren County’s Covert Township. Entergy said closure could come as soon as October 2018. The two companies maintain that the remaining cost of the PPA is higher than the projected cost of buying energy and capacity on the market, and that even with a buyout, Consumers’ customers will save money in the long term.

The MPSC said Consumers would be allowed to recover the $142.1 million through surcharges on full-service electric customers’ bills for approximately six years after the bonds are sold, which Consumers anticipates will be in June 2018.

“The Commission conducted an open and thorough process with extensive stakeholder input, including evidentiary and public hearings where the Commission obtained feedback from state and local officials, residents living near the power plant, and energy and financial experts,” said Sally Talberg, chairman at the Michigan Public Service Commission. “The Commission, based on its statutory authorization to approve a special form of bond financing known as securitization, is granting Consumers Energy’s application to recover a payment to Entergy but at a lower amount than requested. Consumers Energy and Entergy will need to make a decision
whether to accept these conditions and proceed with their plan to terminate the power purchase agreement."

Securitization financing allows a utility to replace relatively high-cost debt and equity with lower-cost debt.

“This securitization structure takes advantage of financial instruments uniquely available through Michigan statutes that help to reduce costs customers pay for certain expenditures,” said MPSC Commissioner Rachael Eubanks. “The Commission is supportive of Consumers’ efforts to reduce costs for ratepayers over the long term.”

Even if Consumers no longer receives power from Palisades, the Commission recently determined (Case No. U-18197) that the Midwest region has adequate electricity supplies over the next five years, based on available forecasts. However, the Commission today strongly emphasized the importance for Consumers to proceed expeditiously to secure electrical capacity to replace the 800 MW of power it gets through its Palisades contract.

Among the ways Consumers has said it will replace the power from Palisades is by increasing energy waste reduction, boosting commercial and industrial demand response efforts, accelerating expansion of its Cross Winds Energy Park, continuing to operate its older generation plants to supply power during high customer demand periods, increasing capacity at the Filer City plant, and buying an existing natural gas plant.

Palisades was built by Consumers and began service in 1973. Consumers sold the plant to Entergy in 2007 and signed a long-term agreement to buy power produced by the plant.

The MPSC has no regulatory role in the plant’s closing or long-term oversight. The State of Michigan, through the Michigan Agency for Energy, has been involved in planning for any impacts from a potential closure.

If the plant were to close, shutting down the nuclear systems and storage of the fuel would be overseen by the federal Nuclear Regulatory Commission. Entergy will be responsible for site remediation and storing nuclear fuel.

A detailed issue brief about the Palisades case can be found here.

For more information about the MPSC, please visit www.michigan.gov/mpsc or sign up for one of its listservs to keep up to date on MPSC matters.

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