

LAW OFFICES  
ENNER & BLOCK  
ONE IBM PLAZA  
CHICAGO, ILLINOIS 60611

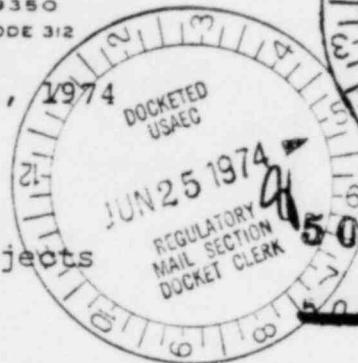
222-9350  
AREA CODE 312

June 20, 1974

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

RECEIVED  
JUN 25 1974

U.S. ATOMIC ENERGY COMMISSION  
REGULATORY MAIL SECTION  
DOCKET CLERK



50-329

50-330

Re: Consumer Power Company's Financial Capabilities

Dear Mr. Giambusso:

You will recall that on the fifth day of June, 1974 I sent you a letter summarizing my views regarding the narrowness of your first request for financial information from Consumers Power Company, dated May 29, 1974. Since that time, while I have not heard from you or your associates concerning the merits of my comments, I have received a copy of your follow-up letter to Consumers Power Company which somewhat expands your request for information. It is still, however, my judgment that this request will not provide you with the hard information which you need.

Yesterday I received a copy of Mr. Howell's letter to you dated June 13, 1974 in which he purports to answer your first request for information. An analysis of those documents reinforces my earlier position that the requested information is insufficient and in fact the information supplied by Mr. Howell is so vague and general as to provide almost no meaningful information. Indeed, if Consumers, interested in expanding or securing a financial relationship, submitted the kind of information as they have to you, to any financial organization they would promptly be the laughing stock of the financial community. Accordingly, I have taken the liberty of analyzing Consumers' response and below in this letter I point out where I believe your investigation should be directed.

My remarks are in direct response to the responses of Consumers Power Company contained in Mr. Howell's June 13, 1974 letter.

A. Internal Funds

Consumers indicates that, depending upon the starting

REGULATORY DOCKET FILE COPY

8006120 538

5737

Mr. Angelo Giambusso  
June 20, 1974  
Page Two

date of Palisades, they will have internally generated funds in the sum of between \$97,000,000 and \$132,000,000. Consumers has generally described these sources as "retained earnings, depreciation, deferred taxes, and several other miscellaneous items." This is an insufficient description of the internal sources of funds. It seems fairly clear from the current financial condition of Consumers that they presently do not have and will not have any retained earnings, so I suspect that the internal funds will come from other sources. You should request Consumers to list by category and amount the source of the internal funds to determine whether Consumers' conclusory estimates are correct. For example, if the major part of the internal funds comes from deferred taxes or similar items, then the internal funds are really another form of borrowings and should be viewed as external sources of funds.

It is also important to find out if Consumers' estimate of internal sources of funds is based upon successful application for new rate increases or execution of any further cutbacks of service in any of their systems of operations. Without these definitions the conclusory figure of internal funds is a meaningless figure.

#### B. External Funds

Consumers Power Company has told you that in order to meet its construction budget for the 12-month period ending May 31, 1975, it has to secure \$190,000,000 from the financial community. This alone raises several questions:

1. Consumers Power Company must reduce its dividend and its stock is slipping every day. It is also a virtual certainty that Consumers' credit rating will decline. Under these circumstances, and particularly in light of the poor reception utility offerings are having in the market, Consumers should be asked to explain in much more detail where they will get their funds, whether arrangements have been made, what underwriting organizations will handle the offering, what interest rates will apply and what the probabilities are of successful offerings;

2. Consumers should be asked to explain why they are not selling common stock or even preferred stock. Thus, has Consumers received any advice from the financial community indicating

Mr. Angelo Giambusso  
June 20, 1974  
Page Three

that an offering of common or preferred stock would not meet with success;

3. Consumers plans to sell "preference stock." This should not be confused with preferred stock but rather is a new class of stock recently authorized by Consumers. What are the particularities of preference stock and why has the Company chosen this new class of stock?

4. Consumers has also indicated that it has negotiated a \$50,000,000 7-year term loan from the First National City Bank of New York. What are the terms of this loan? The terms of the loan could be very significant and the AEC should request a copy of the loan agreement plus all papers submitted by Consumers to the First National City Bank of New York in support of that loan request.

5. Consumers has indicated that it is securing a \$50,000,000 nuclear fuel lease. What are the reasons for this lease and what are the terms of the lease?

6. One further question obviously is whether there are any other sources of external funds to Consumers if one or more of the categories in the lists become unavailable to it?

#### C. Construction Budget

Consumers has indicated that it has estimated construction requirements for the relevant period of \$364,000,000. Consumers Power Company has not, however, informed any one as to what construction projects are included within that budget. This obviously is extremely important since if Consumers has to cut back on the construction budget because of a lack of funds, the AEC should be in a position to know where the cut-backs are likely to occur. Will Consumers be forced to cut corners or buy second class safety equipment? We obviously can make no judgment on this until information as to the categories is supplied. Certainly in view of the serious financial situation in which Consumers finds itself, the public interest cannot afford to offer Consumers any favorable assumption in the absence of hard core information.

Mr. Angelo Giambusso  
June 20, 1974  
Page Four

**D. Projections**

Consumers Power Company has not submitted any information to indicate what is likely to be their financial position for the future either in the next twelve months or any other period. While Consumers has (inadequately) set down projections for sources of funds versus a construction budget, that obviously is not the entire picture. One must know what are Consumers obligations and whether funds are available to pay for those obligations in addition to the construction budget. Thus, for example, even considering Consumers estimates that they will have available for the relevant 12-month period \$383,000,000 (\$286,000,000 plus \$97,000,000), Consumers tells us that \$364,000,000 of this will be used for the construction budget; and this does not leave any room for contingencies. That leaves only \$19,000,000 to run the Company for a year, a figure which seems hardly enough considering the fact that Consumers' expenses for purchasing power for the summer of 1974 may run as high as \$10,000,000. And while the \$97,000,000 estimate of internal funds may be net after payment of all operating expenses, this is certainly not clear from Consumers papers. Even if the \$97,000,000 figure is net after paying operating expenses, the AEC should find out what expenses Consumers has and projects for the next twelve months in order to determine whether it is supportable to assert that \$97,000,000 will be left after the payment of expenses. At least based upon recent history (Consumers announced cutback on personnel) we know that Consumers is having difficulties meeting current obligations.

Accordingly, we believe that it is imperative for Consumers to supply projections or a balance sheet for all or a substantial portion of all of the next twelve months. Companies of Consumers' size always deal in projections and I am certain that internally Consumers most likely has 12-month projections which are probably updated every thirty days. In addition, it is a virtual certainty that Consumers supplied projected figures to the First National City Bank of New York in connection with the \$50,000,000 loan, and the AEC obviously should be entitled to receive at least the same information which is tendered by Consumers to financial institutions.

**E. Other Matters**

I continue to believe that securing information from

Mr. Angelo Giambusso  
June 20, 1974  
Page Five

Consumers for a 12-month period of time is insufficient. Particularly is this true since Consumers' Midland project will take several years to complete (if permitted by the Courts). Accordingly, I strongly suggest that you require Consumers to provide information to you for at least through 1976. It may be that Consumers will try to windowdress the period 1974 to 1975 and thus the AEC will not have a true picture of the financial prognosis for Consumers.

F. Project Projections

I believe that you should secure from Consumers a projection of all of its construction planned for the next five years together with a statement as to the funding for such projects. This information will tend to indicate how much additional capital Consumers must seek, from time to time, from the financial market. This might give us some indication of how successful Consumers is likely to be in connection with its current projections for electric power.

\* \* \*

Finally, I continue to urge you to contact the Public Service Commission to seek its assistance in your investigation. The Michigan Public Service Commission has a statutory obligation to see that an adequate amount of electric power at a fair price is available to the residents of Michigan. That obligation can not be discharged (particularly where rate increases are concerned) without a firm input into Consumers financial problems.

MMC:I

cc: Mr. Bruce Herd  
Mr. Stephen H. Howell  
William R. Ralls, Esq.

Sincerely,

Myron M. Cherry

## FILE:

FROM: Jenner & Block Chicago, IL Myron M. Cherry	DATE OF DOC 6-20-74	DATE REC'D 6-25-74	LTR X	TWX	RPT	COTHER
TO: A. Giambusso	ORIG 1 signed	CC OTHER		SENT AEC PDR XXX	SENT LOCAL PDR XXX	
CLASS UNCLASS XXX	PROP INFO	INPUT	NO CYS REC'D 1	DOCKET NO 50-334	50-349	

DESCRIPTION:  
Ltr re their 6-5-74 ltr furn info re  
Consumer Power Company's Financial Capabil-  
ties.....

ENCLOSURES:

ACKNOWLEDGED

DO NOT REMOVE

PLANT NAME: PALISADES

FOR ACTION/INFORMATION 6-25-74 GMC

BUTLER (L)	SCHWENCER (L)	ZIEMANN (L)	REGAN (E)
W/ CYS	W/ CYS	W/ CYS	W/ CYS
CLARK (L)	STOLZ (L)	DICKER (E)	
W/ CYS	W/ CYS	W/ CYS	W/ CYS
BUCK (L)	HASTINGS (L)	KINTON (E)	
W/ CYS	W/ CYS	W/ CYS	W/ CYS
KNIEL (L)	PURPLE (L)	YOUNGBLOOD (E)	
W/ CYS	W/3 CYS	W/ CYS	W/ CYS

## INTERNAL DISTRIBUTION

REG FILE	TECH REVIEW	DENTON	LIC ASST	A/T IND
AEC PDR	HENDRIE	GRIMES	DIGGS (L)	BRAITMAN
OGC	SCHROEDER	GAMMILL	GEARIN (L)	SALTZMAN
MUNTZING/STAFF	MACCARY	KASTNER	GOULBOURNE (L)	B. HURT
EASE	KNIGHT	BALLARD	KREUTZER (E)	
GIAMBUSSO	PAWLICKI	SPANGLER	LEE (L)	PLANS
BOYD	SHAO		MAIGRET (L)	MCDONALD
MOORE (L)(LWR-2)	STELLO	ENVIRO	REED (E)	CHAPMAN
DEYOUNG (L)(LWR-1)	HOUSTON	MULLER	SERVICE (L)	DUBE w/input
SKOVHOLT (L)	NOVAK	DICKER	SHEPPARD (L)	E. COUPE
GOLLER (L)	ROSS	KINTON	SLATER (E)	
P. COLLINS	IPPOLITO	YOUNGBLOOD	SMITH (L)	D. THOMPSON (2)
DENISE	TEDESCO	REGAN	TEETS (L)	KLECKER
REG OPR	LONG	PROJECT MGR	WILLIAMS (E)	EISENHUT
FILE & REGION (3)	LAINAS	HARLESS	WILSON (L)	
MORRIS	BENAROYA			
STEELE	VOLLMER			

## EXTERNAL DISTRIBUTION

1 - LOCAL PDR KALAMAZOO, MI	(1)(2)(10)-NATIONAL LABS	1-PDR-SAN/LA/NY
1 - TIC (ABERNATHY)	1-ASLBP(E/W Bldg, Rm 529)	1-BROOKHAVEN NAT LAB
1 - NSIC (BUCHANAN)	1-W. PENNINGTON, Rm E-201 GT	1-G. ULRICKSON, ORNL
1 - ASLB	1-B&M SWINEBROAD, Rm E-201 GT	1-AGMED (RUTH GUSMAN
1 - P. R. DAVIS	1-CONSULTANTS	Rm B-127 GT
16 - ACRS HOLDING	NEWMARK/BLUME/ACBABLAR	1-RD..MULLER, Rm F-1
		GT