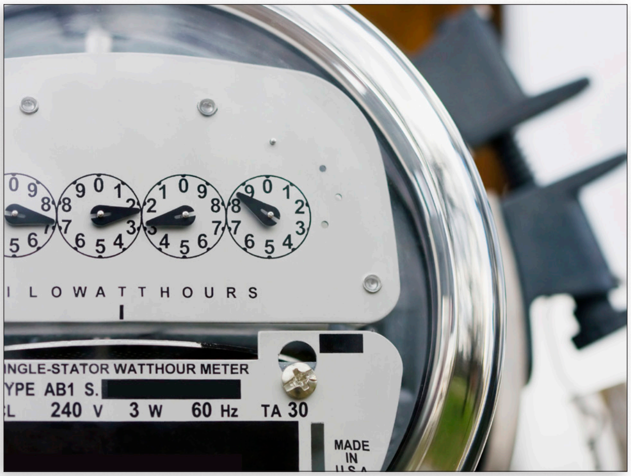
CASE STUDY

A History of Problem-Solving

"We were pleased with the investor interest in these AAA-rated bonds and the benefits that this will bring to our customers, saving our electric customers $22 million in the first full year and more than $100 million overall. This is a real win-win for our customers and our investors." —*Thomas J. Webb, Executive Vice President and Chief Financial Officer of Consumers Energy Company*

Client:	**Consumers Energy Company, a major electric and natural gas utility company in Michigan**
Matter:	Complex structured financing transaction
Areas of Law:	Corporate & Securities, Structured Finance, Tax
Result:	Successful $378 million bond issue



In the course of providing energy to their customers, utilities incur a variety of costs. When they pay for a hard asset, such as a power plant, arranging loans or bonds to finance the asset is a relatively straightforward matter, since the asset serves as collateral for the credit. But sometimes major expenditures arise that are not associated with identifiable hard assets, and financing becomes a challenge.

Pillsbury client Consumers Energy Company—one of the two principal electric and natural gas utility companies in Michigan—was confronting hundreds of millions of unrecovered costs that went into its older coal plants, which were facing retirement in light of evolving environmental standards. Without hard assets to serve as collateral, financing these unrecovered costs would be difficult.

Fortunately, attorneys at Pillsbury had pioneered an innovative financing structure more than two decades ago, which has since enabled utilities across the United States, including Consumers, to issue approximately $50 billion of triple A-rated debt. In the 1990s, attorneys from Pillsbury came up with a structure whereby state legislation, which Pillsbury attorneys have drafted or consulted upon in several states, enables a state public service commission to authorize a utility to securitize these costs by issuing bonds through a special-purpose subsidiary that can pledge the costs as collateral. At least 18 states, including Michigan, have enacted such laws.

The Consumers transaction was highly complex, involving a large group of lawyers from many of the firm's core practices who advised on procuring the state public service commission's authorization and the resulting financing. The $378 million bond issuance, completed in July 2014, will be readily observable as Michigan electric customers save more than $100 million in the coming years.

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