

CONSUMERS POWER COMPANY

Quarterly Report for the Second Quarter of 1975

Item 1 of the September 13, 1974 Request

"Significant changes in Consumers Power Company's financial status, including operating costs, construction costs, and revenues."

Response

Information relating to this item is contained in the Company's STATEMENT OF INCOME AND RETAINED EARNINGS and BALANCE SHEET for the twelve months ended June 30, 1975 and the NOTES TO FINANCIAL STATEMENTS. Copies of these documents are attached hereto as Appendix A.

Item 2 of the September 13, 1974 Request

"Progress reports on new capital raised and all rate increases granted your company."

Response

With respect to new capital raised, on June 5, 1975, Consumers Power Company issued and sold 1,000,000 shares of its \$5.50 Preference Stock, Cumulative, Convertible, \$1 par value, realizing \$47,500,000 after underwriting commissions. In addition, on June 25, 1975, Consumers Power Company sold to, and leased from, Trustees of General Electric Pension Trust ("GEPT"), Stamford, Connecticut, two office buildings, one of which is located at Jackson, Michigan, and the other being located near Jackson, Michigan, together with related land. The property at Jackson, Michigan consists of approximately 5 acres of land, including an 11-story office building, in which the Company's general offices

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are located. The other property near Jackson, Michigan consists of approximately 23 acres of land, including a 6-story office building. The Company received in payment for the properties, cash totaling \$25,953,070 after deducting rent for the interim term from June 25, 1975 through June 30, 1975, amounting to \$46,930. The Company leased the properties from GEPT for a term of 28 years. Upon expiration of the 28-year lease, the Company will have three 5-year renewal options, and will have the option to purchase the properties at their appraised value at the end of the basic term or any renewal term.

With respect to rate increases, on June 2, 1975, the Michigan Public Service Commission ("MPSC") granted interim rate relief to Consumers Power Company in the amount of \$29,194,000. This order was issued regarding the Company's pending application for authority to increase its rates for the sale of gas, MPSC Case No. U-4717. The rate relief order became effective on June 3, 1975. A copy of this order is attached hereto as Appendix B.

Item 3 of the September 13, 1974 Request

"Construction expenditures and sources of construction funds on a quarterly basis during the calendar year 1975."

Response

Information relating to this item is contained in the STATEMENT OF SOURCE OF FUNDS FOR GROSS PROPERTY ADDITIONS for the three months ended June 30, 1975. A copy of this document is attached hereto as Appendix C.

Remainder of the September 13, 1974 Request

"In addition you should notify us of any changes in Consumers Power Company's quality control and quality assurance activities associated with the construction of the Midland Plant."

Response

During the second quarter of 1975, Consumers Power Company's quality control and quality assurance activities remained unchanged. As previously reported by the Company on March 17 and May 19, 1975, the curtailment of construction activities at the Midland Plant has caused Bechtel to make various manpower adjustments. Such manpower adjustments will not detract from the quality or scope of the QC or QA effort at Midland.

One significant personnel change has occurred within Consumers Power recently which, while not occurring during the second quarter of 1975, should be reported at this time. G. S. Keeley, former Director of Project Quality Assurance Services, has been named Midland Project Manager, replacing W. E. Kessler. F. M. Southworth, former Region Superintendent, has been named the new Director of Project Quality Assurance Services. These personnel changes became effective August 1, 1975.

CONSUMERS POWER COMPANYSTATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE TWELVE MONTHS ENDED JUNE 30, 1975

OPERATING REVENUE: (Notes 1 & 2)

Electric	\$ 721,194,938
Gas	560,231,953
Steam	1,848,607
Total operating revenue	<u>\$1,283,275,498</u>

OPERATING EXPENSES AND TAXES:

Operation -	
Purchased and interchange power	\$ 128,651,598
Fuel used in electric generation	234,776,017
Cost of gas sold	363,380,501
Other	161,141,622
Total operation	<u>\$ 887,949,738</u>
Maintenance	58,697,119
Depreciation and amortization	86,427,259
General taxes	64,557,982
Income taxes (Note 11)	40,076,553
Total operating expenses and taxes	<u>\$1,137,708,651</u>
Net operating income	<u>\$ 145,566,847</u>

OTHER INCOME:

Allowance for funds used during construction (Notes 1 & 12)	24,650,770
Income from subsidiaries (Notes 1 & 13)	8,487,106
Other	3,686,529
Net other income	<u>\$ 36,824,405</u>

INTEREST CHARGES:

Interest on long-term debt	\$ 93,817,800
Interest on notes payable	9,700,637
Other	424,692
Total interest charges	<u>\$ 103,943,129</u>
Net income	<u>\$ 78,448,123</u>

DIVIDENDS ON PREFERRED AND PREFERENCE STOCK

Net income after dividends on preferred and preference stock	<u>27,589,620</u>
	<u>\$ 50,858,503</u>

DIVIDENDS ON COMMON STOCK - DECLARED DURING THE PERIOD AT
THE RATE OF 50.0¢ PER SHARE PER QUARTER

Balance to retained earnings	<u>39,418,125</u>
	<u>\$ 11,440,378</u>

Add -

Retained earnings June 30, 1974 as reported	219,188,006
Restatement for income tax effect of gain on reacquisition of long-term debt prior to June 30, 1974 (Note 14)	4,038,993
Restatement for unbilled revenue at June 30, 1974 (Note 2)	<u>17,636,681</u>

RETAINED EARNINGS - June 30, 1975 (see balance sheet)

	<u>\$ 252,304,058</u>
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The accompanying notes are an integral part of this statement.

CONSUMERS POWER COMPANY

BALANCE SHEET JUNE 30, 1975

ASSETS

UTILITY PLANT:

At original cost -

Plant in service and held for future use -

Electric	\$1,982,920,099
Gas	973,856,215
Steam	3,303,584
Common to all departments	72,519,766
	<u>\$3,032,599,664</u>

Less: Provision for accrued depreciation

744,567,737
<u>\$2,288,031,927</u>

Construction work in progress (Notes 3 & 4)

544,472,452
<u>\$2,832,504,379</u>

OTHER PHYSICAL PROPERTY:

At cost or less

\$ 3,453,017
Less: Accumulated provision for accrued depreciation and amortization
(187,356)
<u>\$ 3,265,661</u>

INVESTMENTS:

Wholly-owned subsidiaries

Michigan Gas Storage Company (Note 1)	\$ 20,728,301
Northern Michigan Exploration Company (Notes 1 & 13)	25,232,059
Other, at cost or less	1,141,025
	<u>\$ 47,101,385</u>

CURRENT ASSETS:

Cash (Note 5)	\$ 24,658,547
Accrued utility revenue (Note 2)	39,295,202
Accounts receivable - less reserve of \$1,026,547	74,976,498
Refundable income taxes (Note 11)	17,650,563
Materials and supplies, at average cost	
Fuel stock	57,839,122
Other	33,758,081
Gas in underground storage, at average cost	57,165,215
Property taxes - future period net	14,428,146
Prepayment and other	4,598,642
	<u>\$ 324,370,016</u>

Preliminary construction costs of cancelled projects being amortized (Note 3)

\$ 5,814,510
(16,070,412)
<u>\$ (10,255,902)</u>
<u>\$3,196,985,539</u>

STOCKHOLDERS' INVESTMENT AND LIABILITIES

CAPITALIZATION:

Common stockholders' equity -

Common stock - \$10 par value, authorized 32,500,000 shares, outstanding 26,558,366 (Notes 4 & 6)

\$ 265,583,66
248,251,666

Capital in excess of par value (Note 6)

Retained earnings (Note 5)

252,304,058
<u>\$ 766,149,384</u>

Less: Capital stock expense

<u>11,404,440</u>

Total common stockholders' equity

<u>\$ 754,744,944</u>

Preferred stock, cumulative, \$100 par value, authorized 5,000,000 shares (Notes 4 & 6)

346,733,800

Preference stock, cumulative, \$1 par value, authorized 5,000,000 shares, outstanding 1,518,868 (Note 6)

1,518,868

Capital in excess of par value of preference stock

74,424,532

Total stockholders' investment

<u>\$1,177,422,144</u>

Long-term debt (Notes 4 & 7)

<u>1,258,362,473</u>

Total capitalization

<u>\$2,435,784,617</u>

CURRENT OBLIGATIONS EXPECTED TO BE REFINANCED (Note 4)

Notes payable, due within one year (average interest rate of 9.55%)

\$ 35,400,000

First mortgage bonds, 2-7/8% series due 1975

86,324,000

First mortgage bonds, 8-3/4% series due 1976

60,000,00
<u>\$ 181,724,00</u>

CURRENT LIABILITIES: (Excluding notes payable, due within one year)

Current maturities and sinking fund - long-term debt (Note 7)

\$ 6,175,426

Bankers acceptance drafts

20,000,000

Accounts payable (includes \$2,938,450 due to subsidiaries)

46,485,101

Dividends declared

7,177,452

Accrued taxes

118,865,880

Accrued interest

27,909,424

Other

44,850,431
<u>\$ 271,463,714</u>

DEFERRED CREDITS AND RESERVES

Deferred income taxes (Note 11)

\$ 214,807,330

Investment tax credit (Note 11)

58,489,363

Other (Note 9)

34,716,515
<u>\$ 308,013,208</u>

<u>\$3,196,985,539</u>

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

(1) SIGNIFICANT ACCOUNTING POLICIES

Effective January 1, 1973, the Company adopted the equity method of accounting for the investment in its wholly-owned subsidiaries, Michigan Gas Storage Company and Northern Michigan Exploration Company, pursuant to Federal Power Commission Order No 469. Under this method of accounting the Company's interest in the earnings of the subsidiaries is reflected currently in earnings and in the carrying value of the investments.

The Company provides depreciation on the basis of straight-line rates approved by the Michigan Public Service Commission (MPSC). Composite depreciation rates were approximately 2.76% for electric property and 3.42% for gas property for the 12 months ended June 30, 1975.

Effective January 1, 1974, the Company changed its method of accounting to accrue revenues for service rendered but not billed at month-end. Prior to January 1, 1974, operating revenue was recognized at the time of monthly billings on a cycle basis. (See Note 2.)

The Company makes annual contributions to the pension plan sufficient to cover current service costs, interest on unfunded prior service costs and amortization of prior service costs. (See Note 10.)

Allowance for funds used during construction, included in other income, represents the estimated cost of funds applicable to utility plant in process of construction capitalized as a component of the cost of utility plant. Under established regulatory practices, the Company is permitted to earn a return on the capitalized cost of such funds and to recover the same in the rates charged for utility services. (See Note 12.)

(2) CHANGE IN ACCOUNTING METHOD

Prior to 1974, the Company followed the policy of not recording revenues relating to service rendered but not billed at the end of the accounting period since the changes in such unrecorded amounts from year to year were generally not significant. Due to increases in costs and rate levels, the disparity between costs and revenues as a result of this method of accounting has increased. Accordingly, effective January 1, 1974, the Company changed to a preferable method of accounting to accrue the amount of unbilled revenues for services provided to the month end to more closely match costs and revenues.

The cumulative effect of the change on periods prior to the twelve months ended June 30, 1975 amounted to \$17,636,680 after income taxes.

NOTES TO FINANCIAL STATEMENTS (Contd)

(3) NUCLEAR GENERATING PLANTS

The Palisades Nuclear Plant was shut down in August 1973 for repairs. In October 1974, the Plant resumed limited operation pursuant to a 90-day authorization to carry out a program to remove chemical impurities from the Plant's steam generators. While such program was being conducted, other operating problems required further shutdown to permit repairs. On April 2, 1975, the Palisades Plant was returned to operation pursuant to an authorization to operate for 90 effective full-power days after which the Plant is to be shut down for steam generator tube inspection. Except for relatively short shutdowns for repairs, the Plant has operated at various power levels since that time, and as of August 1, 1975 was operating at approximately 60% of thermal capacity. At the latter power level, the authorization is estimated to expire in late September 1975.

In August 1974, the Company filed suit in the US District Court for the Western District of Michigan seeking not less than \$300 million in past and future damages, together with equitable relief from suppliers of components in design work for the Plant. The suit is still pending.

Construction work in progress includes \$237,353,000 at June 30, 1975 related to the Midland Nuclear Plant. The issuance of construction permits by the Atomic Energy Commission (AEC), now Nuclear Regulatory Commission (NRC), in December 1972 was upheld by an Appeal Board of the AEC in May 1973 but has been appealed to the US Court of Appeals for the District of Columbia Circuit. Construction, delayed since 1970, was resumed in June 1973. In December 1973, the AEC issued an order for the Company to show cause why all construction activity should not be suspended pending a showing that the Company is in compliance with the AEC's quality assurance regulations and that there is reasonable assurance that such compliance will continue throughout the construction process. Following hearings, an Atomic Safety and Licensing Board of the AEC on September 25, 1974 determined the issues favorably to the Company's position. Certain intervenors have appealed the initial decision but failed to file a legal brief in support of the appeal. Accordingly, in May 1975 an Atomic Safety and Licensing Appeal Board dismissed the appeal but retained jurisdiction of the matter, on its own motion, to review the initial decision. The matter is pending.

The Company has canceled plans to construct a two-unit, 2,300 megawatt nuclear power plant near Quanicassee, Michigan, which was scheduled for commercial operation in 1983 and 1985. The decision to cancel the \$1.4 billion project was based upon the currently prevailing market conditions for utility securities, the Company's inadequate earnings, and the need for raising capital for other construction projects during the lengthy construction period required to build the Quanicassee Plant. (See Note 4.) Total costs (excluding land costs and expenditures which may have value in connection with the future use of the site for a generating plant) consisting of engineering, licensing expenses and other

NOTES TO FINANCIAL STATEMENTS (Contd)

preliminary work having no salvageable value and cancellation charges amount to approximately \$12,600,000. The Company has been authorized by the Michigan Public Service Commission to amortize such costs net of related income taxes to operations over a period of ten years.

(4) CONSTRUCTION PROGRAM AND FINANCING RESTRICTIONS

Difficulty in financing the Company's planned construction program, new estimates of increased costs, and a reduction in projected load growth have forced the Company to substantially reduce its five-year construction program. After giving effect to reductions in the construction program, capital expenditures in 1975 are currently estimated to total \$249 million and total construction expenditures through 1979 are presently estimated to approximate \$2.4 billion. The reduction in the Company's planned construction program has resulted in the cancellation of the Quanicassee Nuclear Plant as discussed in Note 3 and the curtailment of construction activity at other electric generating plants which will postpone their planned completion dates from one to three years. The Company expects these reductions may have an adverse effect on the adequacy and reliability of energy supplies in the future. Substantial commitments have been made with respect to the construction program in future years.

In order to finance the 1975 construction program and other current obligations expected to be refinanced of \$181,724,000, it will be necessary for the Company to sell substantial additional securities, including the issuance of notes payable to banks, the amounts, timing and nature of which have not yet been determined.

The earnings coverage provisions of the Indenture covering the Company's First Mortgage Bonds require for the issuance of additional mortgage bonds, except for certain refunding purposes, minimum earnings coverage, before income taxes, of at least two times pro forma annual interest charges on bonds. On the basis of this formula, the pro forma coverage for the twelve months ended June 30, 1975 (computed including allowance for funds used during construction applicable to Electric Construction, which, in the opinion of the Company's General Counsel, is properly so included) would be at least 2.20 times as compared with the requirement of at least two times.

The Company's Charter requires for the issuance of additional shares of Preferred Stock specified earnings coverages, including minimum earnings coverage, after income taxes, of at least one and one-half times the pro forma annual interest charges on all indebtedness and preferred dividend requirements. On the basis of this formula, the pro forma coverage for the twelve months ended June 30, 1975 (computed including allowance for funds used during construction applicable to Electric

NOTES TO FINANCIAL STATEMENTS (Contd)

Construction, which, in the opinion of the Company's General Counsel, is properly so included) would be at least 1.34 times as compared with the requirement of at least one and one-half times. The amounts of additional Preferred Stock which can be issued in future years will be contingent upon increases in earnings through rate increases or otherwise.

Common Stock of the Company may not be issued at less than par value pursuant to the Michigan Business Corporation Act.

The Company presently has arrangements with banks providing for short-term borrowings of up to \$190,400,000, which are subject to periodic review. Included in the \$190,400,000 is a commitment with respect to the issuance of up to \$20,000,000 of Bankers Acceptances to finance coal purchases. In connection with various of these arrangements the Company is generally required to maintain average compensating balances with the banks, over an unspecified period of time, equal to 10% of the total line of credit plus 10% of the average borrowings outstanding, as determined from the bank's records after adjustment for uncollected funds. There are no legal restrictions on the withdrawal of these funds. In addition, the Company has issued commercial paper from time to time on a short-term basis, generally for periods of less than one month.

Average short-term borrowings outstanding for the twelve months ended June 30, 1975 amounted to \$101,527,000, and the weighted average interest rate was 9.55% excluding the effect of compensating balances. The maximum amount outstanding at any one time was \$152,200,000.

(5) LIMITATION ON DIVIDENDS

At June 30, 1975, retained earnings in the amount of \$134,222,000 are not available for the payment of cash dividends on Common Stock under provisions of the Articles of Incorporation of the Company which, except under certain circumstances, prohibit the payment of Common Stock dividends in cash which would reduce the percentage of Common Stock equity to total capitalization below 25%. There are also other restrictions as to payment of dividends on Common Stock which, however, are presently less restrictive than the limitation mentioned above.

NOTES TO FINANCIAL STATEMENTS (Contd)

(6) PREFERRED STOCK AND PREFERENCE STOCK

Preferred Stock is represented by:

	Redemption Price per Share	June 30, 1975
\$4.50 - 547,788 Shares Outstanding	\$110.00	\$ 54,778,800
\$4.52 - 119,550 Shares Outstanding	104.725	11,955,000
\$4.16 - 100,000 Shares Outstanding	103.25	10,000,000
\$7.45 - 700,000 Shares Outstanding	108.00	70,000,000
\$7.72 - 700,000 Shares Outstanding	108.00	70,000,000
\$7.76 - 750,000 Shares Outstanding	109.19	75,000,000
\$7.68 - 550,000 Shares Outstanding	108.00	<u>55,000,000</u>
Total Preferred Stock		<u>\$346,733,800</u>

The Preferred Stock of the Company is redeemable as a whole or in part, at the option of the Company, at the above redemption prices plus accrued dividends to the date of redemption, except that prior to April 1, 1978, July 1, 1977, June 1, 1978 and November 1, 1978, the \$7.45, \$7.72, \$7.76 and \$7.68 Preferred Stock, respectively, may not be redeemed through certain refunding operations.

The Company is required to endeavor to purchase and retire annually 4,000 shares of the \$4.52 Preferred Stock at a price per share not to exceed \$102.725 plus accrued dividends. Such purchases of Preferred Stock resulted in a net gain of \$220,000 for the 12 months ended June 30, 1975 which was credited to capital in excess of par value.

In August 1974, the Company sold 600,000 shares of \$6.00 Preference Stock, convertible into Common Stock on and after November 1, 1974 at four shares of Common Stock for each share of Preference Stock. At June 30, 1975, 2,075,472 shares of Common Stock are reserved for conversion of the \$6.00 Preference Stock.

In June 1975, the Company sold 1,000,000 shares of \$5.50 Preference Stock convertible into Common Stock on and after October 1975 at a conversion price of \$15.50 per share (equal to approximately 3.225 shares of Common Stock for each share of Preference Stock). At June 30, 1975, 3,225,806 shares of Common Stock are reserved for conversion of the \$5.50 Preference Stock.

NOTES TO FINANCIAL STATEMENTS (Contd)

(7) LONG-TERM DEBT

Long-term debt at June 30, 1975 is represented by:

First Mortgage Bonds, secured by a mortgage and lien on substantially all property -

2-7/8% Series due 1975	\$ 86,324,000
8-3/4% Series due 1976	60,000,000
2-7/8% Series due 1977	24,010,000
3%-4-3/4% Series due 1981-1991	263,269,000
11-1/4% Series due 1982	50,000,000
11-3/8% Series due 1994	60,000,000
5-7/8%-6-7/8% Series due 1996-1998	247,550,000
7-1/2%-8-5/8% Series due 1999-2003	470,000,000
Total First Mortgage Bonds	<u>\$1,261,153,000</u>

Installment Sales Contracts Payable

(Net of \$3,393,538 held by trustee pending completion of construction)

70,306,462

Sinking Fund Debentures, 4-5/8%, due 1994

37,000,000

Term Bank Loan

50,000,000

Other

126,426

Unamortized Net Debt Premium

610,089

Total

\$1,419,195,977

Deduct - Current Maturities and Sinking Fund -

First Mortgage Bonds

2-7/8% Series due 1975

\$ 86,324,000

8-3/4% Series due 1976

60,000,000

Current Sinking Fund Requirement Included in Current Liabilities

6,049,000

Reacquired Securities for Satisfaction of Sinking Fund Requirement - But Not Yet Retired

7,734,078

Sinking Fund Debentures

600,000

Other

126,426

\$ 160,833,504

Total Long-Term Debt

\$1,258,362,473

In July 1975, the Company sold \$75,000,000 First Mortgage Bonds, 9-3/4% Series due 1980 and \$75,000,000 First Mortgage Bonds, 11-1/2% Series due 2000.

(8) NUCLEAR FUEL LEASE OBLIGATION

The Company has executed a Nuclear Fuel Lease, dated as of November 19, 1974, whereby the Lessor has acquired a 100% undivided interest in nuclear fuel having a cost of approximately \$32,094,000 which will be utilized at the Palisades Nuclear Plant. The maximum amount which can be financed under the lease is \$32,500,000.

NOTES TO FINANCIAL STATEMENTS (Contd)

The fuel lease provides for a term ending on November 18, 1979, with provision for one-year extensions from time to time to a date not later than November 19, 2029, subject to earlier termination in certain events. The quarterly lease charges consist of a fuel factor computed on the basis of heat production plus interest costs and administrative fees and expenses incurred by the Lessor, and, in the event of termination of the fuel lease, an amount equal to the Lessor's remaining investment. The Company is also responsible for payment of taxes, maintenance, operating costs, risks of loss and insurance.

(9) RATE MATTERS

On January 23, 1975, the MPSC authorized an increase in the Company's electric rates of approximately \$66,231,000 on an annual basis which included an interim increase of \$27,624,000 authorized September 16, 1974. The Attorney General of Michigan and the UAW-CAP appealed the order of the MPSC authorizing the increase in rates to a State Court and requested the Court to restrain and enjoin the increase in electric rates during the pendency of the litigation. No action has been taken by the court with respect to such request.

In November 1974, the Company submitted an application to the MPSC to increase its gas rates by not less than \$54,157,000 annually and at the same time requested partial and interim relief in the amount of \$39,559,000 annually. On June 2, 1975, the MPSC approved an interim increase of \$29,194,000. The MPSC decision on final relief is expected later in 1975.

Litigation is pending with respect to electric and gas rate increases which became effective in 1969 and which are subject to refund relating to the reduction and elimination of the Federal income tax surcharge. In March and April 1974, the Court ruled in favor of the MPSC with respect to the income tax surcharge issue and ordered the Company to refund approximately \$24,543,000, together with interest thereon, to its electric and gas customers. The Company has established a reserve stated net of related income taxes in the amount of \$11,868,000, approximately, and believes that the amount of such reserve is adequate to cover the refund obligation, exclusive of interest charges which would accrue for the period from early 1970 to date of payment and which are presently not capable of determination. The Company is appealing the Court Orders of March and April 1974. The litigation also involves a claim with respect to the legality of the electric rate increase, which became effective in 1969, on the grounds that the increased rates became effective by Court Order in October 1969, that the MPSC did not issue an order approving said rates until April 1970 and that as a result, the electric rates charged during the period are subject to refund in an amount of approximately \$7,763,000, plus interest charges which are presently not capable of determination, for which no reserve has been provided.

NOTES TO FINANCIAL STATEMENTS (Contd)

(10) PENSION PLAN

The Company has a trustee noncontributory pension plan under which full-time regular employees within specified age limits and periods of service are qualified to participate. The contributions to the plan were \$15,863,000 for the 12 months ended June 30, 1975. Of this amount \$12,352,000 was charged directly to expense accounts with the remainder being charged to various construction, clearing and other accounts.

As of January 1, 1975, the date of the most recent actuary's report, the actuarially computed value of vested benefits was \$184,400,000. The market value of the assets of the plan was \$175,743,000 at June 30, 1975. If the market value of the assets of the plan remains below the vested benefits, the actuarial method used in determining the annual contribution will fund this amount over a period of years.

The enactment of the Employee Retirement Income Security Act of 1974 will not significantly increase the Company's future annual contribution since the Company's present plan generally conforms to minimum requirements.

The unfunded prior cost at January 1, 1975, the date of the most recent actuary's report, amounted to approximately \$21,031,000.

(11) INCOME TAX EXPENSE

Income tax expense is made up of the following components:

	<u>June 30, 1975</u>
Charged to utility operations -	
Current Federal income taxes	\$ 6,363,551
Current State income taxes	2,389,372
Deferred Federal income taxes, net	19,773,303
Deferred State income taxes, net	3,730,245
Charge equivalent to investment tax credit, net	<u>7,820,082</u>
Total (see Statement of Income)	\$40,076,553
Charged to nonutility operations - current	<u>1,697,932</u>
Total	<u><u>\$41,774,485</u></u>

For 1974 the Company had a net operating loss which, when carried back to prior years, results in a refund of approximately \$17,651,000.

NOTES TO FINANCIAL STATEMENTS (Contd)

The Company utilizes liberalized depreciation and the "class life asset depreciation range system" for income tax purposes. Income tax deferred due to the use of these methods is charged to income currently and credited to a reserve for deferred income taxes. As income taxes previously deferred become payable, the related deferrals are credited to income.

Certain costs, principally interest, capitalized in accordance with the provisions of the Uniform System of Accounts, are expensed for income tax purposes and the tax reduction resulting therefrom is reflected in the income statement currently as ordered by the Michigan Public Service Commission.

The investment tax credit and job development investment credit utilized as a reduction of the current year's income tax is deferred and amortized to operating expense over the life of the related property. As of December 31, 1974, the Company has unutilized investment tax credits of approximately \$14,236,000.

The total income tax expense as set forth above produces an effective income tax rate of 34.7% for the 12 months ended June 30, 1975. The following schedule reconciles the statutory Federal income tax rate of 48% to such effective income tax rates.

	<u>June 30, 1975</u>	
	<u>Amount</u>	<u>Rate</u>
Computed "expected" tax expense	\$57,706,853	48.0%
Increase (reduction) in taxes resulting from:		
Certain capitalized construction costs, principally interest, deducted currently for income tax purposes for which no de- ferred taxes are provided in accordance with the requirements of the MPSC	(15,986,080)	(13.3)
State income taxes, net of Federal income tax benefit	3,290,595	2.7
Amortization of deferred investment tax credit	(1,315,360)	(1.1)
Other miscellaneous items	(1,921,523)	(1.6)
Actual tax expense	<u>\$41,774,485</u>	<u>34.7%</u>

NOTES TO FINANCIAL STATEMENTS (Contd)

(12) ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

The allowance for funds used during construction is being capitalized at a rate of 8% in 1975 and was capitalized at 7-3/4% in 1974. Based on the Company's source of funds for gross property additions, and assuming that the cost of financing other than common equity financing was equivalent to the current cost of long-term and short-term debt (before income tax effect), preferred stock and other sources, available in each year, the estimated common equity component of the allowance for funds used during construction amounted to 11.1% of net income available for common stock for the 12 months ended June 30, 1975.

(13) NORTHERN MICHIGAN EXPLORATION COMPANY

Northern Michigan Exploration Company (Northern), a wholly-owned subsidiary of the Company, is engaged in gas exploration programs in northern Michigan and the southern United States. The Company's Board of Directors has authorized loans to Northern up to a maximum of \$20,000,000 and has authorized a total common stock investment of \$20,000,000.

Northern has filed an application with the Federal Power Commission (FPC) for approval to sell gas from certain offshore Louisiana properties to Consumers Power Company. Hearings on the matter are pending. However, during the interim period, Northern has entered into a one year Limited Term Sales Contract with Trunkline Gas Company, such contract to be terminated upon FPC approval of the contract with Consumers Power Company.

Northern follows full cost accounting for financial reporting purposes including a policy of capitalizing interest costs related to properties in process of development. Interest capitalized amounted to \$1,480,000 for the 12 months ended June 30, 1975. Had these interest costs not been capitalized, the Company's net income would have been reduced approximately \$733,000 for the 12 months ended June 30, 1975. Summarized financial information of Northern is shown below.

	<u>12 Months Ended June 30, 1975</u>
Operating Revenues	\$17,915,000
Net Income	5,964,000
	<u>At June 30, 1975</u>
Gas and Oil Properties	\$58,131,000
Total Assets	68,844,000
Stockholders' Investment	25,134,000
Production Payment	28,971,000

NOTES TO FINANCIAL STATEMENTS (Contd)

(14) RESTATEMENTS

Retained earnings at June 30, 1974 has been restated to eliminate \$4,038,993 in deferred income taxes provided in the years 1970, 1971 and 1972 applicable to the gain on reacquisition of long-term debt since such deferred taxes were not recognized by the Michigan Public Service Commission (MPSC) in setting the Company's rates for utility service and such deferred tax accounting has not been authorized by the MPSC as required by Federal Power Commission Order No 504, dated February 11, 1974.

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application
of CONSUMERS POWER COMPANY for
authority to increase its rates
for the sale of gas.

Case No. U-4717

At a session of the Michigan Public Service Commission held in its offices
in the city of Lansing, Michigan, on the 2nd day of June, 1975.

PRESENT: Hon. William G. Rosenberg, Chairman
Hon. Lenton G. Sculthorp, Commissioner
Hon. William R. Ralls, Commissioner

ORDER GRANTING PARTIAL AND
IMMEDIATE RATE RELIEF

I.

HISTORY OF PROCEEDINGS

On November 27, 1974, Consumers Power Company (Applicant), filed an application in this matter requesting that the Commission conduct hearings and thereafter approve for Applicant additional annual gas revenues of at least \$54,157,000. At the time of filing its application, Applicant also filed a Motion for Partial and Immediate Rate Relief requesting that, pending a final order in this case, the Commission grant Applicant authority to place into effect temporary gas rate schedules designed to produce at least \$39,559,000 of additional annual gas revenues. Concurrent with its application and its Motion for Partial and Immediate Rate Relief, Applicant filed the proposed written direct testimony of its witnesses and copies of its proposed exhibits.

On December 18, 1974, the Commission issued its Notice of Hearing to which were attached summaries of Applicant's proposed rate changes and proposed gas rate schedules designed to produce the additional revenues requested. The Notice of Hearing required that Applicant publish notice of hearing in the same newspapers throughout its gas service area and in substantially the same style and manner as the notice of hearing was published for Case No. U-4331. In addition, Applicant was required to mail a copy of the Commission's Notice of Hearing to all cities, incorporated villages, counties, and townships within its gas service area, as well as to all intervenors or participants who appeared in Cases Nos. U-3907 and U-4331, being the most recent two gas rate increase proceedings of Applicant.

The Notice of Hearing established the following hearing dates:

1. January 20, 1975, in Lansing, an initial hearing being in the nature of a Prehearing Conference.
2. January 28, 1975, in Lansing, for commencing public hearings for the special purpose of taking statements and testimony of interested persons. A special evening hearing was scheduled for 7:30 p.m. on such date.
3. February 10, 1975, in Lansing, for the purpose of commencing cross-examination of Applicant's witnesses.

The initial hearings proceeded as scheduled. Cross-examination of the direct testimony of Applicant's witnesses commenced on February 10, 1975, continued on February 11, 12, 13, 14 and was completed on February 19, 1975.

On February 19, 1975, Applicant requested that the Commission Staff (Staff) file by February 28, 1975 a statutory report on Applicant's Motion for Partial and Immediate Rate Relief and that the hearing on this motion be held as soon thereafter as possible. The Staff opposed Applicant's request and took the position that hearing on the matter of interim relief should not be changed from March 31, 1975, which date had been set at the Prehearing Conference. On February 20, further discussion and argument was conducted on Applicant's request to change the time of hearing on

interim relief, as well as the manner in which Staff would present its evidence on Applicant's Motion for Partial and Immediate Rate Relief. On February 20, 1975, the Hearings Examiner (now Administrative Law Judge) ruled that March 31, 1975 would continue to be the date set for commencement of hearing on Applicant's Motion for Partial and Immediate Rate Relief.

On March 21, 1975, Applicant filed a Renewal of Motion for Partial and Immediate Rate Relief again requesting that the Commission grant Applicant authority to place into effect, pending a final order in this case, temporary gas rate schedules designed to produce at least \$39,559,000 of additional annual revenue from its gas operations. Concurrent with the filing of its Renewal of Motion for Partial and Immediate Rate Relief, Applicant served copies of such pleading upon each Rule 11 and Rule 16 Intervenor in the instant case.

The Staff and Intervenor filed their written direct testimony and exhibits on or before March 28, 1975 with the exception of the testimony and exhibits of two Intervenor witnesses which were filed subsequent thereto. On March 31, 1975, a hearing was held on Applicant's Motion for Partial and Immediate Rate Relief. At this hearing the Staff's direct case and exhibits were received into evidence and the Staff's witnesses were cross-examined for the purpose of considering interim relief only. At the conclusion of cross-examination of the Staff's witnesses, the parties presented argument on Applicant's Motion for Partial and Immediate Rate Relief. Cross-examination of the direct testimony of the Staff's and Intervenor's witnesses commenced on April 14, continued on April 16, 17, 21 and was completed on April 22, 1975.

Among the Intervenor who actively participated in the proceedings to the date of the hearing on interim relief are General Motors Corporation, Dow Chemical Company, Owens-Illinois, Inc., Michigan Sugar Company, SWS Silicones Corporation, Holliday Park Towne Houses Cooperative, Detroit Metropolitan Growers Association, Michigan

State Florists Association, Grand Valley Growers Cooperative, Great Lakes Mushroom Cooperative Association, Michigan Plant Growers Cooperative, Kalamazoo Valley Plant Growers Cooperative and Mr. John H. King.

All parties completed presentation of evidence including rebuttal and surrebuttal on May 13, 1975 and the Administrative Law Judge closed the record on May 13, 1975. On May 15, 1975, the Staff filed a motion to reopen the proceedings for the purpose of presenting testimony and evidence regarding Applicant's Marysville synthetic natural gas facility as originally ordered by the Commission in Re: Consumers Power Company, Case No. U-4331, Interim Order (November 9, 1973). A hearing on the Motion to Reopen has been scheduled for June 6, 1975.

Administrative Law Judge Robert E. Hollenshead has presided at all 19 days of hearings held through May 13, 1975. The Commission has not directly participated in the daily hearings but each Commissioner has read the record in this case as required by Section 81 of 1969 PA 306, as amended, MCLA 24.281. As of May 13, 1975, 60 exhibits had been offered and 59 exhibits had been received into evidence. The transcript of the proceedings as of May 13, 1975 comprises 2,802 pages.

II.

REQUIREMENTS AND CRITERIA FOR PARTIAL AND IMMEDIATE RATE RELIEF

Before partial and immediate rate relief may be granted to a utility seeking to increase its rates and charges, the statutory requirements set forth in Section 6(a) of 1939 PA 3, as amended, MCLA 460.6a, must be met. In addition, the requirements and criteria set forth by the Commission in its Interpretive and Informational Statement 1974-3 must be satisfied.

Statutory Requirements

Section 6(a) of 1939 PA 3, as amended, MCLA 460.6a(1), provides that:

"Sec. 6a.(1) When any finding or order is sought by any gas, telephone or electric utility to increase its rates and charges or to alter, change or amend any rate or rate schedules, the effect of which will be to increase the cost of services to its customers, notice shall be given within the service area to be affected. When such utility shall have placed in evidence facts relied upon to support its petition or application to so increase its rates and charges, or to so alter, change or amend any rate or rate schedules, the commission, pending the submission of all proofs by any interested parties, may in its discretion and upon written motion by such utility make a finding and enter an order granting partial and immediate relief, after first having given notice to the interested parties within the service area to be affected in the manner ordered by the commission, and after having afforded to such interested parties reasonable opportunity for a full and complete hearing: Provided, That no such finding or order shall be authorized or approved ex parte, nor until the commission's technical staff has made an investigation and report: And provided further, That any alteration or amendment in rates or rate schedules applied for by any public utility which will result in no increase in the cost of service to its customers may be authorized and approved without any notice or hearing." (Emphasis added)

Therefore, before an order granting partial and immediate rate relief may be issued, the following statutory prerequisites must be met:

1. Notice shall be given within the service area to be affected.
2. The utility shall have placed in evidence facts relied upon to support its application, pending submission of all proofs by any interested parties.
3. A written motion shall be filed by the utility.
4. Interested parties shall be afforded reasonable opportunity for a full and complete hearing.
5. The Commission's technical staff shall make an investigation and report.

Commission Requirements and Criteria

In order to provide a rational and effective method of providing partial and immediate rate relief according to Section 6a, 1939 PA 3, as amended, MCLA 460.6a, the Commission issued its Interpretive and Informational Statement 1974-3, Procedures for Partial and Immediate Rate Relief, which provides that prior to a decision by the

Commission on the merits of any such motion, the following circumstances shall occur:

- A. The applicant shall have placed in evidence the facts relied upon in support of its application.
- B. The facts relied upon by Applicant shall have been cross-examined by all parties to the proceeding in accordance with the schedule set forth by the presiding officer.
- C. Upon the completion of the Applicant's direct case and cross-examination thereof, the staff of the Commission shall enter upon the record an investigation and report.
- D. Such report shall be presented by appropriate staff witness or witnesses based upon the completed staff audit and other necessary facts and opinions. The staff may submit its entire case in chief, or any portion thereof, as its report and may submit such additional evidence as it deems necessary for its recommendation regarding the merits of the motion for partial and immediate relief.
- E. Such report shall be subject to cross-examination by all parties to the proceeding.
- F. Upon completion of cross-examination of the staff investigation and report and prior to the submission of further proofs by the staff or other interested parties, Applicant's motion for partial and immediate relief shall be heard before the presiding officer or the full Commission, giving all interested parties reasonable opportunity to argue the merits of Applicant's motion.
- G. Upon completion of the hearing on the motion for partial and immediate relief within the schedule established by the presiding officer, the motion shall be ripe for Commission decision.

In addition to setting forth the above-cited procedural requirements, Interpretive and Informational Statement 1974-3 also stated that the substantive criteria for granting interim relief which were set forth in Re: Michigan Consolidated Gas Company, Case No. U-3740, should continue to be applied unless the facts and circumstances require different considerations.

In Case No. U-3740, the Commission determined that the statute authorizing interim relief requires neither an emergency situation nor extraordinary conditions. Specifically, the Commission stated in its Interim Order as follows:

"We believe, that beyond this obvious requirement (i.e., an apparent existing revenue deficiency) there should be at least one of the following conditions in existence before the Commission should grant partial and immediate rate relief, where a final order would ordinarily be issued within a short period of time:

- (1) Inability to arrange debt financing at reasonable rates without improved revenues.
- (2) Distinctive and sudden decline in revenues.
- (3) Evidence to indicate that deferral of partial rate relief until a final order can be issued would cause unreasonable and harmful loss of revenues to applicant utility.
- (4) Reasonable grounds for the Commission to believe that denial of the motion would cause irreparable harm to the applicant utility."

III.

POSITIONS OF THE PARTIES

None of the parties participating in this case expressed any opposition to the granting of interim rate relief to Applicant, and only Applicant and the Staff expressed any opinion as to the amount of interim relief which should be granted. Several of the intervening parties did, however, take positions concerning Applicant's proposed interim relief rate structure.

Applicant

As was previously indicated, Applicant requested interim relief in the amount of \$39,559,000 when it originally filed its application, direct testimony and exhibits. However at the March 31, 1975 hearing, after the Staff recommended interim relief in a greater amount than Applicant originally requested, Applicant amended its Motion for Immediate and Partial Rate Relief and requested \$41,989,000 of interim relief.

The derivation of Applicant's original request for interim relief of \$39,559,000

was arrived at by utilizing the same figures Applicant recommended for approval for its proposed final relief of \$54,157,000 with the exception that Applicant used a rate of return of 8.06%, the rate of return approved in Applicant's last rate case, rather than 8.89%, the rate of return advocated by Applicant for final relief in the instant proceedings. Specifically, Applicant's original request for interim relief was based upon the following calculations:

Gas Rate Base	\$ 843,244,000
Rate of Return	8.06%
Required Revenue	67,965,000
Adjusted Net Operating Income	48,999,000
Income Deficiency	18,966,000
Revenue Deficiency	39,559,000

Applicant derived its original proposed interim rates of \$39,559,000 by ratioing down its proposed final relief of \$54,157,000 proportionately by rate schedule so that the relationships established in its final proposal were generally maintained. Applicant also proposes that certain changes in its rates and charges should be approved in an interim relief order. These changes involve a boiler fuel surcharge, usage restrictions applicable to Applicant's Rate E rate schedule and a charge of \$15.00 when a customer orders a disconnection and reconnection of service within a period of twelve months. In addition to the above modifications, Applicant proposes that for interim relief the service charge for Rate A be increased to \$4.00 per month and the service charge for Rate B and Rate R-1 be increased to \$4.65 per month. The present service charges for these rates are \$3.20 and \$3.50 per month, respectively.

The boiler fuel surcharge proposed by Applicant would expand the present coverage of this surcharge so as to cover gas used in all boilers rated at 6,600 cubic feet per hour and greater. For the purposes of this surcharge, boilers would be defined as all closed vessels in which a liquid, usually water, is heated or vaporized by

the burning of natural gas. At the present time Applicant's boiler fuel surcharge only applies to gas used as fuel for process steam boilers. In addition, the boiler fuel surcharge would be made applicable to Applicant's Commercial and Industrial Seasonal Service Optional Contract Rate E and its Commercial and Industrial Interruptible Service Optional Contract Rate F, which rates do not presently have a boiler surcharge.

In support of its proposed boiler fuel surcharge, Applicant claims that if boiler fuel usage of natural gas is considered to be low priority end usage, the surcharge should apply to all such boilers whether or not water or another liquid is heated or vaporized, regardless of the rate schedules under which the customer has chosen to take service and regardless of whether or not the boiler surcharge is for commercial and industrial processing or is for space heating and conditioning for human comfort. Furthermore, Applicant claims that its proposed modification would eliminate difficulties in administering the present boiler fuel surcharge.

Applicant requests that its proposed boiler fuel surcharge be included in an interim rate increase rather than await inclusion in a final order because of the disparity among customers which exists under the present boiler surcharge. Applicant claims that at the present time many of its customers are subject to the boiler fuel surcharge even though their use of steam for processing use is small proportionately to the total steam produced while other customers with large boilers pay no surcharge at all since they do not use steam for processing. According to Applicant, 50% of the natural gas used to heat boilers is for the purpose of generating steam for space heating rather than processing. Adoption of its proposed boiler fuel surcharge would, according to Applicant, immediately remove this disparity.

The usage restriction that Applicant proposes for Rate E Option (c) provides for customers under these provisions to specify their annual contracted volume by 12 monthly volumes. In the event of interruption of gas service, the customer's annual contracted volume will be reduced by 1/30th of the contracted monthly volume for each

day of interruption during the month in which an interruption takes place. The present usage restriction for Rate E Option (c) provides that this customer's annual contract volume is reduced 1/360th for each day of interruption.

Applicant states that its proposed change to the usage restrictions for Rate E Option (c) is for the purpose of eliminating anticipated difficulties in administering the present usage restriction and to provide a nondiscriminatory method of reducing all Rate E Option (c) customers' annual contracted volumes to reflect interruptions which take place in accordance with the rate schedules. According to Applicant, the present usage restriction enables customers to circumvent reduction of gas sales during periods of interruption when these customers consume all of their annual allocated gas prior to a period of interruption. Applicant claims that its proposed usage restriction, which is based on contractual monthly components, would prevent this possibility from occurring. Furthermore, Applicant indicated that this proposed usage restriction should be included in interim rates to facilitate administration of seasonal and interruptible rate schedules during 1975.

Staff

The Staff recommends that, if interim relief is granted, this relief should be in the amount of \$40,606,000. This amount actually constitutes the Staff's recommendation for final relief with the exception of an adjustment which may be made to net operating income as a result of financial experience under the Commission's new billing practice rules which went into effect March 4, 1975. Specifically, the Staff's recommendation for relief as presently computed is as follows:

Net Utility Plant, Including Working Capital	\$846,112,000
Rate of Return	8.20%
Required Revenue	69,381,000
Adjusted Net Operating Income	49,915,000
Income Deficiency	19,466,000
Revenue Deficiency	40,606,000

The Staff recommends that, if the Commission grants interim relief, the resulting increased revenue should be determined on an across-the-board percentage basis to the various rate classes. The revenue increase to any given class should be computed by determining the percentage increase based on present revenues inclusive of purchase gas adjustment revenues. Furthermore, the Staff advocates that, for interim relief purposes, there should be no change in the various rate structure provisions in the existing rate schedules. Although the Staff recommends that the Commission in its final order amend the boiler fuel surcharge and amend the usage restriction of Rate E Option (c) it opposes adoption of such changes for the purposes of interim relief. Also for interim relief purposes, the Staff does not recommend any changes to the service charges or reconnection charges of any rates.

Intervenors

Although, as was previously indicated, none of the intervening parties objected to any interim rate increase, some Intervenors expressed strenuous opposition to Applicant's proposed changes to the boiler fuel surcharge and its proposed changes to the usage restriction applicable to Rate E Option (c). Also, some of the intervening parties objected to Applicant's allocation of its proposed interim increase among the various rate classes.

Intervenors Michigan Sugar Company (Michigan Sugar) and Owens-Illinois, Inc., (Owens-Illinois), both of which are Rate E customers of Applicant, requested that any interim rate order not alter or change the present usage restrictions applicable to Rate E Option (c). These two Intervenors further indicated that if interim relief is granted by the Commission such relief should be allocated among Applicant's various rate classes on an equal percentage basis, maintaining the relative positions of the classes. They also claimed that the Commission should withhold making any determination as to shifting costs between rate classes until a final order is issued in the instant case.

Intervenor Dow Chemical Company (Dow) expressed strong opposition to Applicant's allocation of proposed rates among its various rate classifications and, in particular, objected to Applicant's cost of service study used in support of its proposed interim and final rates. Specifically, Dow objected to assignment of investment, operating and maintenance expenses of the Marysville Gas Reforming Plant to the industrial and commercial classes, allocation of storage costs on a 50% commodity - 50% excess gas basis, and allocation of distribution mains strictly on a non-coincident demand basis. Dow also opposed Applicant's proposed modification of the boiler fuel surcharge and, in fact, argued for abandonment of the present boiler fuel surcharge.

Intervenor General Motors Corporation concurred with the positions taken by Michigan Sugar, Owens-Illinois and Dow and further argued that it did not consider the present existing rate structure to be appropriate or even legally valid. SWS Silicones Corporation's only position as to the matter of interim relief was its opposition to Applicant's proposed modification of the boiler fuel surcharge. This Intervenor claimed that there was no support on the record for Applicant's position that greater conservation of gas would result from expanding the present boiler fuel surcharge.

IV.

COMMISSION FINDINGS ON PROCEDURAL REQUIREMENTS

As evidenced by the proof of service on file in this matter, the Commission finds that Applicant has complied with the notice requirements contained in its December 18, 1974 Notice of Hearing. Furthermore, the Commission finds that all Rule 11 and Rule 16 Intervenor's have been served with a copy of Applicant's Renewal of Motion for Partial and Immediate Rate Relief. In so finding, the Commission further finds that Applicant has satisfied the notice requirements established both by Section 6a of 1939 PA 3, as amended, MCLA 460.6a, and the Commission's Interpretive and Information Statement 1974-3

The Commission also finds that Applicant has complied with the other procedural

requirements set forth in Section 6a, 1939 PA 3, as amended, and Interpretive and Information Statement 1974-3. This procedural compliance has been accomplished in that Applicant's direct case has been placed in evidence and cross-examined. Applicant has filed a written motion for partial and immediate rate relief and has renewed its motion for such relief. The Staff audit has been completed, the statutory report in the nature of the Staff's direct case has been placed into evidence and has been cross-examined, arguments have been heard on interim relief and interested parties have been afforded reasonable opportunity for a full and complete hearing.

V.

COMMISSION'S FINDINGS ON SUBSTANTIVE CRITERIA
FOR GRANTING INTERIM RELIEF

The record of these proceedings to date demonstrates that Applicant's financial situation is indeed precarious. Applicant's earnings on its common shares were \$1.34 a share for 1974, substantially less than its \$2.00 cash dividend which has been in effect for several years. The return on Applicant's common equity for 1974 was less than 5%, substantially below the 12.12% presently authorized.

Because of Applicant's unsatisfactory earnings picture, Applicant's securities have been downrated by Moody's and Standard and Poors, the nation's two major securities rating agencies. As a result of Applicant's decline in earnings and the low rating of its securities, it has been impossible for Applicant to sell any meaningful amount of conventional securities.

At the same time, however, Applicant must finance during 1975 a \$251,000,000 "bare bones" construction program of which approximately \$30,000,000 is for gas construction. In addition to its construction requirements, Applicant in September, 1975 must re-finance \$86,300,000 of 2 7/8% first mortgage bonds. Totaling both the 1975 construction program and Applicant's bond refinancing requirements, it will be necessary for Applicant to obtain approximately \$270,000,000 from external sources. According to

Applicant, this amount constitutes the largest amount Applicant has ever had to obtain externally in a single calendar year.

Although Applicant and the Staff differ as to the final amount, it is clear from the present record that Applicant has a substantial revenue deficiency. Although no party to the case claims that such a revenue deficiency does not exist, Applicant and the Staff differ considerably as to the final amount of such revenue deficiency. Inasmuch as further evidence may be placed on the record as to the final amount of such a deficiency and the parties need to be given opportunity to brief this matter, the Commission determines that it would be inappropriate to determine the exact amount of such a deficiency at this time.

It is therefore clear that in addition to the existence of a substantial revenue deficiency, the record establishes that three conditions, as set forth in Case No. U-3740, exist necessitating interim relief. First, Applicant has demonstrated that it has an "inability to arrange debt financing at reasonable rates without improved revenues." In addition, the record establishes "evidence to indicate that deferral of partial rate relief until a final order can be issued would cause unreasonable and harmful loss of revenues to applicant utility" and "reasonable grounds for the Commission to believe that the denial of the motion would cause irreparable harm to the applicant utility."

VI.

INTERIM CONCLUSIONS OF THE COMMISSION

The Commission finds that Applicant is currently experiencing a revenue deficiency and is entitled to partial and immediate rate relief in the amount of \$29,194,000, subject to refund and secured under bond pending a final order in this proceeding.

The Commission findings with respect to interim relief specifically reserve until a final order in this matter several issues of significant import.

While Applicant and the Staff both advocate that Applicant's rate of return on common equity be increased, there is a substantial difference between their positions on this matter. Applicant argues that a rate of return of 15.5% on common equity should be approved. The Staff recommends that the return on common equity should fall within a range of 12.34% to 13.5%. In view of the parties' marked difference of opinion as to the appropriate rate of return on common equity, the Commission concludes that any final determination as to the appropriate rate of return on common equity should await the Commission's final order in this proceeding. For purposes of this interim rate increase, however, the Commission finds that the record appropriately supports continued utilization of Applicant's present authorized rate of return on common equity of 12.12%.

In addition, the Commission finds that the questions presented regarding Applicant's synthetic natural gas plant at Marysville should not be determined until the issuance of a final order in this case. Applicant has requested that the full cost of this facility be included in approved rate base as well as various other adjustments such as depreciation and operation expenses attendant thereto.

In Case No. U-4331, the Commission approved inclusion of \$119,700,000 of the cost of the Marysville facility in Applicant's rate base and reserved final determination with respect to the additional \$35,101,551 pending completion of the Commission ordered study of the design and construction of the plant conducted under the auspices of the Staff and presentation of the Staff's recommendations related thereto. The Commission notes with approval the Staff's Motion to Reopen the Record in these proceedings for the purpose of presenting testimony and evidence with respect to the study. While the Commission is aware of the critical need to complete rate proceedings within the 9-month statutory mandate, an overriding public interest requires that all questions relating to the Marysville facility be resolved as expeditiously as possible based upon a full and complete record. Moreover, the scheduled proceedings

herein did not permit inclusion of these questions in the Staff case as the Marysville study was received subsequent to the prescribed filing dates.

Accordingly, the Commission finds that the interim relief granted herein should not include any Marysville investment costs beyond those approved in Case No. U-4331. Final determination of these factors should await development of the full record.

Due to the unique nature of the Marysville facility, the Commission in Case No. U-4331 determined at Page 25 that certain operation and maintenance expenses as estimated were reasonable and directed the Staff:

"...to conduct an audit of the operation and maintenance expenses of the Marysville plant at the conclusion of 12 months of operating experience of that plant. Such audit shall be designed (a) to confirm that the expenses reflected in Applicant's accounting records actually were expended for gas plant operation and maintenance purposes, and (b) to determine the reasonableness of those expenditures in carrying out the operation and maintenance of the plant."

The first full 12 months of operation of both Train I and Train II of the Marysville facility ended on April 30, 1975 and the Staff is now conducting the audit as directed.

The appropriate adjustment for these expenses is a contested issue in these proceedings. For purposes of this interim order, the Commission finds that the Staff's lower operation and maintenance expenses based on known calendar 1974 Marysville operations normalized are reasonable. While the Staff considered operating experience at Marysville through the first quarter of 1975 which encompasses the first 11 months of operation of both Train I and II in arriving at its normalization calculations and adjustments, the Commission is advised that the report by the Staff on the results of the audit ordered in Case No. U-4331 will be available for consideration prior to a final order in this case.

Finally, the Commission's decision includes a reasonable estimate of expenses being incurred by Applicant for the implementation of and compliance with the Commission's Consumer Standards and Billing Practices, Case No. U-4240. While substantial

disagreement exists between Applicant and the Staff as to the appropriate amount of this adjustment, the Commission finds that for purposes of interim relief the Staff's revenue adjustment of \$824,000 is reasonable.

Therefore, the Commission finds interim relief should be granted in the amount of \$29,194,000 based upon Applicant's presently authorized rate of return on common equity of 12.12%, the Staff's rate base exclusive of additional Marysville plant investment and the Staff's net operating income adjustments exclusive of additional Marysville investment factors as previously described.

In arriving at the amount of interim relief approved in the case, the Commission is indeed mindful of the present nationwide economic recession and the severe impact this recession has on many people within Applicant's service area. However, it is essential to the economic vitality of Applicant's service area that Applicant's rates be sufficient to ensure adequate gas service. To refuse to grant Applicant sufficient interim rate relief would be detrimental, not only to Applicant, but to its residential, commercial and industrial customers as well. If the \$29,194,000 of interim rate relief is excessive, the ratepayers will be entitled to a full refund of this excess, as the relief granted will be collected under bond.

VII.

RATE DESIGN

From the record established to date, it clearly appears that the matter of rate design is a hotly contested issue under consideration in the instant proceedings. Applicant's proposed allocation of an interim rate increase among the various rate classes and its proposals to amend the boiler fuel surcharge and the usage restrictions applicable to Rate E Option (c) are vigorously opposed by various intervening parties.

Several of these parties take serious issue with the cost-of-service methodology

which Applicant utilized in designing both its proposed interim and final rates. On the other hand, Applicant contends that this cost-of-service methodology was based on the methodology approved by the Commission in its Opinion and Order in Case No. U-4331 dated November 19, 1974. In that Opinion and Order the Commission discussed at page 14 its approach to cost-of-service methodology and stated as follows:

"In reaching these determinations, the Commission finds that in addition to fully distributed cost allocations apportioned according to cost accounting principles, it must and has considered a variety of other factors such as rate relationships between various rate schedules for customer classes, the cost and availability of alternate energy sources, the practicality of conversion to alternate energy sources, the availability of natural gas and the compelling need to continue conservation of this energy resource. The Commission must therefore, determine appropriate rate design employing additional factors rather than strictly using mathematical computations in setting fair and reasonable rates for various customer classes."

The Commission finds that a reexamination of its previous rate structure determinations will be presented for full consideration in the final order in these proceedings. Pending this review, the Commission finds that the most appropriate method for allocating the 4.76% overall increase in rates as required by this interim order is as follows:

Domestic	2.92%
Commercial	6.32%
Industrial	6.32%

This approach maintains the essential allocation methodology adopted by the Commission in Case No. U-4331 while at the same time more equitably allocating the burden of the rate increase among the commercial and industrial rate classifications pending a final order in this case.

The Commission agrees with the Staff that Applicant's other proposed changes to rates and charges should not be adopted in this interim order. The record should be fully developed before reaching any final conclusions on such changes. This conclusion is particularly warranted as to the controverted proposed changes with respect

to the boiler fuel surcharge and the usage restrictions for Rate E Option (c).

Finally, the Commission points out that the interim award does not affect Applicant's approved purchase gas adjustment clause. As is usual in these proceedings, the Commission will adjust the base for purposes of adjustment in its final order.

The Commission FINDS that:

- a. Jurisdiction is pursuant to 1909 PA 300, as amended, MCLA 462.2 et seq.; 1919 PA 419, as amended, MCLA 460.51 et seq.; 1939 PA 3, as amended, MCLA 460.1 et seq.; 1969 PA 306, as amended, MCLA 24.201 et seq.; and the Commission's Rules of Practice and Procedure, 1954 Administrative Code, Supplement No. 54, R 460.11 et seq.
- b. The statutory requirements of Section 81 of 1969 PA 306, as amended, MCLA 24.281, regarding familiarity with the record have been complied with.
- c. The statutory prerequisites of Section 6a(1) of 1939 PA 3, as amended, MCLA 460.6a(1) have been satisfied.
- d. The procedures for partial and immediate relief set forth in the Commission's Interpretive and Informational Statement 1974-3 (August 2, 1974) have been satisfied.
- e. The Commission's criteria for granting partial and immediate rate relief have been met in that Applicant is experiencing a substantial revenue deficiency and that:
 - (1) Applicant is experiencing an inability to arrange debt financing at reasonable rates without improved revenues;
 - (2) The evidence indicates that deferral of partial rate relief until a final order can be issued would cause unreasonable and harmful loss of revenues to Applicant;
 - (3) Reasonable grounds exist for the Commission to believe that denial of Applicant's motion would cause irreparable harm to Applicant.
- f. Partial and immediate rate relief in annual gas revenues in the amount of \$29,194,000 is reasonable and in accordance with the conclusions contained in this order.
- g. The interim rate schedules, attached hereto as Exhibit A and by reference made a part of this order, will produce an annual revenue increase of approximately \$29,194,000 and approval of these interim rate schedules is in the public interest.

h. Applicant should file a suitable bond to insure that appropriate refunds will be made to its customers in the event that the final order in this case provides a lesser amount of rate relief than the \$29,194,000 annual revenue increase herein found necessary.

THEREFORE, IT IS ORDERED that:

A. The interim rate schedules, attached hereto as Exhibit A, are hereby approved to be effective for service on and after June 3, 1975.

B. In conformance with Commission Order No. D-3096, Filing Procedures, Consumers Power Company shall promptly submit to the Commission for filing, revised rate schedules in substantially the same form as the interim rate schedules herein approved.

C. Consumers Power Company shall file with the Commission a suitable bond to insure that appropriate refunds will be made to its customers in the event that the final order in this case provides for a lesser amount of rate relief than the \$29,194,000 annual revenue increases herein granted.

The Commission specifically reserves jurisdiction of the matters herein contained and the authority to issue such further order or orders as the facts and circumstances may require.

MICHIGAN PUBLIC SERVICE COMMISSION

(S E A L)

/s/ William G. Rosenberg
Chairman

By the Commission and pursuant
to its action of June 2, 1975.

/s/ Lenton G. Sculthorp

/s/ Earl B. Klomparens
Its Secretary

Commissioner William R. Ralls is
issuing a separate Dissenting Opinion

**RESIDENTIAL SERVICE
(OPEN ORDER RATE "A")**

Availability:

Open to any customer desiring gas service for any usual residential use in private dwellings or separately metered apartments, including space heating and air conditioning. This rate is not available for commercial or industrial service or for resale service. As a result of a shortage in gas supply, this rate is also not available for new customers or new space heating loads other than those new customers or new space heating loads which the Company is authorized by the Michigan Public Service Commission to attach to its system from time to time.

Residences in conjunction with commercial or industrial enterprises; apartment buildings or multiple dwellings; and mobile homes and courts may take service on this rate only under the terms and conditions contained in the Company's Standard Rules and Regulations.

Monthly Rate:

Service Charge:

\$3.20 per customer per month plus,

Commodity Charge:

\$1.15 per Mcf for all Mcf purchased, except that during the billing months of July through September, usage in excess of 12 Mcf per month shall be billed at the rate of \$1.40 per Mcf.

Cost of Gas Sold Adjustment:

The cost of gas sold adjustment shall consist of an increase or decrease in the charge per Mcf based on the difference between the weighted average monthly cost of gas per Mcf delivered into the Company's supply system and 57.24 cents per Mcf, rounded to the nearest one-hundredth cent per Mcf. This adjustment shall apply to all Mcf included in the customer's bill during the billing month following the calendar month in which the gas is delivered into the supply system. To correct for the one month lag in this procedure between cost incurrence and billing adjustment, the increase or decrease in the charge per Mcf as determined above shall be appropriately increased or decreased by the difference between the "one month lag" adjustment factor applied in the preceding billing month and the "one month lag" adjustment factor to be applied for the immediate billing month.

Tax Adjustment:

- (a) Bills shall be increased within the limits of political subdivisions which levy special taxes, license fees or rentals against the Company's property, or its operation, or the production and/or sale of gas, to offset such special charges and thereby prevent other customers from being compelled to share such local increases.
- (b) Bills shall be increased to offset any new or increased specific tax or excise imposed by any governmental authority upon the Company's production or sale of gas.

Term and Form of Contract:

Open order. No written application or contract required.

Rules and Regulations:

Service governed by Company's Standard Rules and Regulations.

Interim Surcharge Adjustment:

An interim surcharge of 5.82¢ per Mcf shall be added to the monthly bill.

**GENERAL COMMERCIAL AND INDUSTRIAL SERVICE
(OPEN ORDER RATE "B")**

Availability:

Open to any customer desiring gas service for any usual commercial or industrial use. This rate is not available for resale purposes. As a result of a shortage in gas supply, this rate is also not available for new or additional commercial or industrial gas loads other than those new or additional commercial or industrial gas loads which the Company is authorized by the Michigan Public Service Commission to attach to its system from time to time.

Monthly Rate:

Service Charge:

\$3.50 per customer per month plus,

Commodity Charge:

\$1.39 per Mcf for all Mcf.

Cost of Gas Sold Adjustment:

The cost of gas sold adjustment shall consist of an increase or decrease in the charge per Mcf based on the difference between the weighted average monthly cost of gas per Mcf delivered into the Company's supply system and 57.24 cents per Mcf, rounded to the nearest one-hundredth cent per Mcf. This adjustment shall apply to all Mcf included in the customer's bill during the billing month following the calendar month in which the gas is delivered into the supply system. *To correct for the one month lag in this procedure between cost incurrence and billing adjustment, the increase or decrease in the charge per Mcf as determined above shall be appropriately increased or decreased by the difference between the "one month lag" adjustment factor applied in the preceding billing month and the "one month lag" adjustment factor to be applied for the immediate billing month.*

Boiler Fuel Surcharge:

Gas used as fuel for steam producing boilers rated at 6600 cubic feet per hour or more shall be subject to a surcharge of \$.10 per Mcf. In the event that the total gas supplied by the Company serves other requirements in addition to process steam fuel for such boilers, all Mcf supplied as steam boiler fuel shall be separately metered or submetered. Such additional cost of separate metering or submetering, as the case may be, shall be borne by the customer as a nonrefundable capital contribution, or in lieu thereof, as a facilities charge of 2% per month of the initial installed cost. If the customer elects to forego such separate metering or submetering, all Mcf purchased shall be subject to such boiler fuel surcharge.

Tax Adjustment:

- (a) Bills shall be increased within the limits of political subdivisions which levy special taxes, license fees or rentals against the Company's property, or its operation, or the production and/or sale of gas, to offset such special charges and thereby prevent other customers from being compelled to share such local increases.
- (b) Bills shall be increased to offset any new or increased specific tax or excise imposed by any governmental authority upon the Company's production or sale of gas.

Delayed Payment Charge

A delayed payment charge of 2% of the total net bill, but not less than \$.20, shall be added to any bill which is not paid on or before the due date shown thereon.

Interim Surcharge Adjustment:

An interim surcharge of 12.95¢ per Mcf shall be added to the monthly bill.

(Continued on Sheet No. 7.1)

RATE "B"
(Continued from Sheet No. 7)

Term and Form of Contract:

Open order. No written application or contract required.

Rules and Regulations:

Service governed by Company's Standard Rules and Regulations.

COMMERCIAL AND INDUSTRIAL SERVICE (CONTRACT RATE "C")

Availability:

Open to any customer desiring gas service for any usual commercial or industrial use. During the term of the service contract gas shall not be purchased under any other rate for any equipment or process which uses gas under this rate. This rate is not available for resale purposes. As a result of a shortage in gas supply, this rate is also not available for new or additional commercial or industrial gas loads other than those new or additional commercial or industrial gas loads which the Company is authorized by the Michigan Public Service Commission to attach to its system from time to time.

Monthly Rate:

Service Charge:

\$320.00 per customer per month plus,

Commodity Charge:

\$1.00 per Mcf for all Mcf.

Cost of Gas Sold Adjustment:

The cost of gas sold adjustment shall consist of an increase or decrease in the charge per Mcf based on the difference between the weighted average monthly cost of gas per Mcf delivered into the Company's supply system and 57.24 cents per Mcf, rounded to the nearest one-hundredth cent per Mcf. This adjustment shall apply to all Mcf included in the customer's bill during the billing month following the calendar month in which the gas is delivered into the supply system. *To correct for the one month lag in this procedure between cost incurrence and billing adjustment, the increase or decrease in the charge per Mcf as determined above shall be appropriately increased or decreased by the difference between the "one month lag" adjustment factor applied in the preceding billing month and the "one month lag" adjustment factor to be applied for the immediate billing month.*

Boiler Fuel Surcharge:

Gas used as fuel for steam producing boilers rated at 6600 cubic feet per hour or more shall be subject to a surcharge of \$.10 per Mcf. In the event that the total gas supplied by the Company serves other requirements in addition to process steam fuel for such boilers, all Mcf supplied as steam boiler fuel shall be separately metered or submetered. Such additional cost of separate metering or submetering, as the case may be, shall be borne by the customer as a nonrefundable capital contribution, or in lieu thereof, as a facilities charge of 2% per month of the initial installed cost. If the customer elects to forego such separate metering or submetering, all Mcf purchased shall be subject to such boiler fuel surcharge.

Tax Adjustment:

- (a) Bills shall be increased within the limits of political subdivisions which levy special taxes, license fees or rentals against the Company's property, or its operation, or the production and/or sale of gas, to offset such special charges and thereby prevent other customers from being compelled to share such local increases.
- (b) Bills shall be increased to offset any new or increased specific tax or excise imposed by any governmental authority upon the Company's production or sale of gas.

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill which is not paid on or before the due date shown thereon.

Interim Surcharge Adjustment:

An interim surcharge of 10.67¢ per Mcf shall be added to the monthly bill.

(Continued on Sheet No. 8.1)

M.P.S.C. No. 6 - Gas
Consumers Power Company

RATE "C"
(Continued from Sheet No. 8)

Term and Form of Contract:

Minimum term of one year on written contract.

Rules and Regulations:

Service governed by Company's Standard Rules and Regulations.

• COMMERCIAL AND INDUSTRIAL SEASONAL SERVICE
(OPTIONAL CONTRACT RATE "E")
This Rate Is Not Open To New Business

Availability:

Open to any customer who agrees to restrict his use of gas under this rate in accordance with the provisions hereof. During the term of the service contract gas shall not be purchased under any other rate for any equipment or process which uses gas under this rate. This rate is not available for resale purposes. As a result of a shortage in gas supply, this rate is also not available for new or additional commercial or industrial gas loads other than those new or additional commercial or industrial gas loads which the Company is authorized by the Michigan Public Service Commission to attach to its system from time to time.

Usage Restriction:

The customer must agree in the service contract to one of the following three options:

- (a) Total usage of gas under this rate during the billing months of January, February and March shall not exceed 37.5 percent of the total use of gas under this rate during the preceding billing months of June through September.
- (b) Total usage of gas under this rate during the billing months of December, January, February and March shall not exceed 62.5 percent of the total use of gas under this rate during the preceding billing months of June through September.
- (c) The customer agrees to completely interrupt his use of gas at any time upon 24 hours' notice by the Company. The periods of such interruption shall not aggregate more than 90 days in any one calendar year. The customer further agrees that his annual contracted volume will be reduced by 1/360 for each day of interruption.

Monthly Rate:

Service Charge:

Above 100,000 Mcf annual contracted volume	\$3,000 per customer per month plus,
100,000 Mcf or below annual contracted volume	\$1,000 per customer per month plus,

Commodity Charge: \$.90 per Mcf for all Mcf

Excess Use Surcharge - Options (a) and (b):

In addition to the above Commodity Charge, \$10.00 per M cu ft shall be charged for all gas used in excess of the applicable usage restriction. Any charge arising from the application of this provision shall be included in the customer's bill for the March billing month.

Unauthorized Overrun Gas - Option (c):

Gas used by a customer under this rate by reason of his failure to comply with an interruption order of the Company shall be considered as unauthorized overrun gas. Such gas shall be billed at the rate of \$10.00 per M cu ft.

Interim Surcharge Adjustment:

An interim surcharge of 9.78¢ per Mcf shall be added to the monthly bill.

(Continued on Sheet No. 9.2)

RATE "E"
(Continued from Sheet No. 9.1)

Monthly Rate: (Contd)

Cost of Gas Sold Adjustment:

The cost of gas sold adjustment shall consist of an increase or decrease in the charge per Mcf based on the difference between the weighted average monthly cost of gas per Mcf delivered into the Company's supply system and 57.24 cents per Mcf, rounded to the nearest one-hundredth cent per Mcf. This adjustment shall apply to all Mcf included in the customer's bill during the billing month following the calendar month in which the gas is delivered into the supply system. *To correct for the one month lag in this procedure between cost incurrence and billing adjustment, the increase or decrease in the charge per Mcf as determined above shall be appropriately increased or decreased by the difference between the "one month lag" adjustment factor applied in the preceding billing month and the "one month lag" adjustment factor to be applied for the immediate billing month.*

Tax Adjustment:

- (a) Bills shall be increased within the limits of political subdivisions which levy special taxes, license fees or rentals against the Company's property, or its operation, or the production and/or sale of gas, to offset such special charges and thereby prevent other customers from being compelled to share such local increases.
- (b) Bills shall be increased to offset any new or increased specific tax or excise imposed by any governmental authority upon the Company's production or sale of gas.

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill which is not paid on or before the due date shown thereon.

Term and Form of Contract:

All service under this rate shall require a minimum term of one year on written contract.

Rules and Regulations:

Service governed by Company's Standard Rules and Regulations.

Failure to comply with an interruption order of the Company shall constitute sufficient cause for the Company to discontinue service under Option (c) of this rate.

COMMERCIAL AND INDUSTRIAL INTERRUPTIBLE SERVICE (OPTIONAL CONTRACT RATE "F")

Availability:

Open to any customer desiring gas service which the Company is prepared to provide on an interruptible basis. During the term of the service contract, gas shall not be purchased under any other rate for any equipment or process which uses gas under this rate. This rate is not available for resale purposes. As a result of a shortage in gas supply, this rate is also not available for new or additional commercial or industrial gas loads other than those new or additional commercial or industrial gas loads which the Company is authorized by the Michigan Public Service Commission to attach to its system from time to time.

Usage Restrictions:

The customer agrees to completely interrupt his use of gas at any time upon 8 hours' notice by the Company. The customer further agrees that his annual contracted volume will be specified by 12 monthly reserve capacities and the monthly reserve capacity for each month in which the interruption takes place will be reduced by 1/30th for each day of interruption. Failure to control the use of gas to within this reduced monthly amount will be considered failure to comply with an interruption order. The number of such interruptions and the time period of each interruption shall be unlimited. Failure to comply with an interruption order of the Company shall constitute sufficient cause for the Company to discontinue gas service.

Monthly Rate:

Service Charge:

\$3,000 per customer per month plus,

Commodity Charge:

\$.85 per Mcf for all Mcf.

Unauthorized Overrun Gas:

Gas used by a customer under this rate by reason of his failure to comply with an interruption order of the Company shall be considered as unauthorized overrun gas. Such gas shall be billed at the rate of \$10.00 per M cu ft.

Cost of Gas Sold Adjustment:

The cost of gas sold adjustment shall consist of an increase or decrease in the charge per Mcf based on the difference between the weighted average monthly cost of gas per Mcf delivered into the Company's supply system, and 57.24 cents per Mcf, rounded to the nearest one-hundredth cent per Mcf. This adjustment shall apply to all Mcf included in the customer's bill during the billing month following the calendar month in which the gas is delivered into the supply system. *To correct for the one month lag in this procedure between cost incurrence and billing adjustment, the increase or decrease in the charge per Mcf as determined above shall be appropriately increased or decreased by the difference between the "one month lag" adjustment factor applied in the preceding billing month and the "one month lag" adjustment factor to be applied for the immediate billing month.*

Tax Adjustment

- (a) Bills shall be increased within the limits of political subdivisions which levy special taxes, license fees or rentals against the Company's property, or its operation, or the production and/or sale of gas, to offset such special charges and thereby prevent other customers from being compelled to share such local increases.
- (b) Bills shall be increased to offset any new or increased specific tax or excise imposed by any governmental authority upon the Company's production or sale of gas.

(Continued on Sheet No. 9.4)

RATE "F"
(Continued from Sheet No. 9.3)

Monthly Rate: (Contd)

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill which is not paid on or before the due date shown thereon.

Interim Surcharge Adjustment: An interim surcharge of 9.78¢
Term and Form of Contract: per Mcf shall be added to the monthly bill.

All service under this rate shall require a minimum term of one year on written contract and shall specify volumes of gas to be reserved for the customer's use on a monthly basis.

Rules and Regulations:

Service governed by Company's Standard Rules and Regulations.

GENERAL RESALE SERVICE
(CONTRACT RATE "R-1")

Availability:

Open only to customers desiring gas service for resale purposes in accordance with Rule No. 12(e) of the Company's Standard Rules and Regulations. As a result of a shortage in gas supply, this rate is not available for new or additional commercial or industrial gas loads other than those new or additional commercial or industrial gas loads which the Company is authorized by the Michigan Public Service Commission to attach to its system from time to time.

Monthly Rate:

Service Charge:

\$3.50 per customer per month plus,

Commodity Charge:

\$1.39 per Mcf for all Mcf.

Cost of Gas Sold Adjustment:

The cost of gas sold adjustment shall consist of an increase or decrease in the charge per Mcf based on the difference between the weighted average monthly cost of gas per Mcf delivered into the Company's supply system and 57.24 cents per Mcf, rounded to the nearest one-hundredth cent per Mcf. This adjustment shall apply to all Mcf included in the customer's bill during the billing month following the calendar month in which the gas is delivered into the supply system. *To correct for the one month lag in this procedure between cost incurrence and billing adjustment, the increase or decrease in the charge per Mcf as determined above shall be appropriately increased or decreased by the difference between the "one month lag" adjustment factor applied in the preceding billing month and the "one month lag" adjustment factor to be applied for the immediate billing month.*

Tax Adjustment:

- (a) Bills shall be increased within the limits of political subdivisions which levy special taxes, license fees or rentals against the Company's property, or its operation, or the production and/or sale of gas, to offset such special charges and thereby prevent other customers from being compelled to share such local increases.
- (b) Bills shall be increased to offset any new or increased specific tax or excise imposed by any governmental authority upon the Company's production or sale of gas.

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill, but not less than \$.20, shall be added to any bill which is not paid on or before the due date shown thereon.

Interim Surcharge Adjustment:

An interim surcharge of 12.95¢ per Mcf shall be added to the monthly bill.

(Continued on Sheet No. 11.1)

RATE "R-1"
(Continued from Sheet No. 11)

Term and Form of Contract:

Minimum term of one year on written contract.

Rules and Regulations:

Service governed by Company's Standard Rules and Regulations.

**LARGE RESALE SERVICE
(CONTRACT RATE "R-2")**

Availability:

Open only to customers desiring gas service for resale purposes in accordance with Rule 12(c) of the Company's Standard Rules and Regulations. During the term of the service contract gas shall not be purchased under any other resale rate in substitution for gas under this rate. As a result of a shortage in gas supply, this rate is not available for new or additional commercial or industrial gas loads other than those new or additional commercial or industrial gas loads which the Company is authorized by the Michigan Public Service Commission to attach to its system from time to time.

Monthly Rate:

Service Charge:

\$320.00 per customer per month plus,

Commodity Charge:

\$1.00 per Mcf for all Mcf.

Cost of Gas Sold Adjustment:

The cost of gas sold adjustment shall consist of an increase or decrease in the charge per Mcf based on the difference between the weighted average monthly cost of gas per Mcf delivered into the Company's supply system and 57.24 cents per Mcf, rounded to the nearest one-hundredth cent per Mcf. This adjustment shall apply to all Mcf included in the customer's bill during the billing month following the calendar month in which the gas is delivered into the supply system. *To correct for the one month lag in this procedure between cost incurrence and billing adjustment, the increase or decrease in the charge per Mcf as determined above shall be appropriately increased or decreased by the difference between the "one month lag" adjustment factor applied in the preceding billing month and the "one month lag" adjustment factor to be applied for the immediate billing month.*

Tax Adjustment:

- (a) Bills shall be increased within the limits of political subdivisions which levy special taxes, license fees or rentals against the Company's property, or its operation, or the production and/or sale of gas, to offset such special charges and thereby prevent other customers from being compelled to share such local increases.
- (b) Bills shall be increased to offset any new or increased specific tax or excise imposed by any governmental authority upon the Company's production or sale of gas.

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill which is not paid on or before the due date shown thereon.

Interim Surcharge Adjustment:

An interim surcharge of 10.67¢ per Mcf shall be added to the monthly bill.

COMMERCIAL AND INDUSTRIAL OUTDOOR LIGHTING SERVICE (CONTRACT RATE "GL-1")

This Rate Is Not Open To New Business

Availability:

Open to any commercial or industrial customer for street or outdoor area lighting service for any system consisting of two or more gas luminaires where the Company has an existing gas distribution system. As a result of a shortage in gas supply, this rate is not available for new or additional street or outdoor area lighting service other than new or additional street or outdoor area lighting service which is authorized by the Michigan Public Service Commission to attach to its system from time to time.

Nature of Service:

The customer will furnish the necessary posts, luminaires and fixtures. The Company will install this equipment and make all connections to its gas distribution system. The Company will supply the gas, renew the mantles, clean the luminaires and paint all metal parts as needed; all other renewals and maintenance shall be paid for by the customer.

Monthly Rate:

- \$ 6.50 per luminaire having a rated consumption of 2.5 cubic feet or less per hour.
- \$ 8.50 per luminaire having a rated consumption of more than 2.5 cubic feet but not more than 4.5 cubic feet per hour.
- \$10.50 per luminaire having a rated consumption of more than 4.5 cubic feet but not more than 6.5 cubic feet per hour.

For luminaires having a rated consumption of more than 6.5 cubic feet per hour the monthly charge shall be \$10.50 per luminaire plus \$1.30 for each additional cubic foot per hour or fraction thereof of rated consumption in excess of 6.5 cubic feet per hour.

Tax Adjustment:

- (a) Bills shall be increased within the limits of political subdivisions which levy special taxes, license fees or rentals against the Company's property, or its operations, or the production and/or sale of gas, to offset such special charges and thereby prevent other customers from being compelled to share such local increases.
- (b) Bills shall be increased to offset any new or increased specific tax or excise imposed by any governmental authority upon the Company's production or sale of gas.

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill, but not less than \$.20 shall be added to any bill which is not paid on or before the due date shown thereon.

Interim Surcharge Adjustment: An interim surcharge of 40¢ per Contract luminaire shall be added to the monthly bill.

Minimum term of three years on written contract and year to year thereafter until terminated by mutual consent or upon three months' written notice given by either party.

Special Terms and Conditions:

The Company reserves the right to make special contractual arrangements as to term or duration of contract, termination charges, contributions in aid of construction, monthly charges or other special consideration when the customer requests service, equipment or facilities not normally provided under this rate.

Rules and Regulations:

Service governed by the Company's Standard Rules and Regulations.

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application
of CONSUMERS POWER COMPANY for
authority to increase its rates
for the sale of gas.

Case No. U-4717

DISSENTING OPINION OF COMMISSIONER WILLIAM R. RALLS

(Submitted on June 2, 1975 in opposition to the Opinion
and Order issued on the same date)

The question in this case is whether Consumers Power Company should collect an additional \$3.8 million from its natural gas customers during the months of June, July, and August, or whether the Public Service Commission should instead consider the major issues in this proceeding first---the proper rate of return to be earned by shareholders, the prudence of expenditures at the Marysville reforming plant, the proper balance between commercial and industrial rates and residential rates---and then make a binding final decision resolving the entire matter. By statute and established Commission precedent extraordinary circumstances must exist to justify such partial and immediate rate increases; no such situation has been proven in this case. I therefore reject the Company's request for interim relief, and suggest instead that the Commission proceed at once to a final determination of this matter.

Requirements for Interim Rate Increases

In several cases before the Commission specific criteria have been set forth which particularize what is meant by "extraordinary circumstances." (See, Re Michigan Consolidated Gas Company, Case No. U-3740). To be eligible for

Interim rate relief, the utility must first establish an overall revenue deficiency, and in addition must prove that one or more of the following conditions exist:

- (1) Inability to arrange debt financing without improved revenues.
- (2) Distinctive and sudden decline in revenues.
- (3) Evidence to indicate that deferral of partial rate relief until a final order can be issued would cause unreasonable and harmful loss of revenue to the Applicant utility.
- (4) Reasonable grounds for the Commission to believe that denial of the motion would cause irreparable harm to the Applicant utility

Consumers Power Company argues that conditions (1), (3), and (4) of the criteria for interim relief have been met in this case---by reference to the total financial picture of the combined electric and gas operations of the Company. Yet this is a rate proceeding strictly limited to the natural gas operations of Consumers, and that is the only subject which is germane. Evaluation of the Company's argumentation in the light of the proper scope of the proceeding reveals that in fact none of the conditions for the grant of interim relief have been met.

Analysis of Argument for Interim Relief

The only evidence relating to the first requirement, inability to arrange debt financing without improved revenues, is derived from the total Company operations, and relates overwhelmingly to the financing requirements of the total Company. Consumers Power states that it will require a total of \$270 million in outside financing---but only \$30 million of this will be expended for natural gas activities. There is no evidence that even this \$30 million must be financed or

expended in the next three months. By its own expert testimony it will require approximately a year of greatly improved total revenues to obtain needed improved marketability of its securities, but this is improved total Company revenues to market \$270 million of securities. There is thus no convincing evidence of inability to arrange financing of gas operations from improved gas revenues. The requirement is not met.

There is no evidence that deferral of \$3.8 million until a final order can be issued in approximately three months would cause unreasonable and harmful loss of revenue to the Applicant utility. This sum, approximately 13% of the interim increase granted representing the Company's June, July, and August sales is less than 1% of the annual gas revenues of Consumers Power Company. No testimony was introduced that such a sum was of essential importance to the Company, and it is difficult to conceive of the essential nature of less than 1% of the total gas revenues for a period of three months. I conclude that proceeding to a final decision in this case is the reasonable course of action, and would not in fact cause such a loss of revenue as to be demonstrably harmful to the Company.

It thus follows that in my judgment no showing has been made that denial of this motion would cause irreparable harm to the Applicant. No convincing testimony supporting such a conclusion was submitted, nor was a persuasive argument made by counsel to support such a judgment. None of the conditions for interim relief having been met, the motion must be denied.

The Proper Use of Interim Relief

I have approved an interim increase in the case of a natural gas utility (Case No. 4331). In that regard, it must be remembered that the income of natural gas utilities is highly seasonal, and if rates are not put into effect prior to

the winter heating season, a utility can lose for an entire year most of the benefits of a final rate increase. Obviously, the same situation does not exist in this case. Its summer gas sales are small, and as I have shown, the benefits of the interim increase granted by the majority will be minimal.

In contrast to the minimal benefit to Consumers Power of the increase granted by the majority today, the absence of any showing of extraordinary circumstances, and the lack of similarity between this case and other cases in which interim increases were approved there are several compelling independent reasons for denying interim rate relief to Consumers Power Company.

By acting on an interim basis the majority foregoes the full, complete, and reasoned consideration of all the issues raised by the application. The majority's judgment is made without the full evidence of all factors in the record; without a brief being filed by the Commission staff; without briefs by the parties; and, finally, without a Proposal for Decision by the Administrative Law Judge and exceptions to the Proposal by the parties and staff.

To forego those normal and time-proven processes should require a far greater showing of exceptional circumstances than Consumers Power has made.

By acting prematurely the majority impairs the right of the customers to the present use of their money.

Also, the premature decision could interfere with the efforts of the Commission to insure that any final rate increase is equitably allocated among the various classes of customers and types of service, since today's rate increase allocations are not based on the determination of the amount or allocation of a final rate increase.

As the Commission increasingly follows the path of approving interim rate increases, quickly followed by final rate decisions, the public can only be

confused. In the space of just three months the basis for computing gas bills will change twice, and there will be two public announcements of Commission decisions affecting gas rates. These frequent and repeated changes can only serve to heighten public confusion about the regulatory process.

The use of interim rate relief on a regular basis by the Commission is also not in the best interest of the utilities. Its frequent use reduces the imperative of deciding cases within nine months, as required by statute. Perhaps more importantly, the use of interim rate relief serves to mask the need for fundamental reform of the entire rate-making process, so that final decisions can be made earlier and more accurately.


I have called for new mechanisms to improve the quality of the deliberations of this Commission. Interim rate relief, can be only a stop-gap maneuver to paper-over inherent deficiencies in the procedures for determining reasonable and just rates.

It is possible to have both reasoned and full consideration of application for rate relief, and early and fair decisions. But, regular reliance on interim decisions is not the way to achieve those objectives.

Conclusion

In short, no interest is well served by the grant of interim rate relief to Consumers Power Company. The public is not served by a decision that exacts additional charges without full consideration of the record. The Company receives a minimal present benefit, but the price it pays is obfuscation of the need for fundamental regulatory reform. And the Commission, for its part, deprives itself of the opportunity to make a careful judgment of the issues.

June 2, 1975
Lansing, Michigan


William R. Ralls
Commissioner

STATEMENT OF SOURCE OF FUNDS
FOR GROSS PROPERTY ADDITIONS

<u>Source of Funds for Gross Property Additions</u>	<u>3 Months Ended</u> <u>June 30, 1975</u>
Funds Generated From Operations:	
Net Income After Dividends on Preferred and Preference Stock	\$ 13,591,742
Principal Noncash Items	
Depreciation and Amortization	
Per Statement of Income	20,098,776
Charged to Other Accounts	1,130,033
Deferred Income Taxes, Net	6,296,919
Investment Tax Credit, Net	13,805,996
Allowance for Funds Used During Construction	(5,751,785)
Undistributed Earnings of Subsidiaries	(1,934,818)
	<u>\$ 47,236,863</u>
Less	
Dividends Declared on Common Stock	\$ 13,184,287
Retirement of Preferred Stock .	400,000
	<u>\$ 33,652,576</u>
Funds Obtained From New Financing:	
Issuance of Preference Stock	\$ 50,000,000
Net Proceeds From Installment Sales	
Contracts Payable	757,144
Increase in Other Long-Term Debt	4,922
Decrease in Notes Payable	(98,100,000)
	<u>\$(47,337,934)</u>
Other Sources (Uses) of Funds:	
Change in Net Current Assets and Current Liabilities (Excluding Obligations Expected To Be Refinanced)	
Accrued Utility Revenue	\$ 31,658,798
Accounts Receivable	36,028,586
Materials and Supplies	(4,422,505)
Gas in Underground Storage	(27,731,555)
Prepaid Real and Personal Property Taxes	6,108,457
Bankers Acceptance Drafts	20,000,000
Current Maturities and Sinking Fund - LTD	(8,409,643)
Accounts Payable	(16,021,229)
Accrued Taxes	(5,888,983)
Accrued Interest	(2,032,162)
Other	4,637,238
	<u>\$ 33,927,002</u>
Sale of Land and Structures	26,365,956
Other, Net	1,051,806
	<u>\$ 61,344,764</u>
Total Funds for Construction From Above Sources	\$ 47,659,406
Allowance for Funds Used During Construction	5,751,785
	<u>\$ 53,411,191</u>
Gross Property Additions	

NRC DISTRIBUTION FOR PART 50 DOCKET
(TEMPORARY FORM)

CONTROL NO: **8878**

FILE: _____

FROM: Consumers Power Company Jackson, Michigan S H Howell			DATE OF DOC 8-18-75	DATE REC'D 8-21-75	LTR XXX	TWX	RPT	OTHER
TO: Mr Giambusso			ORIG one signed	CC	OTHER	SENT NRC PDR <u>XX</u> SENT LOCAL PDR <u>XX</u>		
CLASS	UNCLASS XXXXXX	PROP INFO	INPUT	NO CYS REC'D 1	DOCKET NO: 50-329/230			

DESCRIPTION: Ltr re our 9-13-75 ltr...trans the follow:	ENCLOSURES: Quarterly financial report for the period covering the second quarter of 1975..... (40 cys ecnl rec'd)
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PLANT NAME: Midland 1 & 2

FOR ACTION/INFORMATION

8-22-75

ehf

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16 - ACRS HOLDING /SENT		

To L.A. Goulbourne