

Issue Brief

Securitization

1. What did the Commission approve in DTE's securitization application, MPSC Case No. U-21015?

In [U-21015](#), DTE requested authorization to issue securitization bonds for the purposes of recovering its remaining investment in the now retired River Rouge generating plant and costs related to the utility's ongoing tree trim surge. Finding that the securitization will provide savings to ratepayers and complies with mandatory statutory requirements, the MPSC approved DTE's request.

2. What is securitization?

Securitization is a process authorized under [Public Act 142 of 2000](#) by which a utility, following the issuance of a financing order by the MPSC, replaces existing debt and equity with lower-cost debt in the form of securitization bonds. Using the securitization process, rather than traditional cost recovery methods, results in lower costs for ratepayers since existing debt and equity is replaced by securitization bonds with lower interest rates.

3. What is a financing order?

A financing order is a Commission order that approves the issuance of securitization bonds, the creation of securitization charges, and any corresponding rate reductions.

4. What are securitization bonds?

Securitization bonds are units of corporate debt that are issued by a utility to investors under a financing order. The bonds must have a term of less than 15 years and are secured by securitization property.

5. What are securitization charges?

Securitization charges are charges to ratepayers designed to recover qualified costs as provided for in the financing order from the utility's full-service customers and may be applied to Retail Open Access Customers as well.

6. What is securitization property?

Securitization property is the right to impose, collect, and receive the securitization charge authorized by the financing order, the right to adjustments of the charge, and the right to all revenue collected from the securitization charge.

7. What are qualified costs?

Qualified costs are determined by the Commission and may include a utility's regulatory assets and costs that the utility would be unlikely to collect in a competitive market; costs of a Commission-approved restructuring, buyout, or buy-down of a power purchase contract; costs of issuing, supporting, and servicing securitization bonds; and costs of retiring and refunding the electric utility's existing debt and equity securities in connection with the issuance of securitization bonds.

8. What standard does the Commission use to determine if securitization is appropriate?

In order to approve a securitization application, the Commission must find that the net present value of the revenue that would be collected under the financing order is less than the revenue that would be collected over the life of the qualified costs using traditional financing methods. This means that the overall cost to ratepayers is lower. The Commission must also ensure the following:

- The proceeds of the securitization bonds are used solely to refinance or retire debt or equity.
- The securitization will provide tangible and quantifiable benefits to the utility's customers.
- The expected structure and pricing of the securitization bonds will result in the lowest securitization charges that are consistent with market conditions and the terms of the financing order.
- The total amount securitized does not exceed the net present value of the revenue requirement over the life of the securitization bonds associated with the qualified costs being securitized.

9. Can a financing order approve more than one securitization charge?

Yes. In MPSC [Case No. U-21015](#), the Commission approved two separate securitization charges for DTE Electric customers because the qualified costs for which DTE sought securitization (the River Rouge generating site unrecovered net book value and tree trim surge regulatory assets) should be charged to different subsets of customers and the payoff time periods for the separate securitization bonds were not identical. By approving separate securitization charges, the costs and benefits of the securitization can be targeted to the appropriate subsets of customers.

10. How are the savings from securitization passed on to customers?

The savings are typically returned to customers in the form of a bill credit until rates are reset in the utility's next general rate case. When rates are reset, they will be lower than they otherwise would have been due to the lower cost debt provided for by the securitization.

11. Are securitization charges reviewed after the financing order is issued?

Yes. [Michigan Compiled Laws 460.10k\(3\)](#) requires that the financing order include a mechanism for an annual review and adjustment by the Commission to correct any over- or under- collections from the preceding 12 months.

12. What other securitization orders has the Commission issued?

Michigan law provides authority for utilities to request securitization in several situations. In the early 2000s, Michigan utilities utilized securitization to recover costs incurred due to the implementation of Michigan's energy choice law. Securitization has also been used by Michigan utilities to recover the remaining book value of retiring power plants (which the utilities are entitled to recover by law). When securitization is used in this manner, the cost to ratepayers is reduced because the utilities are no longer permitted to earn a profit on the investment. Securitization has also been approved as a financing method for the early buyout of long-term power purchase agreements. Importantly, the Commission may authorize securitization only in situations where customer savings will result.

In addition to the [Commission's approval in U-21015](#), the Commission has issued three previous securitization orders in recent years:

- [U-17473 Consumers Energy "Classic 7" Securitization](#)
In 2013, the Commission approved securitization of the remaining book value of Consumers Energy's "Classic 7" coal plants finding that the proposed securitization and early retirement would save customers more than \$100 million.

- [U-18250](#) *Consumers Energy Palisades PPA Securitization*

In 2017, the Commission approved securitization for the early cancelation of the power purchase agreement (PPA) between Consumers Energy and Entergy Nuclear Palisades, LLC for the energy produced by Palisades Nuclear Plant. While the Commission approved securitization of the buyout of the PPA, Consumers Energy eventually elected to continue purchasing power from Palisades through the remainder of the existing contract. The press release explaining this order is available [here](#).

- [U-20889](#) *Consumers Energy Karn Units 1 & 2 Securitization*

In 2020, the Commission approved the securitization of costs related to Consumers Energy's Karn Units 1 and 2. The securitization of these costs was projected to save Consumers Energy customers approximately \$126 million. The press release on this order is available [here](#).

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