

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

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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. 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.

12 **IV. CONTINUED COST OF OWNERSHIP**

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.