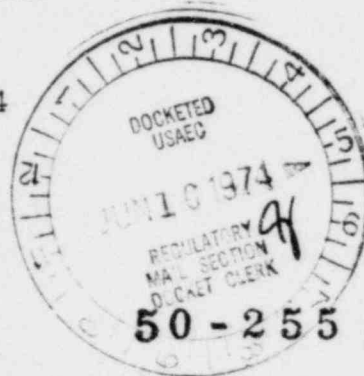


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June 5, 1974

Mr. Angelo Giambusso
Deputy Director for Reactor Projects
Directorate of Licensing
Office of Regulation
U. S. Atomic Energy Commission
Washington, D. C. 20545



50-255 50-329

50-330

Dear Mr. Giambusso:

Re: Consumers' financial problems

I have reviewed your letter of May 29, 1974 to Consumers Power Company requesting certain financial information. In my judgment the letter does not request all of the information necessary for the AEC to have an adequate understanding of the very serious financial problems which are now facing Consumers. Accordingly, I have taken the liberty of addressing myself to the ten categories in your enclosure to the letter sent to Consumers.

1. The assumptions in paragraph 1 are unrealistic; in any event you should have Consumers set forth the source of funds considering the possibility that Palisades may not be on line for some time, or that the construction of Midland may not continue on schedule. In this connection, let me point out that the Iron Workers Union is striking in the Midland area, a fact which may have caused a halt or slow down in the Midland schedule. In addition, I understand that Mr. Aymond has told Mr. William Ralls of the Michigan Public Service Commission that Palisades would not be back in operation until at least September, 1974 and that Consumers would incur, in addition to other charges, approximately \$22,000,000 in purchasing power to meet their obligations for the Michigan power pool. Accordingly, it would seem that you should secure from Consumers their source of funds on the condition that Palisades and Midland may or may not go forward over a spread of months.

2. Paragraph 2 suggests a necessity to reach a parity between estimated construction funds and the construction

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REGULATORY DOCKET FILE COPY

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budget. I do not believe this approach necessarily makes sense because what we really are talking about is the amount of funds Consumers will have available to meet all costs including the construction budget. Thus, Consumers should not be in a position of having to cut back or scrimp on other services which may be important to the public health or safety in order to get the Midland Plant on line. You should deal with the amount of funds available to Consumers for the next year to cover all of its expenditures including, but not limited to, the construction budget. In this regard, I also believe that more than a parity between income and outgo should be required since Consumers must be in a position to have a sufficient overage in income as opposed to costs to provide for contingencies. Finally, I do not believe that requesting information for the year June 1, 1974 through June 1, 1975 is sufficient. It seems that at a minimum you should request information from Consumers for the next five years so that the Commission can get a feeling for the financial trend of Consumers, a trend which I believe is disastrously down.

3-10. I believe this information should also be provided for longer than a one-year period of time.

Additional Comments:

(a) I believe that you should secure from Consumers or other sources the current credit rating of Consumers with regard to any indentures it may have outstanding or may wish to float;

(b) I believe you should get information concerning not only lines of bank credits available but also whether or not any banks or financial institutions have refused, or have indicated they would refuse, credit to Consumers;

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(c) I believe Consumers should be obligated to state what it would do in the event that earnings are below the current \$2.00 dividend rate and what effect that will have not only on the payment of dividends but on Consumers acceptance in the financial community;

(d) The Commission should take care to ascertain whether any of the source of funds which Consumers may suggest to the Commission are funds of the phony rather than hard cash variety. You do know the practice of utilities to count as income, interest during construction. These funds, however, are not really available to the utility and should be separated out in any consideration of their financial position;

(e) I believe you should inquire into Consumers cash position. How long could Consumers postpone any stock offering and what effect would any postponement have on Consumers' indenture obligations both in respect to interest and retirement. This raises a very serious question since the most recent Prospectus of Consumers (April 11) with respect to the cancelled share offering indicated that the funds would be used to pay short-term debts which I believe would include indenture obligations as well as the Midland obligations;

(f) I believe you should ask Consumers to list for you all extraordinary claims which have been or might be made against the Company as to which it maintains reserves. The obligation to maintain reserves will obviously interfere with Consumers use of any available funds;

(g) You should have Consumers provide information to you with respect to the gas portion of their business. While not under AEC jurisdiction, Consumers is having considerable difficulty in its gas ventures which is having an effect on its financial position and could carry over to funds available for the nuclear end of their business;

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(h) The Palisades matter should be separated out and the AEC should be provided with the exact dollar amount of losses and costs incurred as a result of Palisades being down. As indicated above, I believe these are substantial figures;

(i) Consumers should point out whether any funds which it suggests it will have will come from prospective rate increases. Given the situation in the State of Michigan, I strongly suggest that future rate increases should be discounted, since I know that both the Environmental Defense Fund and the West Michigan Environmental Action Council are actively opposing Consumers rate hikes.

* * *

Yesterday I was in the Bay City area and received a copy of the enclosed press release issued by Consumers Power Company. You will note that Consumers Power Company admits that it is in financial difficulty because of "soaring costs and declining earnings" and has indicated that it intends to restrict its construction program as well as reduce the Company's work force by at least 5%. This is a very serious admission on the part of Consumers and I am sure the AEC will want to know if any of the work force being eliminated is part of Consumers nuclear force, whether directly or indirectly, and whether any of the construction programs being eliminated or reduced have to do with Midland or Palisades.

Since it is clear that your earlier letter to Consumers does not request all of the relevant information, and since I believe that your financial people will agree with most, if not all, of my suggestions in this letter, I am taking the liberty of sending a copy of this letter to Mr. Howell of Consumers

Mr. Angelo Giambusso

June 5, 1974

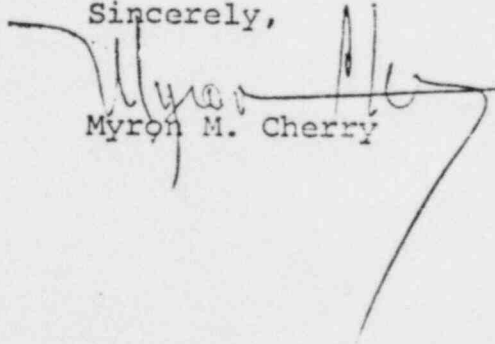
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Power Company, so that he can begin to gather the necessary information.

You will recall that I suggested that the AEC contact the Michigan Public Service Commission in the course of its investigation into Consumers' financial problems. I believe this is now even more necessary since Consumers Power Company has stated in the enclosed press release that it will file for rate increases, in addition to those now pending. The justification by Consumers for these rate increases, no doubt, will be its critical financial position, a factor which certainly is relevant to the AEC's deliberations in its investigation. I suggest, therefore, that you might do well to contact one or more of the PSC Commissioners and in particular Commissioner William R. Ralls who appears to me to have a decent grip on the facts and conditions concerning Consumers. His address is Michigan Public Service Commission, 515 West Ottawa, Lansing, Michigan 48901, and for your information his telephone number is Lansing 373-8096.

The AEC's investigation into Consumers' financial position is important and serious and should proceed forward with as much dispatch as possible. I should like to continue to receive copies of information which you send to or receive from Consumers. By carbon copy of this letter I am asking Mr. Howell to provide me with a copy of all financial information which is sent to AEC in light of my clients' continuing interest in this matter and outstanding request for the current investigation. Mr. Howell should understand that his supplying me with the information directly will ultimately assist in a speedy conclusion to this matter.

Sincerely,


Myron M. Cherry

MMC:I
Enclosure

cc: Mr. S. H. Howell
Mr. W. R. Ralls



Free

FOR RELEASE IMMEDIATELY

Jackson, Mich, June 4 -- Consumers Power Company said today that soaring costs and declining earnings have made it necessary to reduce its construction program and eliminate functions which are not absolutely necessary to the operation of the business.

In a personal letter to each of the Company's 11,500 employees, A H Aymond, chairman of the board and president, said that, because of the diminishing work load resulting from these cutbacks, it will be necessary to reduce the Company's work force. However, he added, layoffs are expected to affect less than 25 percent of the present work force.

(A spokesman for the Company said the cutbacks inevitably would be reflected in some curtailment of services, although the Company will continue its practice of responding immediately in all emergencies involving public health and safety.)

Mr. Aymond reviewed the impact of many adverse economic factors which have converged at this point in the Company's history. He mentioned significantly increased costs for coal, crude oil, natural gas, construction work, and costs for every other activity associated with providing utility services to the Company's customers. These, he said, include soaring interest rates for borrowed money, required for expansion to meet future needs. Another factor, he said, has been the difficulty in returning the Palisades Nuclear Plant to service, requiring the purchase of large quantities of power from other utilities.

"As a result of these and other factors," Mr. Aymond said, "earnings per share have declined dramatically. This decline has created a critical need for higher rates, and a reduction of costs wherever possible. The Company already has pending several requests for higher rates, and will file for others in the near future."

The construction budget, he said, already has been reduced by approximately \$40 million in the remainder of 1974, and by approximately \$120 million in 1975. In addition, a number of desirable Company programs must be curtailed or eliminated.

"Because of the diminishing workload as a result of these cutbacks," he said, it will be necessary to reduce the size of our workforce. While I cannot say exactly where these reductions in staff will take place, since this is still being worked out, I can tell you that less than five percent of our workforce will be affected."

"The purpose of this letter is to share this information with you at the earliest possible moment. Frankly, this step has been taken with great reluctance, because the Company continues to place a high regard on human values, as it has in the past. To help ease any disruption that results from workforce reductions, the Personnel Department will provide all assistance possible in helping affected employees to find other employment."

Mr. Aymond concluded - "Some of the steps that have been taken to meet the challenge of this period are unprecedented in the Company's history. However, as a result of these actions, I am convinced that Consumers Power Company will meet the challenge that lies ahead."

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ENCLOSURES:

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W/ CYS	W/ CYS	W/ CYS	W/ CYS
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