THE BOND BUYER

Michigan utility issuing debt to finance move away from coal

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Michigan's Lansing Board of Water and Light hits the market this week to finance a new natural gas plant as the utility looks to reduce its reliance on coal-fired power.

The utility based in Lansing will price $325 million of bonds. About $10 million of bonds will be offered to retail buyers on Wednesday followed by the institutional pricing on Thursday.

The Lansing Bureau of Water and Light plans to close its coal-fired Eckert Power Station by 2020.**Lansing Bureau of Water and Light**

Most of the bond proceeds will fund construction of a $500 million natural gas-fired combined cycle generating facility known as Delta Energy Park. Some proceeds will also take out roughly $85 million of bond anticipation notes and finance other capital improvements.

Ahead of the deal, Moody's Investors Service affirmed its Aa3 rating on the utility. S&P Global Ratings assigns its AA-minus rating. The outlook is stable from both.

JP Morgan is the senior manager. Citi is the co-senior manager. Bank of America Merrill Lynch, Goldman Sachs and Piper Jaffray are co-managers. PFM Financial Advisors LLC is the financial advisor.

"Lansing Board of Water and Light's credit profile reflects consistently strong financial performance that is forecast to continue owing to management's willingness to adjust rates as needed, which is of particular importance as BWL transitions to primarily natural gas and renewable generation from its current mostly coal-fired generation fleet," said Moody's."

The bonds are secured by a first lien on the net utility revenues of the BWL.

Moody's said the utility is managing the transition by receiving advance approval of base rate increases required to fund the new debt for capital projects while also maintaining strong liquidity and sound financial margins to provide a cushion against any unexpected occurrences related to the construction, execution and implementation risks associated with the capital projects.

The utility had $303 million in bonds outstanding as of June 2018 but that will double with this week's issuance. Moody's said the leverage remains manageable and the debt is fully amortizing with coverage and liquidity metrics forecast to remain strong.

S&P said the stable outlook is based on the system's "extremely strong" financial risk profile.

"We believe [it] to be sustainable as [BWL] transitions its power supply away from coal," S&P said. "However, any pressures to its financial profile, primarily related to unexpected additional debt requirements or materially lower than projected wholesale electric revenues, could challenge the utility's ability to continue generating robust margins."

The new gas plant will replace the BWL's remaining coal-powered plants and is expected to be operational by June 2021. BWL plans to retire its coal-fired Eckert Plant and Erickson Plant by the end of 2020 and 2025, respectively.

The utility has reduced coal consumption since 2010 by more than 50% and expects to phase out coal totally by 2030, said Dick Peffley, general manager of BWL.

“Ultimately these decisions will have a positive long-term impact on the economic well-being of the Lansing region,” Peffley said.

“Retiring Eckert and Erickson satisfies BWLs goal of attaining a more diversified energy portfolio,” Rob Hodge, director of Delta Energy Park Project, said in an investor presentation.

Hodge said the project will meet the evolving customer market and environmental demand. The new plant is also expected to be more economical than its coal-fired generation and could increase wholesale revenue beginning in fiscal 2021.

Moody’s rates Lansing, which owns the utility, A2, two notches below the utility based on the city’s elevated unfunded pension and OPEB liability. By contrast the utility has a very low unfunded liability but Moody’s said there is some contagion risk if the city’s credit weakens further.