

CONSUMERS POWER COMPANY

Quarterly Report for the Fourth Quarter
and Calendar Year 1974

Item 1. of the September 13, 1974 Request

3-17-75

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

Response

Information relating to this request is contained in the Consumers Power Company Annual Report 1974, a copy of which is attached as Appendix A. Note particularly the Statement of Income, the Statement of Source of Funds for Gross Property Additions, and the Balance Sheet found at pages 18-27.

Item 2. of the September 13, 1974 Request

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

Response

Consumers Power 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 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

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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.

On January 23, 1975, the Michigan Public Service Commission authorized an increase in the Company's electric rates of \$66,231,000 on an annual basis which included an interim increase of \$27,624,000 authorized September 16, 1974. A copy of the rate order and opinion of the Michigan Public Service Commission in this case, No. U-4576, is attached 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 requested pursuant to this item will not begin to be available until the close of the first quarter of 1975. Such information will be provided, therefore, in the Company's next quarterly report.

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 fourth quarter of 1974, Consumers Power Company's quality control and quality assurance activities

associated with the construction of the Midland Plant remained unchanged. Due to the curtailment of construction activities in 1975, there have been Bechtel manpower cutbacks, without, however, detracting from the quality or scope of the QA effort at Midland. Please refer to letters from R. Rex Renfrow, III (February 20, 1975) and P. Robert Brown, Jr. (February 24, 1975) to Michael Glaser, ASLB Chairman in the Midland Show Cause proceeding, attached hereto as Appendix C.

Item 1. of the January 16, 1975 Request

"Copies of the Michigan Public Service Commission (MPSC) rate order and opinion regarding your \$72.2 million requested rate increase."

Response

On January 23, 1975, the Michigan Public Service Commission issued its rate order and opinion regarding this requested rate increase, Case No. U-4576. A copy of this rate order and opinion is attached as Appendix B.

Item 2. of the January 16, 1975 Request

"Copies of the MPSC hearing examiner's decision and recommendation for a \$67.0 million rate increase in the above case."

Response

On December 20, 1974, Robert E. Hollenshead, Hearings Examiner for the Michigan Public Service Commission issued his Proposal for Decision regarding Case No. U-4576. A copy of this proposal is attached as Appendix D.

Item 3. of the January 16, 1975 Request

"Provide an assessment of the effect of this rate order on the overall financial condition of the Consumers Power Company and on your ability to finance continued construction of Midland 1 and 2 and the balance of your construction program. Also provide an assessment of the impact of any forthcoming gas rate increase on the overall financial condition and on the ability to finance construction.

"Quantify the assumptions made in your Amendment 28, regarding the favorable effects of the rate increase and the operation of the Palisades plant on your ability to issue \$50 million of first mortgage bonds in the second quarter of 1975 (ref. p. 3, supplemental information, Amendment 28). Specifically, what is the net projected effect by month of the rate increase and of Palisades' operation on net income, net earnings and on interest coverage, such that the bonds could be issued."

Response

The electric rate increase received on January 23, 1975 will help in gradually restoring the Company's financial health. However, because of the current low level of earnings and the continued outage of the Palisades Plant, the Company is proceeding with a curtailed construction program of about \$251 million in 1975.

In order to support this construction program and the refunding of \$86.3 million of 2-7/8% first mortgage bonds, the Company's tentative financing plan is as follows:

Second Quarter	- \$50 MM Bonds
Third Quarter	- \$30 MM Common Stock
	\$86.3 MM Bonds (Refunding Issue)
	\$30 MM Preference Stock
Fourth Quarter	- \$75 MM Bonds

Pro forma indenture coverage for the \$50 million of first mortgage bonds in the second quarter is expected to barely exceed the minimum two times requirement (assuming an 11.5%

interest rate). However, the ability to sell this issue and to carry out the rest of this program is dependent upon the favorable acceptance of the Company's securities by the financial markets, which acceptance cannot be determined at this time. The tentative financing program is subject to change both as to timing and as to the types of financing vehicles depending on market conditions and anticipated acceptance by the market for the Company's securities.

In addition to the tentative financing program outlined above, negotiations are progressing on several other financing arrangements which, if completed, probably would not alter significantly the financing plan shown, but could keep the Company's short-term borrowing at a more desirable level and allow more flexibility in the timing of the conventional securities.

In addition to the rate relief already approved, favorable treatment in the Company's request for a purchase and interchange power adjustment clause, filed July 8, 1974, and currently pending before the MPSC, the operation of the Palisades Plant or interim relief in a new electric rate case could serve to provide additional earnings improvement in 1975. However, any interim gas rate relief, which is expected in 2 to 3 months, would appear to have a minimal effect due to the normal seasonal decline in sales. The final rate relief in the gas rate case, which is expected late this summer, is expected to improve the Company's earnings in the last three months of 1975 and its ability to finance in late 1975 and 1976.

An estimate of the impact on earnings and indenture coverage

of the electric rate increases and of the operation of Palisades is shown in Appendix E, attached hereto. The first three columns show the incremental impact of the September 16, 1974 and the January 23, 1975 electric rate increases and the last three columns show the incremental impact of Palisades operation assuming the plant starts up in April. The column headings are self-explanatory but it should be noted that the columns showing the impact on before and after tax earnings represent the incremental impact for the particular month. However, the columns showing the pro forma indenture coverage are based on the cumulative effect because indenture coverage is based on twelve months ended data.

Item 4. of the January 16, 1975 Request


"In Amendment 23 (ref. p. 3, supplemental information), you indicated that the successful procurement of short-term bank loans was an assumption made in Consumers' financing projections for its construction program. What is the amount of Consumers' lines of credit and the currently unused portion of these lines? Name the banks extending these lines and indicate the relative percentage of each to the total of the lines of credit. Which of these banks does Consumers expect to utilize first and indicate the anticipated amount of each loan."

Response

As of March 15, 1975, the following lines of credit were available to Consumers Power Company:

<u>Bank</u>	<u>Total Line of Credit</u>	<u>Percent of Total Line</u>	<u>Unused Lines of Credit</u>
First National City Bank New York, New York	\$ 45,000,000	26.6%	\$ 6,000,000
Bankers Trust Company New York, New York	45,000,000	26.6	6,000,000
National Bank of Detroit Detroit, Michigan	25,000,000	14.8	9,000,000
The Detroit Bank and Trust Company Detroit, Michigan	15,000,000	8.9	7,000,000
Morgan Guaranty Trust Company New York, New York	10,000,000	5.9	-
Manufacturers National Bank of Detroit Detroit, Michigan	7,000,000	4.1	-
Michigan National Bank Lansing, Michigan	5,000,000	3.0	5,000,000
Old Kent Bank and Trust Company Grand Rapids, Michigan	4,000,000	2.4	-
Bank of the Commonwealth Detroit, Michigan	2,000,000	1.2	-
Bank of Montreal New York, New York	2,000,000	1.2	2,000,000
Second National Bank of Saginaw Saginaw, Michigan	2,000,000	1.2	-
Community National Bank of Pontiac Pontiac, Michigan	1,600,000	0.9	-
City Bank and Trust Company Jackson, Michigan	1,500,000	0.9	-
National Bank of Jackson Jackson, Michigan	1,300,000	0.7	-
American Bank and Trust Company Lansing, Michigan	1,000,000	0.6	-
Union Bank and Trust Company Grand Rapids, Michigan	1,000,000	0.6	-
The Muskegon Bank & Trust Company Muskegon, Michigan	800,000	0.4	-
 Total	 \$169,200,000	 100.0%	 \$35,000,000

The Company will generally borrow all of the money available from the smaller banks first. The borrowings from the larger banks will generally be made on a pro rata basis rather than in any sequential order.


 Stephen H. Howell
 Vice President

Dated: March 17, 1975

STATE OF MICHIGAN
Office of the Michigan Public Service Commission

SS.

3-17-75

I, Earl B. Klomparens, Secretary of the Michigan Public Service Commission Do Hereby Certify,
That I have compared the annexed copy of Commission Order in Case No. U-4576 dated
January 23, 1975,

Re: In the matter of the application of
CONSUMERS POWER COMPANY for authority
to increase its rates for the sale of
electric energy,

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with the original, and that it is a true and correct transcript therefrom, and of the whole of such
original.

In Testimony Whereof, I have hereunto set my hand and affixed
the seal of the Commission, at Lansing, this 23rd
day of January in the year of our Lord
one thousand nine hundred seventy-five.

Earl B. Klomparens
Secretary

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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)
electric energy, .)
_____)

Case No. U-4576

At a special session of the Michigan Public Service Commission held at its offices in the city of Lansing, Michigan, on the 23rd day of January, 1975.

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

OPINION AND ORDER

I.

HISTORY OF PROCEEDINGS

On April 23, 1974, Consumers Power Company (Applicant) filed an application in this matter requesting that the Commission conduct hearings and thereafter approve for Applicant additional annual revenues of at least \$72,159,000. 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 electric rate schedules designed to produce at least \$54,659,000 of additional annual electric 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 May 6, 1974, the Commission issued its Order and Notice of Hearing and

Notice of Hearing on Motion for Partial and Immediate Rate Relief (Order and Notice of Hearing) to which was attached summaries of Applicant's proposed rate changes and proposed electric rate schedules designed to produce the additional revenues requested. The Order and Notice of Hearing required that Applicant publish notice of hearing in the same newspapers throughout its electric service area and in substantially the same style and manner as the notice of hearing was published in Case No. U-4332. In addition, Applicant was required to mail a copy of the Order and Notice of Hearing to all cities, incorporated villages, counties and townships within its electric service area as well as to all intervenors or participants who had appeared in Cases Nos. U-4174 and U-4332, being the most recent two electric rate increase proceedings of Applicant.

The Order and Notice of Hearing established the following hearing dates:

1. June 6, 1974, in Lansing, an initial hearing being in the nature of a Prehearing Conference.
2. June 25, 1974, 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 7:00 p.m. on such date.
3. July 15, 1974, in Lansing, for the purpose of commencing cross-examination of Applicant's witnesses.

The initial hearings proceeded as scheduled. A second initial hearing in the nature of a prehearing conference was held on June 21, 1974. Cross-examination of the direct testimony of Applicant's witnesses commenced on July 15, 1974 and continued until completion on August 5, 1974.

On August 5, 1974, 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 electric rates designed to produce at least \$54,659,000 of additional annual revenue from electric operations.

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After due notice, cross-examination of the Investigation and Report submitted by the Commission Staff (Staff) and oral argument on Applicant's motion for interim relief, the Commission on September 16, 1974, issued its order granting Partial and Immediate Rate Relief in the amount of \$27,624,000 annually. These increased revenues were to be obtained by an interim surcharge of 1.272 mills per kilowatthour applicable to all jurisdictional electric rate schedules except street and traffic lighting.

Cross-examination of the direct cases of the Staff and Intervenors commenced on September 12, 1974 and continued until completion on October 16, 1974. In addition the direct testimony of Dr. Ralph Turvey, witness for the Environmental Defense Fund was cross-examined on August 19 and 20, 1974.

Cross-examination of the rebuttal phase of the case commenced on October 29, 1974 and continued through November 7, 1974. Additional evidence related strictly to billing demands of Applicant's industrial and commercial customers was presented on November 27, 1974.

On November 14, 1974, Applicant filed an Emergency Motion for Additional Partial and Immediate Rate Relief in the amount of at least \$27,035,000. Notice of Hearing was issued on November 15, 1974, and hearing on this Motion was conducted on December 5, 1974. The Commission finds that no action is necessary on the emergency motion, it being rendered moot by the issuance of this Opinion and Order.

Among the Intervenors who have actively participated in this case are the Attorney General of the State of Michigan, the Environmental Defense Fund, the West Michigan Environmental Action Council, the Michigan UAW-CAP and General Motors Corporation. In addition Myrtle Roby, Clyde Roby, Estelle Collins, Lucille Allen and Willie Mae Campbell, all of whom are ratepayers of Applicant and recipients of public assistance, intervened as parties and were jointly represented by Legal Services of Eastern Michigan. Also, unsworn presentations under Rule 16 of the Commission's Rules of Practice and Procedure were made by the Public Interest Research Group in Michigan (PIRGIM), Dow Chemical Company, Upjohn Company,

Burdock, Inc., and Hooker Chemicals and Plastics Corporation.

A total of 101 exhibits were offered into evidence. There was a total of 55 days of hearings and the record of the case consists of 7,836 pages. Except for oral argument held before the Commission on August 30, 1974, Hearings Examiner Robert E. Hollenshead presided over all hearings held in this proceeding.

In order that the record of this proceeding would be freely available to the public in Applicant's electric service area, the Hearings Examiner directed Applicant to file a copy of the transcript of the proceedings, together with Applicant's exhibits, in a public library in each of the following communities: Jackson, Battle Creek, Kalamazoo, Muskegon, Traverse City, Alma, Lansing, Bay City, Flint, Saginaw and Grand Rapids.

Simultaneous briefs were filed in this case during the period of December 4 through December 6, 1974; no provision was made for reply briefs. On December 20, 1974, the Hearings Examiner issued his Proposal for Decision recommending additional relief in the amount of \$39,453,274. Exceptions to the Examiner's Proposal for Decision were filed by January 9, 1975. There was no provision made for Replies to Exceptions to the Examiner's Proposal for Decision. The decision rendered herein is based solely upon examination and consideration of the record including the briefs, the Proposal for Decision, and the Exceptions of the parties in this proceeding.

II.

DESCRIPTION OF APPLICANT

Applicant is a Michigan corporation with its principal office in Jackson, Michigan and is engaged, among other things, in the generation, transmission, distribution and sale of electric energy. Applicant's service area includes all, or portions, of 61 counties in the Lower Peninsula of Michigan. Applicant serves more than 1,184,000 customers in 1,540 communities and townships through twelve operating divisions:

Battle Creek, Northeast (Bay City), Central (Alma), Flint, Grand Rapids, Jackson, Kalamazoo, Lansing, Muskegon, Pontiac, Saginaw and Northwest (Traverse City).

III.

PREFACE

Prior to the Order Granting Partial and Immediate Rate Relief on September 16, 1974, Applicant's rates for electric service were those authorized by the Commission on January 18, 1974 in Case U-4332, which utilized the twelve months ending December 31, 1972 as the test year.

During 1974, for the first time in many years, Applicant has experienced a decrease in electric sales. After 1974 Applicant expects growth to continue but at a lesser rate than in the past. Nevertheless, over the five-year period, 1974-1978 Applicant forecasts sales to increase 20% over the 1974 sales. In order to meet these growth projections, Applicant planned to invest \$1.9 billion in electric plant construction during the period 1974-1978. This amount reflects a reduction from \$2.7 billion originally planned for investment in new plant occasioned by the cancellation of the Quanicassee Nuclear Reactor Facility and deferral for one year of its Campbell E3 unit.

Subsequent to these deferrals and cancellations, Applicant has announced additional reductions of its construction program and large scale layoffs of construction workers due to its stated inability to obtain financing at reasonable terms.

The record discloses that Applicant will need to issue substantial amounts of new securities over the next few years in order to finance its construction program. In order to meet increased demand for electricity, Applicant must be in a position to obtain financing. The alternative is dangerously reduced reserve capacity with serious potential effects upon Applicant's ability to render continuous, adequate and reliable service.

As the record reflects and the Commission finds, Applicant's financial condition is not conducive to meeting its needs for external financing under reasonable circumstances. In general, utilities throughout the nation face severe financing difficulties due to the effects of record high interest rates.

In particular, Applicant's bonds, preferred stock and commercial paper have all been downrated in recent months.. During most of 1974, Applicant's common stock has sold at 50% of book value and at times below par value. Additionally, interest coverages on outstanding bonds and preferred stock have fallen to levels which legally prohibit the issuance of additional securities. Although Applicant has announced its intention to continue its dividend payment in view of the alternative consequences, recently announced earnings per share are significantly below Applicant's dividend payments to shareholders.

Moreover, and of key significance, the record reflects that Applicant has been unable for a period of several years to earn the return authorized by this Commission. Finally, ever-increasing costs of providing utility service in such areas as interest rates, wages, construction, operations, interchange power, and fuels including lag recovery problems have seriously affected Applicant's cash flow situation. The Commission will address these and other issues in detail in this Opinion and Order.

IV.

TEST PERIOD

In each rate proceeding, it is necessary to select the test period and to adjust the operating results in this test period for changes in revenue and cost levels so that the adjusted operating results of this test period will be representative of the future, and thereby afford a reasonable basis upon which to predicate rates which will be effective during a future period. In this proceeding, all parties, including the Staff, adopted the twelve months ending December 31, 1973 as the test period.

The Staff, in addition to utilizing calendar 1973 as the test year, also looked forward to "significant known changes" for a period of nine months beyond the test year in order to provide a more current view of Applicant's financial condition. The Commission will give due consideration to the Staff's approach to "significant known changes" as is hereafter set forth in this Opinion and Order. The Commission finds that the twelve months ending December 31, 1973 is the appropriate test period in this proceeding as determined by the Hearings Examiner. The Commission is also of the view that rate proceedings increasingly require more information which adequately reflects the current and future circumstances of the particular utility. The Commission therefore directs Applicant and the Staff in all future rate proceedings to submit evidence of a projected test year for the 12-month period immediately following the proposed test year.

V.

POSITIONS OF THE PARTIES

At the outset, and before discussing the major issues in this case, the overall positions of the various parties as well as the major areas contested are indicated in this section. To properly accomplish this, a brief and very fundamental discussion of a utility rate case is in order.

A utility rate case involves the determination of certain major matters prior to reaching conclusions as to the rates that should be charged to a utility's customers. First, a rate base is selected to which an appropriate rate of return is applied. Next, the income of the utility is measured against this figure to determine whether the utility is earning its authorized rate of return. If the utility is earning less than its authorized rate of return, this indicates that the utility has revenue deficiency and therefore its rates should be increased. If the utility is earning more than its authorized rate of return, a decrease in rates is in order. The

final element of a rate case concerns rate design, or a determination of what rates should be charged to the utility's various classes of customers.

In the instant case, only Applicant and the Staff discussed all of the major areas. The Attorney General contested the matter of rate base, rate of return, net operating income and revenue deficiency but did not contest the matter of rate design. The Michigan UAW-CAP, although it did not actively participate in the case to the degree that the Attorney General did, takes the exact same positions on the issues as the Attorney General. Therefore, throughout this Opinion and Order, only the Attorney General is mentioned except in those instances where the UAW-CAP filed separate exceptions. It should be noted, however, that this also represents the positions taken by the Michigan UAW-CAP. Intervenor Myrtle Roby et al, while they did not actively contest the various issues in the case, took a position opposed to any rate increase.

The remaining intervening parties, the Environmental Defense Fund, the West Michigan Environmental Action Council and General Motors Corporation, took no position as to the appropriate level of revenues Applicant should earn but, instead, contested the matter of rate design. Likewise, the Rule 16 participants, PIRGIM, Dow Chemical Company, Burdiox, Inc., and Hooker Chemicals and Plastics Corporation were only concerned with the matter of rate design.

In order to avoid problems related to coping with inflation and in an attempt to provide new rates to enable Applicant a reasonable opportunity to earn its authorized rate of return, Applicant and the Staff addressed the matter of "earnings erosion." Although the matter of "earnings erosion" will be separately discussed in this Opinion and Order, it is appropriate to mention at this time that the Staff's policy of recognizing "significant known changes" nine months beyond the test year actually constitutes an attempt to address the problem of earnings erosion. Applicant approached the problem of earnings erosion by means of a separate earnings erosion allowance which will be discussed in a separate section. As the Attorney General claimed that Applicant

had a revenue excess he therefore deemed that any provision for earnings erosion inappropriate in this case.

VI.

RATE BASE

Overview

Applicant, the Staff, and the Attorney General presented evidence as to the appropriate rate base to be utilized in this case. Because of the divergent approaches of those parties to the various issues which affect rate base, the rate bases they proposed vary significantly: Applicant claims that the appropriate jurisdictional rate base is \$1,578,387,000; the Staff claims that the appropriate jurisdictional rate base is \$1,751,702,000; and the Attorney General claims that the appropriate jurisdictional rate base is \$1,645,887,000. In the Proposal for Decision, the Hearings Examiner adopted a net jurisdictional rate base of \$1,746,713,000.

It is necessary to resolve a variety of issues in order to determine the rate base to be employed in this case:

1. Whether a year-end or average-year approach should be utilized in determining rate base.
2. Whether a net utility plant or capital structure rate base should be adopted.
3. Whether an allowance for working capital should be included in the rate base.
4. What is the proper methodology for making separations to non-jurisdictional business.
5. Whether interest-bearing construction work in progress should be included in rate base.
6. Whether the portion of Applicant's investment in the Ludington Pumped Storage Plant which relates to certain sales to Commonwealth Edison Company of Illinois should be included in the rate base.
7. Whether Applicant's facilities used to serve certain municipal pumping customers should be included in the rate base.

In addition, the issue raised as to the proper treatment of Applicant's profits on reacquired securities is pertinent to the final rate base determination. That issue is considered in Section VIII, Adjusted Net Operating Income, and the decision on that issue is reflected in the rate base determined herein.

Year-End Rate Base

Applicant, the Staff and the Attorney General all presented evidence based upon a year-end rate base. In addition, the Attorney General presented some testimony and exhibits based upon an average-year rate base. The hearings Examiner adopted a year-end rate base for this case.

In Case No. U-4332, the Commission utilized a year-end rate base. In this case, the Attorney General did not present evidence which completely indicated the effects of an average-year rate base and did urge the adoption of this approach.

In view of the foregoing, and in view of the fact that no party took exception to the Proposal for Decision on this issue, the Commission adopts the use of a year-end rate base for this case.

Net Utility Plant vs. Capital Structure

Both Applicant and the Staff presented evidence utilizing a net utility plant rate base. The Attorney General utilized what is known as a "capital structure" rate base. The Hearings Examiner adopted a net utility plant rate base, to which the Attorney General filed exceptions. The Attorney General also filed several proposed Findings of Fact relating to this issue.

It should be noted that the determination of this issue is dispositive of several subsidiary points raised by the Attorney General relating to rate base.

Fundamentally, choosing between a net utility plant rate base and a capital structure rate base is a mixed question of policy and fact which must be determined by the Commission in light of the applicable statute and by employing the Commission's accumulated expertise and experience necessary to achieve the most reasonable and

consistent result.

The applicable statute, MCLA 460.557, provides in pertinent part:

"In determining the proper price, the commission shall consider and give due weight to all lawful elements properly to be considered to enable it to determine the just and reasonable price to be fixed for supplying electricity, including costs, reasonable return on the fair value of all property used in the service..."

Properly construed, the statute requires the Commission to exercise its discretion so as to provide a reasonable return on all property used in the service.

In Case No. U-4332, Case No. U-4257 and other previous cases, the Commission considered this same issue and determined that a net utility plant rate base was appropriate. In this case, the Commission again concludes that the utilization of a net utility plant rate base constitutes the most appropriate technique for determining rate base. Based upon the facts before the Commission, a net utility plant rate base, consisting of the net of recorded original cost of the property, is most likely to result in a reasonable return on the "fair value of all property used in the service." That approach for determining the fair value of the property has the added virtue of being less speculative and less susceptible to inconsistency between rate cases.

Therefore, the exceptions relating to the use of a net utility plant rate base are rejected and all proposed findings deriving therefrom are denied.

Working Capital

Both Applicant and the Staff included in their respective rate bases an allowance for working capital in the amount of \$43,312,000, based upon the formulistic approach adopted by the Commission in past cases. The Hearings Examiner adopted an allowance or working capital in the amount proposed by Applicant and the Staff.

The Attorney General did not provide for an allowance for working capital, and consequently excepted to the Hearings Examiner on this issue and proposed a finding which would disallow an allowance for working capital in the rate base.

The Commission is persuaded that an allowance for working capital is necessary in order to assure a fair return on all property used in the service provided by Applicant, and that \$43,312,000 is the proper amount for the allowance.

Therefore, the exceptions relating to an allowance for working capital are not accepted, and all proposed findings deriving therefrom are denied.

Non-Jurisdictional Separations

Applicant and the Staff differed on their approaches to separations of jurisdictional from non-jurisdictional plant. The Attorney General presented no evidence and took no independent position on the issue, although his position in favor of a capital structure rate base would of necessity affect this item indirectly.

The Hearings Examiner adopted the Staff methodology for these separations, which was consistent with the methodology approved by the Commission in Case No.

U-4332. Basically, the adopted approach makes separations utilizing the 12-month average peak responsibility method and in addition allocating 25% of the costs of Applicant's generation and transmission facilities on an energy basis. No party filed exceptions to the approach adopted by the Examiner on this matter.

In light of the absence of any exceptions on this issue, and the evidence presented by the parties, the Commission is persuaded that the approach adopted by the Hearings Examiner and followed by the Commission in previous cases is reasonable and should be adopted in this case.

Construction Work in Progress

Applicant asserted that interest bearing construction work in progress should be excluded from rate base, while the Staff argued for its inclusion in rate base. The Attorney General took no position on the issue separate from his position favoring a capital structure rate base. The Hearings Examiner adopted the Staff position and included all construction work in progress in the rate base.

No exceptions were filed on this issue. Because of the absence of exceptions on the issue and the compelling reasons cited in the Examiner's decision for the position taken therein, the Commission will include construction work in progress in the rate base.

Sales to Commonwealth Edison from
Ludington Pumped Storage Plant

The Attorney General asserted that the portion of Applicant's investment in the Ludington Pumped Storage Plant which relates to sales to Commonwealth Edison Company of Illinois should be excluded from rate base. Both Applicant and the Staff included all of Applicant's investment in the Ludington plant in the rate base. The Hearings Examiner rejected the argument of the Attorney General and included all of the investment in the Ludington plant in the rate base. The Attorney General filed exceptions to the Proposal for Decision on this issue, as did Applicant.

Applicant excepted only to the statement in the Proposal for Decision that the rate for the sales to Commonwealth Edison are established by a mere filing of the contract for the sales with the Federal Power Commission. The Attorney General also excepted to that statement. These exceptions of the Attorney General and Applicant are well-taken, and the Commission so finds. The Federal Power Commission does, as Applicant and the Attorney General point out, have jurisdiction over the rates established for the sales to Commonwealth Edison to determine their reasonableness.

The Attorney General argues that the sales to Commonwealth Edison are "non-jurisdictional" and are, therefore, not properly included in rate base. He further argues that the treatment of this issue by the Hearings Examiner is inconsistent with the treatment of municipal pumping and Pontiac retail customers.

Applicant in its exceptions argues that jurisdiction to establish the rates for the interstate sales to Commonwealth Edison is not pertinent to including the investment in the rate base. Applicant further argues that the Commission decision in

Case No. F-180 is determinative of the issue, and that the Attorney General may not now collaterally attack the decision in that case.

In the order in Case No. F-180 dated November 1, 1971, the Commission determined that benefits would accrue to Applicant's customers as a result of installing all six units of the Ludington plant at one time, rather than delaying construction of two of the units. It was therefore found reasonable to treat sales of initial excess capacity to other utilities as jurisdictional sales. The Commission further determined that construction of the plant would enable Applicant to meet its obligations to the public, commencing in 1973.

Because of the argument of the Attorney General, it is appropriate to briefly review the proper criteria for inclusion of property in the rate base. Pursuant to MCLA 460.557, the Commission is required to allow Applicant a reasonable return on the fair value of all property used in the provision of utility service. All property used and useful in rendering electrical service to Applicant's customers must be considered.

Simply put, whether the Commission regulates the rates for sales to Commonwealth Edison is not relevant to the inclusion of the investment in the rate base. What is decisive is whether there is a present or future benefit and usefulness of that investment to Applicant's customers. Based on that test, the Commission has previously found that inclusion of the full Ludington investment in rate base is reasonable and proper.

In Case No. F-180, the Commission determined that the entire investment of Applicant in the Ludington plant was in the best interest of Applicant's customers, and that it should therefore be included in Applicant's rate base. There is nothing in this record to contradict that finding.

Of course, to the extent that the Ludington plant is not presently actually used to supply Applicant's customers but instead is used for sales to Commonwealth Edison, the Commission must avoid allowing Applicant a double return. For that

reason, the revenues from sales to Commonwealth Edison are included in net operating income.

Finally, it should be noted that the analogy of the Attorney General of the Ludington facility to municipal pumping facilities and sales within the city of Pontiac, which have been excluded from rate base, is inapposite. Municipal pumping facilities and facilities to supply certain customers within the city of Pontiac have not been shown to be beneficial or useful, either now or in the future, for Applicant's customers generally. Those facilities are therefore excluded from the rate base and the related operating income is similarly excluded.

In view of the foregoing, the exceptions of the Attorney General, except for the one specifically noted above, are not approved, and all proposed findings relating to the Ludington Pumped Storage Plant are denied.

Municipal Pumping Facilities

Applicant claimed that municipal pumping facilities should be included in the rate base. The Staff claimed that those facilities should be excluded. The Hearings Examiner adopted the Staff position. No exceptions to the Proposal for Decision on this issue were filed.

In view of the absence of exceptions and the evidence presented by the parties, the Commission is persuaded that facilities utilized for municipal pumping operations should be excluded from Applicant's rate base.

Summary

The Commission, therefore, concludes that the rate base which is reasonable, appropriate, and proper for use in this case is as follows:

Net Utility Plant	\$ 1,776,813,000
Working Capital	43,312,000
Total Rate Base	<u>1,820,125,000</u>
Less Non-Jurisdictional	73,412,000
Net Jurisdictional Rate Base	<u><u>\$ 1,746,713,000</u></u>

Therefore all proposed findings of the Attorney General inconsistent with this determination are specifically denied for the reasons fully set forth herein.

VII.

RATE OF RETURN

Rate of return testimony was presented by J.A. Parker for Applicant, Paul A. Carlson for the Staff and Hugh Larkin for the Attorney General. Mr. Parker advocated use of an overall rate of return of 7.61%, Mr. Carlson recommended use of an overall rate of return of 8.06%, and Mr. Larkin recommended use of an overall rate of return of 7.528%.

It should be noted at the outset that all parties utilized a return on common equity of 12.12%, the same as approved in Applicant's last electric rate proceeding, Case No. U-4332. Therefore, the appropriate rate of return on common equity has not been an issue in this case. Accordingly, the Commission adopts 12.12% as the proper rate of return on common equity in this case. The Commission directs the Staff to prepare and present a new rate of return on common equity study in Applicant's next rate proceeding in view of the fact that the capital markets have undergone significant changes of circumstances since the completion of the Staff's last full investigation.

Capital Structure

Applicant and the Attorney General both proposed a capital structure based on year-end 1973. The Staff, on the other hand, utilized a 13-month average capital structure based on the test year ending December 31, 1973.

Applicant's capital structure presented by Mr. Parker consists of:

Total Debt	49.70%
Preferred Stock	13.45
Common Equity	29.36
Deferred Taxes	<u>7.49</u>
	100.00%

The Staff's proposed capital structure presented by Mr. Carlson is as follows:

Long-term Debt	49.23%
Notes Payable	1.51
Preferred Stock	11.04
Common Equity	30.62
Deferred Taxes	<u>7.59</u>
	99.99%

The Attorney General's witness, Mr. Larkin, proposed the following capital structure:

Long-term Debt	50.05%
Preferred Stock	13.54
Common Equity	27.83
Deferred Taxes	7.55
Customer Deposits	.09
Reserve for Rate Refund	<u>.94</u>
	100.00%

The Attorney General's lower percentage of common equity is due to subtraction of \$16,631,000, representing Applicant's investment in its subsidiary, Northern Michigan Exploration Company (NMECo), from Applicant's common equity. The Attorney General claimed that this investment should be deleted from the common equity portion of Applicant's capital structure since this investment constitutes risk capital involved in gas and oil exploration. As risk capital, the Attorney General argued it has a cost of not less than 12.12%, Applicant's common equity rate of return. Applicant and the Staff opposed the Attorney General's exclusion from Applicant's capital structure of the investment in NMECo.

The Attorney General excepted to the Hearing Examiner's conclusion that Applicant's investment in NMECo is properly includable in the common equity portion of Applicant's capital structure and proposed findings that this amount should be excluded as risk

capital having a cost of not less than the 12.12% return on common equity authorized for Applicant.

The Commission affirms the conclusion of the Hearings Examiner that the NMECo investment is properly includable in Applicant's capital structure as common equity. The Commission finds that Applicant's investment in its subsidiary comes from general funds which are not traceable exclusively to common equity funds. While it is a risk venture, the existence of the NMECo investment does not affect the capital structure used to finance the remainder of Applicant's assets as implied by the Attorney General. The Commission therefore, as in Case No. U-4332, finds the Attorney General's exception without merit and rejects his proposed findings of fact related to the NMECo investment.

The Hearings Examiner adopted the 13-month average capital structure proposed by the Staff as most appropriate for use in this case. The Attorney General excepted to this determination and proposed findings that the test year-end capital structure was more representative and typical for purposes of establishing a fair rate of return and setting rates for the future and, in the alternative, that Applicant's capital structure as of September, 1974 was more typical for establishing future rates.

The Commission finds that the Attorney General's exceptions are not persuasive, affirms the findings of the Hearings Examiner and rejects the Attorney General's proposed findings of fact with respect thereto. The Commission finds that the 13-month average capital structure is more representative of Applicant's typical financial mix and is, therefore, less subject to distortions in setting a fair return caused by transient elements of a year-end capital structure. For these reasons, the Commission also finds that the 13-month average capital structure is more representative for establishing a fair rate of return. Conversely, the Commission finds that Applicant's capital structure as of September, 1974, as proposed by the Attorney General is not representative of Applicant's typical financial mix and is founded

only upon qualified estimates of Staff witness Carlson elicited on cross-examination. The Commission determines, therefore, that the Attorney General's proposed findings as to Applicant's cost of capital and fair rate of return as of September, 1974 are not supported by the record.

Cost of Debt and Preferred Stock

Applicant and the Attorney General both proposed 6.27% as the proper embedded cost of debt calculated as of year-end 1973. Both parties combined short-term and long-term debt in this figure. On the other hand, the Staff calculated long-term debt at 6.81% and calculated short-term debt at 11.656%. The Staff's long-term debt not only takes into account Applicant's debt as of year-end 1973, but also includes the cost of long-term debt issued in 1974. Specifically, the Staff included in its calculations issuance of \$34,700,000 of pollution control revenue bonds and a \$50,000,000 long-term note in June, 1974. The Staff also included a \$60,000,000 first mortgage bond issue in July, 1974 and a \$50,000,000 bond issue in August, 1974. The Staff's short-term debt reflects cost of notes payable on July 31, 1974.

Both Applicant and the Attorney General determined that the appropriate embedded cost of preferred stock is 6.94% based upon year-end 1973. The Staff determined that embedded cost of preferred stock is 7.40%, representing the cost of preferred stock at year-end 1973 and adjusted to reflect issuance of \$30,000,000 of preference stock in July, 1974. Applicant also urged recognition of 1974 preferred stock and debt costs if the Commission rejected its requested earnings erosion allowance.

The Hearings Examiner found that the Staff's calculations were more appropriate for determination of embedded costs. The Attorney General excepted to the use of 1974 rather than year-end 1973 debt and preferred stock embedded costs and argues that use of 1974 costs results in a capital structure not representative of average-year 1973. He also proposed findings that a fair rate of return should be determined

on the basis of year-end 1973 embedded costs or, in the alternative, that if 1974 embedded costs are used, then a capital structure representative of 1974 should also be adopted.

The Commission is not persuaded by the Attorney General's exceptions, affirms the findings of the Hearings Examiner and rejects the proposed findings of the Attorney General. The Staff approach provides the most recent and accurate picture of Applicant's embedded cost of debt and preferred stock. Therefore, year-end cost figures are not appropriate for this case and a fair rate of return should not be determined upon that basis. The Commission, as in the past, finds that use of known and identifiable costs beyond the test period appropriately recognizes Applicant's cost of providing utility service during the future period for which rates are currently established.

The Commission also finds that the recognition of 1974 incurred costs does not result in a capital cost not representative of the 1973 average test year. Average capital structure, as previously determined, is the most representative approach for this case. Recognition of 1974 costs updating known changes does not significantly distort this picture. Finally, the record lacks any credible evidence upon which to establish an average 1974 capital structure.

Job Development Investment Tax Credit

The Hearings Examiner found that Applicant's unamortized balance of the Job Development Tax Credit should earn the overall rate of return authorized and not the approved rate of return on common equity as proposed by Applicant. As no exceptions have been filed with respect to this finding, the Commission affirms the Hearings Examiner's decision in accordance with its previous determination in Case No. U-4332.

Income Tax Effect

The Attorney General excepts to the Hearing Examiner's failure to consider or find that Applicant's current capital structure as of September, 1974 generates additional income tax savings through interest deductions and proposes findings with respect to recognizing these savings as reductions in Applicant's revenue requirements. As the Commission has found that use of a September, 1974 capital structure is inappropriate in this case and that recognition of 1974 embedded debt costs does not require use of a 1974 capital structure, the Commission rejects the exception⁷ and proposed findings of the Attorney General as unsubstantiated upon the record and not controlling upon the decision herein.

Summary

The Hearings Examiner found that a fair and reasonable rate of return on Applicant's rate base is 8.06%. The calculation of this figure is set forth below.

<u>Type of Capital</u>	<u>Weight</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-term Debt	.4923	6.81	3.35%
Notes Payable	.0151	11.656	0.18
Preferred Stock	.1104	7.40	0.82
Common Equity	.3062	12.12	3.71
Deferred Taxes	.0759	-0-	-0-
Totals	<u>.9999</u>	<u>-0-</u>	<u>8.06%</u>

The Attorney General excepts to this conclusion and proposes a finding that a fair and reasonable rate of return of 7.528% as recommended by witness Larkin using year-end 1973 or, in the alternative, 7.8692% as of September, 1974 should be adopted. As the Commission has found both the year-end 1973 and September, 1974 approach inappropriate or not supported by the record, the proposed findings are rejected and an overall rate of return of 8.06% as determined by the Hearings Examiner is affirmed and adopted.

VIII.

ADJUSTED NET OPERATING INCOME

The test year net operating income of Applicant was \$87,459,000. Applicant and the Attorney General both claimed that jurisdictional net operating income was \$84,385,000 and the Staff asserted that the net operating income was \$84,228,000. The \$157,000 difference resulted from the differing methodology used for separating jurisdictional and non-jurisdictional business. The Hearings Examiner found that the Staff net operating figure was most appropriate. In view of the Commission's findings regarding the proper methodology for separating jurisdictional and non-jurisdictional rate base, the Hearings Examiner's finding of jurisdictional net operating income for the test year of \$84,228,000 is hereby affirmed.

The adjusted net operating income, as proposed by the various parties, is as follows:

Applicant	\$ 85,519,000
Staff	114,309,000
Attorney General	131,728,000

Where the parties are in agreement concerning adjustments to net operating income, no comment will be made regarding such adjustments. The discussion hereinafter concerns only those adjustments upon which the parties differ. In view of the differing methodology used for non-jurisdictional separation, the adjustments will be discussed in terms of total company net operating income except where otherwise indicated.

Michigan Franchise Tax

Applicant and the Staff both proposed adjustments reducing net operating income in the amount of \$236,000 to reflect an increase in the Michigan Franchise Tax. This proposed adjustment is primarily related to Applicant's issuance of \$130,000,000 of preferred stock during the 1973 test period.

The Attorney General contended that no adjustment should be made for franchise tax increases since this expense relates to 1974 rather than 1973 level of operations, and that the proposed adjustment is for the privilege of doing business in Michigan in 1974 rather than 1973.

The Hearings Examiner found the adjustment to be proper on the grounds that the computation date of the annual privilege fee is December 31, 1973, thereby reflecting a known increase in expenses at the end of the test year. As determined in Case No. U-4332 and no exceptions having been filed, the Michigan Franchise Tax increase adjustment approved by the Examiner in the amount of \$236,000 is hereby affirmed.

Depreciation Adjustment for Plant Obsolescence

Both the Staff and Applicant proposed an adjustment in the amount of \$2,133,000 to reflect a reduction in net operating income resulting from a change in Applicant's depreciation rates.

The Attorney General opposed the adjustment since, as of the completion of hearings in this case, the adjustment did not represent a known change and the Commission had not yet approved any change to Applicant's depreciation rates. The Attorney General further opposed the adjustment since, even if the Commission were to approve a change in Applicant's depreciation rates prior to the issuance of an order in this case, the change would not take effect until 1975.

The Hearings Examiner adopted the position of Applicant and the Staff, to which the Attorney General took exception.

In their presentations, both Applicant and the Staff recognized that engineers and other experts had been reviewing a detailed depreciation study of Applicant's plant for a number of months. This process was concluded, rates were recommended and the Commission adopted those rates in its order in Case No. F-665, dated January 13, 1975. The establishment of depreciation rates is not a simple process. All c.

Applicant's plant facilities must be reviewed. Based on historical experience and probable future conditions, technical judgment must determine estimated additions and retirements, probable plant lives, salvage, and removal costs. Because of the time involved in such a review, it is not feasible to superimpose the complications of such a highly technical process on the already difficult, lengthy rate-setting procedure.

The Attorney General argued that an adjustment should not be included in the Commission's cost of service calculation to reflect finally determined depreciation rates because such rates would be effective only after January 1, 1975, a date which now has passed. The rates for electric service which the Commission is now fixing also will be effective in 1975 immediately upon issuance of this order. The service rates thus will appropriately recognize the depreciation costs which are concurrently being incurred. In the Commission's opinion, this recognizes appropriately the matching of revenues and the expenses incurred in generating those revenues.

A similar question arose in connection with depreciation in Case No. U-4257 involving electric rates of The Detroit Edison Company, where the intervenors objected to consideration of depreciation rates established in a separate proceeding. There the Commission stated:

"These rates were found to be reasonable by the Commission. Thus, there is a presumption as to their validity for rate-making purposes. The intervenors, as well as Applicant and the Staff, were free to present such testimony and exhibits as they wished in order to demonstrate that such rates were, in fact, not valid, or that different depreciation rates might be more appropriate. The Commission is free to make adjustments for depreciation in the setting of rates in a rate case, regardless of depreciation practices which might be ordered for accounting purposes. However, there was no evidence presented in this case tending to show that any other depreciation rate might be more reasonable or appropriate than those ordered by the Commission in Case No. F-323 and used by Applicant."

Therefore, the Commission finds that an adjustment of \$719,000 is appropriate.

In light of this adjustment, the exceptions of the Attorney General are not adopted, and his proposed findings deriving from those exceptions are denied.

Postal Rate Increase

Applicant and the Attorney General both recommended an adjustment decreasing net operating income in the amount of \$130,000 to reflect the postal rate increase effective March 1, 1974.

The Staff opposed this adjustment, not considering it a "major item" of expense which increased within a nine-month period beyond the end of the test year. In addition, the Staff claimed that nonrecognition of this postal rate increase might serve as an offset to possible increases in revenues or decreases in cost.

The Hearings Examiner approved the proposed adjustment for postal rate increases. He cited the Staff witness, Charles Geyer, who indicated on cross-examination that he has in the past recommended such an adjustment. He also stated that he would have made this adjustment in the instant case if it were not for the abovementioned Staff policy of adjusting only "major items" of expense.

The Commission has in the past approved adjustments for postal rate increases which became effective after the end of the test period. This is a significant known change which should be recognized. No exceptions having been filed, the postal rate increase adjustment as approved by the Hearings Examiner is hereby affirmed.

Wage and Related Pension Cost Increase

Applicant, the Staff and the Attorney General all recommended adjustments for increased wage and pension costs. Applicant recommended an adjustment decreasing net operating income in the amount of \$1,113,000. The Staff's adjustment decreased net operating income in the amount of \$2,910,000 and the Attorney General's adjustment reduced net operating income in the amount of \$203,000.

Both Applicant and the Attorney General's adjustment took into account wage and pension cost increases through February 2, 1974. The Attorney General, however, deducted from this amount \$1,113,000 on the theory that Applicant could offset 84.6%

of the increased cost because of increased productivity.

The Staff based its adjustment on wage and related pension costs through September of 1974. The Staff conducted an offset study of the wage and pension cost increase and, although it found that there was an increase in employee productivity, determined that no reduction should be made to the adjustment because cost level increases could not be offset without depressing the earned rate of return on Applicant's common equity.

In addition to its position mentioned above, the Attorney General contended that if the Commission utilizes the Staff's adjustment, this adjustment should be decreased \$1,082,000 to represent a reduction in Applicant's employment level from 1973 to 1974.

The Hearings Examiner adopted the adjustment proposed by the Staff to which Applicant filed no exceptions. The Attorney General filed several exceptions to the Proposal for Decision.

A review of the Attorney General's exceptions and proposed findings discloses that his principal objections to the Examiner's decision are three:

- (1) First, the Attorney General objects to consideration of the Staff adjustment to the extent it is based on wage and related pension costs through September, 1974.
- (2) Second, the Attorney General asserts that his increased productivity figures should be offset against any wage and pension increase adjustments.
- (3) Third, the Attorney General asserts that there should be an offset based upon a reduction in the employment force.

The Commission rejects the position of the Attorney General and adopts the Staff position as set forth in the Proposal for Decision.

As to the Attorney General's first principal objection, the Commission is persuaded that basing the wage and related pension cost adjustment on the September, 1974 evidence

presented by the Staff is reasonable and appropriate. The Staff calculation was based upon Applicant's initial offer in its negotiations with its employees. As such, it is most reasonable to assume that its figures constitute conservative estimates, since the final negotiated wage package would at least equal Applicant's first offer.

As to the Attorney General's second principal objection, the Commission is persuaded by the Staff study, which indicates that Applicant has been unable, in fact, to offset any cost level increases without depressing its earned rate of return. Therefore the productivity offset proposed by the Attorney General is rejected. The problem with the offset study of the Attorney General is that it did not include the second ("rate of return") step necessary for a reliable study. The Commission's fundamental purpose is to establish rates which will allow Applicant to earn its authorized return and, in light of the Staff study, little would be gained toward that objective by accepting the position of the Attorney General.

As to the Attorney General's third principal objection, the Commission notes that Applicant's employment level reduction is the result of an austerity program forced by Applicant's financial situation. As such, imputing it to test year figures would be inappropriate since it is abnormal and, therefore, the test year calculations would be inappropriately distorted.

Therefore, the Commission adopts the wage and pension cost adjustment proposed by the Staff and contained in the Proposal for Decision. The exceptions of the Attorney General relating to this issue are not approved, and all proposed findings deriving therefrom are therefore denied.

Profit on Reacquired Securities

Applicant adjusted net operating income upward in the amount of \$1,102,000 to reflect profit on its reacquired securities. Both the Staff and the Attorney General

proposed an upward adjustment to net operating income in the amount of \$1,896,000.

This difference related to whether the profit on reacquired securities is to be treated as net after taxes, as recommended by Applicant, or whether the entire profit is to be added to Applicant's net operating income, as recommended by the Staff and the Attorney General.

Under applicable provisions of the Internal Revenue Code, Applicant has the option of reporting the profit for tax purposes for the year in which bonds are purchased and paying the tax in that year, or of accruing the tax liability in a tax accrual account and paying the tax over a period of years. In recent years Applicant has elected to defer the tax payment. The Commission in recent cases, as a result of such election, has treated the gross rather than the net profit as an addition to revenue.

Contra to its earlier procedure, when Applicant filed its 1973 tax return in September of 1974, it reported the profit on reacquired securities as taxable income. Applicant indicated that it would continue to pay tax on the profit on reacquired securities if it received favorable treatment on this adjustment from the Commission.

The Hearings Examiner determined that Applicant's proposed method of adjustment was correct. The Attorney General excepted to the Examiner's treatment of the adjustment and proposed findings that Applicant is not legally required to currently pay taxes on reacquired securities profits, that it is illegal to require the ratepayer to pay in the cost of service non-legal obligations and that the proper adjustment for this item should be \$1,844,000.

The Commission finds the Attorney General's exception to be misplaced, affirms the finding of the Hearings Examiner and rejects the proposed findings of the Attorney General as improper and not controlling upon the decision herein. Applicant's proposed adjustment on its profit on reacquired securities is properly made. The Staff's witness, Mr. Geyer, conceded that the Staff's recommended adjustment was not consistent

with Applicant's recognition of this profit as taxable. Mr. Geyer implied that a change in the Staff's approach would be appropriate if Applicant consistently treated the profit on reacquired securities as taxable income in the year realized. Applicant has indicated it will continue to elect to treat the profit on reacquired securities as taxable. Such treatment will also permit maximum use of available investment tax credits.

Items too numerous to list which are not legal obligations are routinely approved as appropriate cost of service expenditures. While Applicant is not legally obligated to report reacquired securities profits as taxable income, it may legally exercise its option to do so under Internal Revenue Service regulations and the Commission finds that Applicant has exercised reasonable and prudent business judgment in this regard. Therefore, the Commission finds Applicant's upward adjustment increasing net operating income by \$1,102,000 to reflect profit on its reacquired securities is reasonable.

Income Tax Effect of Pro Forma Financing

Applicant, the Staff and the Attorney General proposed an adjustment to reflect the income tax effect of pro forma financing. Applicant recommended an adjustment increasing net operating income in the amount of \$1,952,000. The Staff recommended an adjustment increasing net operating income by \$7,189,000 and the Attorney General recommended an upward adjustment of \$1,918,000.

Applicant argued that this adjustment should be based on the actual amount of interest-bearing debt attributable to the electric department on December 31, 1973. Applicant stated that the adjustment should reflect that year-end level of debt was greater than the average debt during the year and that year-end rates were higher than the average rates.

The Staff calculated the income tax effect of pro forma financing by taking the rate base, multiplying that by the Staff's capital structure and then multiplying the product by the Staff's cost of debt. The Attorney General used the same approach as

the Staff but reached a different result due to a lesser rate base, a lesser amount of debt and a lower overall cost of debt.

Additionally, Applicant argued that in the event that the Commission adopted the overall rate of return of 8.06% recommended by the Staff the adjustment should be \$4,955,000. This adjustment is based on utilizing Applicant's method of computing the income tax effect of pro forma financing. Applicant claimed that the Staff's and Attorney General's method used for computing this income tax adjustment resulted in a hypothetical cost of debt and, therefore, hypothetical interest cost.

The Hearings Examiner found the Staff approach to be most appropriate. Applicant excepted to the Examiner's finding on the basis of the abovementioned arguments. Applicant did not request proposed findings with respect to this issue. The Commission affirms the Examiner's finding that the Staff approach employs the appropriate methodology in arriving at this adjustment uniformly followed in numerous rate decisions. Moreover, since the rate base of the Staff is larger than the invested capital, the resulting tax saving from this adjustment should accrue to the ratepayer.

Advertising

The Staff and the Attorney General each adjusted net operating income upward for advertising expenses deemed not properly chargeable to Applicant's ratepayers. The Staff recommended disallowing \$195,000 of advertising expense and the Attorney General recommended disallowing \$298,000. Applicant opposed the Staff's and the Attorney General's proposed adjustments.

The Staff claimed that the disallowed amounts did not fall within three categories of advertising which it deems properly includable in the cost of service. These categories are:

- (1) Advertising related to public health and safety.
- (2) Advertising related to conservation of energy.
- (3) Explanations of billing practices, utility services, rates, etc.

The Attorney General claimed that one-half of Applicant's total expense for advertising should be excluded from cost of service. In support of this disallowance, the Attorney General indicated that Applicant had included substantial amounts in cost of service for institutional advertising expenses associated with the Big Rock and Palisades Information Centers, which amounts were no longer necessary since these informational centers have been closed. The Attorney General also supported his adjustment on the premise that the great majority of Applicant's advertising is image building and does not benefit the ratepayer.

Applicant opposed the Staff's and the Attorney General's adjustments on the basis that the excluded advertising is beneficial to both Applicant and its customers. Applicant also argued that the Staff's category of eliminated advertising included advertising which the Commission in Case No. U-4332 permitted in the cost of service. Furthermore, Applicant claimed that the annual cost of advertising that the Staff proposes to eliminate amounts to only 35¢ per customer.

The Hearings Examiner found that the Attorney General's 50% exclusion was arbitrary and without support on the record. He found, however, that the Staff position was most appropriate while recognizing that the exclusion of those costs was in variance with the portion of the Commission's order in Case No. U-4332 which permitted as part of cost of service advertising that would:

"Describe any program or activity which will objectively benefit the ratepayer, including demand/supply studies and specific plans or identifiable projects to provide adequate supplies of utility services."

The Examiner concluded that deletion from cost of service of the above-quoted advertising is warranted at this time. He reasoned that this category of advertising which advises the ratepayer of the problems of complying with environmental standards, the problems of providing energy, the cost and problems of air pollution abatement, reasons and expenses for cooling towers, efforts for reforestation, the need for

construction of extra-high voltage lines, problems and promise of nuclear power and the importance of electricity to the economic well-being of the state does not directly benefit the ratepayer and therefore primarily inures more to the benefit of Applicant and its stockholders. Applicant excepts to these findings on the grounds that the Commission determined this issue in Case No. U-4332 thereby encouraging these expenditures and, therefore, any change now would be grossly unfair. Applicant proposed no findings with respect to this issue. The UAW-CAP also excepted to the Examiner's decision and urged that approved advertising expenses be limited to those notices which Applicant is required to publish pursuant to Commission orders.

The Commission finds that the Hearings Examiner was correct and concludes that advertising which is properly includable in the cost of service is that which:

- (1) Advises the ratepayer of matters of public health and safety.
- (2) Promotes conservation of energy resources.
- (3) Explains billing practices, utility services, and rates to its ratepayers.
- (4) Provides factual and objective data programs in educational institutions.

Although the Commission concludes that only the above-referenced advertising will be given cost of service treatment chargeable to the ratepayer, it does not in any way attempt to restrain Applicant from disseminating other information, either through the news media or by means of advertising chargeable to its stockholders. However, in this era of energy shortage and cost consciousness the Commission believes it would be an injustice to charge ratepayers with the cost of advertising which is not directly beneficial to them. Therefore, the Commission finds Applicant's objections to be without merit and affirms the Examiner's finding with respect to the advertising adjustment. Consistent with this reasoning, the Commission also finds that the UAW-CAP proposed finding relative to advertising expenses should not be adopted.

Charitable Contributions and Donations

Both the Staff and the Attorney General recommended increasing net operating income by \$26,000 to reflect elimination of all charitable contributions from cost of service. Applicant opposed this adjustment.

Applicant indicated that it had made considerable charitable contributions which it did not include in cost of service and that the sums involved herein represented dues paid to local, state and national chambers of commerce. The Hearings Examiner found the adjustment appropriate. No exceptions were filed thereto.

Consistent with its past practice as followed in Case No. U-4332, the Commission affirms the finding of the Examiner that such expenditures are not properly includable in cost of service. This is not to infer that Applicant may not make charitable contributions if it so chooses as a matter of good corporate citizenship. As the Commission has stated in numerous rate proceedings, however, such contributions are not properly chargeable to Applicant's ratepayers, who may not be in agreement with the particular contributions made.

Allowance for Funds Used During Construction

Both the Staff and the Attorney General argued that net operating income be increased by an adjustment reflecting an allowance for funds used during construction. Applicant opposed this adjustment for the reasons previously discussed relating to Applicant's proposed exclusion of interest bearing construction work in progress from the rate base.

The Staff recommended that net operating income be increased by \$15,523,000 as an allowance for funds used during construction and the Attorney General recommended an adjustment increasing net operating income by \$18,184,000. Both the Staff and the Attorney General utilized construction work in progress as of December 31, 1973 and the allowance for funds used during construction rate of 7 3/4% in effect as of January 1, 1974, in calculating their adjustments. The Attorney General, however, also

includes an additional \$1,845,000 for allowance for funds used during construction beyond that proposed by the Staff in order to adjust to year-end levels.

The Hearings Examiner found that the Staff adjustment in the amount of \$15,523,000 was appropriate. The Attorney General excepted to this result and the rejection of his adjustment as inconsistent with the Commission approach in Case No. U-4332 and he proposed findings with respect to the appropriate method and amount of this adjustment. Applicant did not except to the Examiner's refusal to adopt its position.

The Commission finds that the Attorney General's exceptions are without merit, affirms the decision of the Hearings Examiner and rejects the proposed findings of the Attorney General as inappropriate. Initially, the adjustment for the allowance for funds used during construction is a function of construction work in progress includable in Applicant's rate base and previously determined herein. Since this amount is determined as of the last day of the test year, it is therefore appropriate to determine the allowance for funds used during construction using the same date certain in the test year, or December 31, 1973 in this instance. Therefore, the Attorney General's approach using the annualized last month test year capitalized interest expense is improper as is his proposed adjustment for this item.

While actual recorded capitalized interest expense may be less than found by the Examiner and less by a greater amount after adjustment for the change in allowance for funds used during construction rate on January 1, 1974, and while the record does not demonstrate that the Attorney General's adjustment methodology is not in some way representative of capitalized interest expenses which Applicant may incur for a reasonable period in the future, these findings are not controlling in view of the Commission's determination that the Staff method applies the most appropriate approach in determining this adjustment and is more representative of future expenses for which purpose rates are established herein.

The Commission therefore affirms the Examiner's finding that an upward adjustment of \$15,523,000 for the allowance for funds used during construction is appropriate herein.

Electric Revenue Adjustments Applicable
to Year-End Level of Operations

Applicant and the Attorney General each adjusted net operating income by \$1,945,000 to reflect increased electric revenues at the year-end test period level. This adjustment was based on the premise that 1973 actual sales would reflect the proper level of sales for the test period, but that the mix of sales would change to reflect a larger percentage of year-end sales to residential customers. The Staff recommends that no adjustment be made in view of the fact that the record reflected actual decreased sales in 1974.

The Hearings Examiner adopted the Staff's position. The Attorney General excepted to the Examiner's determination that no adjustment should be made and proposed a finding that his proposed adjustment should be adopted, there being no competent or credible evidence in opposition to his position.

The Commission affirms the Examiner's decision and refuses to adopt the Attorney General's proposed finding. While his proposed adjustment may be accurately calculated based solely upon end of test year events it is not the most credible evidence upon the record. The Staff compared Applicant's 1974 sales with its 1973 sales. As a result of this comparison, it is clear that Applicant's sales were down approximately 5% for the first five months of 1974 compared with the same period in 1973 and were down 4% through August, 1974 from the same period of 1973. With an actual showing of decreased, rather than increased sales, an upward adjustment to revenues would be inappropriate and would build in an unjustified erosion of Applicant's earnings.

Contrary to the Attorney General's arguments, the Staff evidence as to this adjustment is credible, based upon actual events, and supported by the record. The Examiner's

refusal to adopt this adjustment is therefore affirmed.

Pumping Rate Increase

Applicant proposed an upward adjustment to net operating income in the amount of \$341,000 which represents the income Applicant would have received if its March 5, 1974 filing for increased rates for municipal pumping facilities had been approved. The Attorney General accepted this adjustment and recognized it in his operating income. The Staff opposed this adjustment for the same reason it recommended excluding municipal pumping facilities from Applicant's rate base.

The Hearings Examiner rejected the proposed adjustment. No exceptions were filed on this issue. In view of the absence of exceptions, the Commission's decision on rate base previously discussed, and the evidence on the record, the Commission rejects the proposed adjustment of \$341,000.

Other Operation and Maintenance Expense Based on Year-end Level of Operations

Applicant, the Staff and the Attorney General proposed an adjustment decreasing net operating income for operation and maintenance expenses based on the year-end number of customers. Applicant proposed an adjustment of \$622,000 to net operating income or \$604,000 to jurisdictional net operating income. The Attorney General accepted Applicant's adjustment without comment.

The Staff urged an adjustment of \$646,000 net of income tax or a jurisdictional amount of \$601,000. Both Applicant and the Staff used estimated amounts. Applicant accepted the Staff's adjustment in its brief as the difference between jurisdictional amounts was not material.

The Commission affirms the Hearings Examiner's finding adopting the Staff adjustment to which no exception has been made, in view of Applicant's acceptance of the jurisdictional adjustment.

Transactions with Commonwealth Edison

Consistent with his approach of recommending that Applicant's rate base exclude that portion of Applicant's investment in the Ludington Pumped Storage Plant which involves sales to Commonwealth Edison Company, the Attorney General recommended an adjustment to remove all recorded test year revenues and expenses applicable to those sales. This proposed adjustment would reduce Applicant's net operating income by \$4,201,000. Both Applicant and the Staff opposed the Attorney General's adjustment.

The Hearings Examiner, consistent with its rate base treatment of the Ludington Pumped Storage Plant, adopted the position advocated by Applicant and the Staff. The Attorney General excepted to the Proposal for Decision, but filed no proposed findings relating thereto.

In view of the Commission's rate base treatment of the Ludington Pumped Storage Plant, the Commission affirms the Hearings Examiner's decision rejecting the proposed adjustment of the Attorney General.

Unbilled Revenue

The Attorney General proposed an adjustment for unbilled revenue increasing Applicant's net operating income by \$841,000. "Unbilled Revenue" concerns electric energy that has been provided to customers within a billing period, but which has not been billed to the customer by the end of the period. The Attorney General proposed this adjustment in order to properly match Applicant's revenues and expenses. Both Applicant and the Staff opposed the Attorney General's proposed adjustment. The Hearings Examiner found the adjustment improper. The Attorney General excepted to the Examiner's exclusion of this adjustment, his finding that it may be excluded in accordance with the Uniform System of Accounts, his finding that unbilled revenues are automatically realized in the subsequent year's revenues and proposed findings with respect thereto.

The Commission finds the Attorney General's exceptions unpersuasive, affirms

the finding of the Hearings Examiner and rejects the Attorney General's proposed findings as inappropriate or not controlling of its determination of the propriety of adjusting for "unbilled revenues" in rate proceedings. The Uniform System of Accounts permits Applicant the option to either record or not record these revenues upon its books for the test year. Applicant has elected not to do so and, therefore, the proposed adjustment would overstate Applicant's earnings potential for the purpose of setting future rates. Applicant will, of course, record such amounts as billed revenue when and if received in the following year. Therefore, the Examiner's refusal to adopt this adjustment is affirmed.

Billing Practices

During the rebuttal phase of the case, Applicant proposed an adjustment of \$1,402,000 to represent expense for the new billing practice rules for residential customers adopted by the Commission in Case No. U-4240 effective March 4, 1975. The Staff and the Attorney General opposed this adjustment. The Hearings Examiner adopted the position of the Staff and the Attorney General and denied this adjustment in full. Applicant excepted to the Examiner's denial of this adjustment on the grounds that the record supports the proposed adjustment and that expenses will, in fact, occur during the future period for which rates herein are being established.

The Commission finds that Applicant's exception is correct to the extent of an adjustment in the amount of \$500,000 for billing practices expenses. The Commission is not persuaded that every expense proposed by Applicant will, in fact, occur but clearly recognizes that based upon the record and the Commission's order in Case No. U-4240, Applicant will, in fact, commence to incur additional expenses as acknowledged by the Examiner upon the effective date of the Commission's Rules Governing Consumer Standards and Billing Practices. The rules require Applicant to substantially alter and improve the manner in which it provides services to its customers. Additional expenses for publication and distribution of an informational pamphlet to each electric

customer, additional employees to comply with the informal hearings provisions, some increase in the cost of working capital due to extension of bill payment dates, re-printing of billing stock and computer expenses, etc., will, in fact, occur in 1975 and future years.

While the Commission is unable to determine the exact amount for these expenses, it is more than reasonable to assume, subject to the Staff's scrutiny in future rate proceedings, that Applicant will incur certain expenses less than two months subsequent to the issuance of this Opinion and Order. Applicant shall separate these expenses for Staff review in its next rate proceeding. The Commission therefore finds that an adjustment in the amount of \$500,000 for billing practices expenses is reasonable and will be allowed.

Redispatch and Fuel Adjustments

Applicant, the Staff and the Attorney General proposed adjustments to normalize the megawatt hours of generation and fuel costs during the test years, so that the test year results would be more representative of expected operations during the period for which the rates established herein will be effective. The technique for accomplishing the normalization is known as redispatch.

All three parties considered the following changes in Applicant's generating capacity in their redispatch:

- (1) The Palisades Nuclear Plant was assumed to be in service.
- (2) The Weadock #7 unit was assumed to be in service for the entire year.
- (3) The complete Ludington Pumped Storage Plant was assumed to be in service for the entire year.
- (4) The Elm Street plant was assumed to be retired.

Both Applicant and the Attorney General utilized manual redispatches and directed their attention to Applicant's requirements and capabilities only. The Staff conducted

a computerized redispatch of the Michigan Electric Coordinated System and, therefore, redispatched both Applicant's and The Detroit Edison Company's generating systems.

Applicant's proposed redispatch adjustment increased net operating income by \$4,397,000. The Staff's proposed redispatch related adjustments, on a composite basis, decreased net operating income by \$1,803,000, and the Attorney General's proposed redispatch adjustments increased net operating income by \$15,437,000.

In performing its redispatch, Applicant first created a model to simulate actual 1973 for use as a standard upon which to judge its redispatch year. Applicant then performed its redispatch assuming the abovementioned changes in generating capability. Applicant assumed that hydroelectric and purchased energy would remain constant. With these assumptions, megawatt hours were redispatched within the guideline that net generation added would displace 85% interchange and purchased energy and the balance would displace fossil generation. When Applicant obtained the resulting megawatt hours that would be generated in the redispatch, it determined the amount of additional energy which would be purchased. The cost of both its fossil fuel generation and purchased energy were adjusted to 1973 year-end.

The Staff utilized the General Electric Single Area Production Cost System to perform its redispatch. The Staff, like Applicant, performed a simulated dispatch or "base case" run in its redispatch. The Staff's "base case" assumptions and input were taken from Applicant's and The Detroit Edison Company's books in order to produce a "run" which would yield results close to actual 1973. The Staff's base case is based on 1973 using average fuel cost and the priority list of December, 1973. The base case load model was not changed for the redispatch.

Essentially, the changes for the Staff's redispatch included recognition of all additions or retirements of generating capacity occurring on or before September 30, 1974; the assumption that Palisades would have a capacity factor of 64.5%; that Monroe #3 and #4 would have a capacity factor of 59.7%; that the Ludington Pumped Storage

Plant would float at economic dispatch within reasonable capacity factor limits and with Commonwealth Edison Company sharing in all outages; that May, 1974 levels of fuel and purchased and interchange energy cost would be used; and that maintenance would follow actual 1973 as close as reasonably possible, with the exception that additional scheduled maintenance resulting from added generating capacity available would be recognized.

The Staff redispatch first utilized a determination of the source of supply for the total electric energy requirements of Applicant and Detroit Edison individually, including the General Electric base case generation. A comparison of the total of Applicant's and Detroit Edison's requirements with the base case system output indicated a 99.89% accuracy. Next, the Staff calculated through the redispatch the amount of electric energy Applicant and Detroit Edison would generate to meet their own requirements. Third-party purchases were eliminated and by utilizing the amount Applicant would generate under the redispatch conditions, the flow of economy energy between Edison and Consumers was determined.

Finally, the net cost of this energy was calculated as \$16.22 per megawatt hour. The \$16.22 per megawatt hour cost was derived by multiplying the test year cost to Applicant of \$10.22 per megawatt hour for energy purchased from Detroit Edison by the ratio of the cost per kilowatt hour of fuel under the redispatch to the cost per kilowatt hour of fuel under the base case.

The Hearings Examiner adopted the Staff redispatch on the grounds that it constituted the best representation of the likely actual results during the period the rates established herein will be effective. Two basic reasons were stated by the Examiner for adopting the Staff redispatch:

- (1) By considering the combined Michigan Electric Coordinated System, the Staff redispatch more accurately reflects actual circumstances.

- (2) The redispatch procedure utilized by the Staff, when properly performed, more accurately indicates the operation of the generating units in the Michigan Electric Coordinated System.

The Attorney General filed exceptions to the Proposal for Decision and proposed findings. It is clear that the Attorney General has three principal objections to the Staff redispatch adopted by the Hearings Examiner, as follows:

- (1) The Attorney General disputes the capacity factor of 65% utilized in the Staff redispatch for the Palisades plant.
- (2) The Attorney General asserts an inherent inconsistency between the Staff redispatch treatment in this case, and the Staff redispatch treatment in Re: The Detroit Edison Company, Case No. U-4570.
- (3) The Attorney General disputes the price utilized by the Staff in calculating the price of purchased and interchange energy.

After reviewing all of the material presented, the Commission affirms the Hearings Examiner's adoption of the Staff redispatch in this case. The Commission agrees with the Examiner that of all the redispatches presented in this case the Staff redispatch embodies the best representation of the actual fuel and purchased and interchange energy costs during the period the rates established herein will be effective.

The Commission notes that adoption of the Staff redispatch in this case does not imply that computerized redispatches are always preferred to manual redispatches, nor does it imply that a dispatch of the Michigan Electric Coordinated System need always be preferred to a redispatch of Applicant's own system alone. Consequently, Applicant's only exception on the issue of redispatch is well-placed.

Turning to the exceptions and proposed findings of the Attorney General, the Commission must reject them as not in accord with the weight of the evidence on the record herein.

The first principal objection of the Attorney General to the Staff case is the capacity factor assigned to the Palisades plant of 65%. There is ample evidence on the record to support the expectation that the Palisades plant will operate at the 65% capacity factor figure. The plant, in fact, operated at a 64.7% capacity factor during the months of February through August, 1973. After that time the plant did not operate at all. Additionally, actual industry experience shows that all nuclear units in service for the 1960-1972 period experienced an average capacity factor of 64.59%.

The 80% capacity factor proposed by the Attorney General is not appropriate for Palisades. The Commission is not persuaded on the evidence that 80% would be as representative a capacity factor as 65%. The Attorney General proposed 80% as the capacity factor because some studies indicate that other nuclear plants have achieved that level after the break-in period. The short answer to that proposal is the evidence indicates that, whatever the experience with other nuclear plants, Palisades has not and likely will not reach that level in the near future.

The Commission notes that if Palisades does, in fact, operate at a capacity factor greater than 65%, as the Attorney General contends, any increased revenues for Applicant resulting therefrom will be at least partially offset by the nuclear fuel adjustment clause adopted in this Opinion and Order.

A second major objection of the Attorney General relates to the asserted inconsistency between the Staff redispatch treatment in this case and in Re: The Detroit Edison Company, supra. In this case the Staff assumed, in order to have an uncomplicated method to determine the cost to Applicant of purchased and interchange energy, that Applicant would purchase 100% of its requirements from Detroit Edison. In the Detroit Edison case, the Staff assumed that Detroit Edison would sell only 30% of the requirements of Applicant. Upon analysis, however, it is clear that the assumptions made in the two cases are not inconsistent.

The underlying objective of the redispatch procedure must be kept in mind. That objective is to make as accurate an estimate as possible of the costs to Applicant of purchased and interchange energy. To achieve that objective, it is not important to determine the source of Applicant's energy purchases. All that is crucial is to calculate the likely amount of those purchases and the likely cost of those purchases. Identifying the source of the purchases is useful only in calculating the likely cost.

Thus, the Staff assumption of 100% purchases from Detroit Edison would be fatally flawed only if the price utilized, based upon May, 1974 figures, was shown to be substantially different from the price of other suppliers likely to provide some portion of Applicant's power requirements.

In the Detroit Edison case, the objective was somewhat different. The objective there was to accurately estimate Detroit Edison's income from interchange power sales. There it was crucial to be precise about the amount of energy it would actually sell. The Staff determined that in actuality Applicant would purchase 30% of its requirements from Detroit Edison. It must be emphasized that, taken together, the Staff position in the two cases implies only that Applicant will purchase 70% of its requirements from companies other than Detroit Edison and 30% from Detroit Edison.

As to the Attorney General's third principal objection that the price for purchased and interchange energy of \$16.22 per megawatt hour is erroneous, it is clear from the foregoing that two questions must be answered in reviewing that figure:

- (1) Is \$16.22 a reasonable price to assume for all sales by Detroit Edison to Applicant?
- (2) If so, is it reasonable to use that price in determining the cost of purchases of Applicant?

The price of \$16.22 is well and persuasively supported on the record. The Examiner notes that the actual price was \$20.36 per megawatt hour in June, 1974; \$21.15 per megawatt hour in July, 1974; and \$22.00 per megawatt hour in August, 1974.

The Attorney General points out circumstances which may have caused those prices to be abnormally high. Though that may be true, those prices are also substantially in excess of the price of \$16.22 used in the Staff redispatch and adopted by the Examiner, and there is sufficient other evidence on the record to support the assumed price.

As to whether it is reasonable to assign that price to purchases which will likely be made from suppliers other than Detroit Edison, the Commission finds in the affirmative. In fact, \$16.22 per megawatt hour may well prove to be most conservative. Further, if the cost of purchasing from others in fact were to be in excess of the price for purchasing from Detroit Edison, Applicant would purchase at the lower Detroit Edison price if it were available.

The Attorney General correctly notes a misstatement in the Proposal for Decision. Correctly stated, \$16.22 per megawatt hour is used as the price of economically dispatched purchased and interchange energy, including economy energy, but not of economy energy alone.

Several other exceptions of the Attorney General merit brief attention. The Attorney General objects to the statement of the Hearings Examiner that the results of the Staff redispatch were established by auditing the results to the book entries for the test year. In actuality, the audit performed was for the purpose of establishing the accuracy of the redispatch procedure as opposed to its results. The Attorney General also filed several exceptions to the Hearings Examiner's rejection of the Attorney General's redispatch. As stated previously, the Commission has adopted the Staff's redispatch and affirmed the Examiner's decision because the Commission is convinced that the Staff's redispatch is best able to achieve the underlying purposes of performing a redispatch, and has consequently rejected the redispaches of the Attorney General and Applicant. Therefore, the proposed findings of the Attorney General, except as noted above, are hereby denied.

Executive Salaries

UAW-CAP excepted to the failure of the Hearings Examiner to increase net operating income by amounts equal to excessive salaries and benefits paid to the higher echelon management of Applicant. The Commission finds that the record contains no evidence which indicates that any such amounts paid in the test year are excessive nor any evidence as to appropriate salary levels assuming the existing levels are excessive.

Therefore, the Commission finds no basis upon which to adopt this proposed adjustment.

Memberships

The UAW-CAP excepted to the Hearings Examiner's failure to increase net operating income by the amount of approximately \$1,000 which represents the cost of maintaining memberships for certain of Applicant's employees in private clubs, some of which may be racially or ethnically discriminatory. The Commission finds that the record contains no evidence that any such amounts paid within the test year were for other than necessary business expenses nor that any clubs from which memberships are purchased are either racially or ethnically discriminatory. The Commission, therefore, finds no basis upon which to adopt this proposed adjustment.

Summary of Net Operating Income Adjustment

The following is a tabulation of all of the adjustments made to the net operating income of Applicant:

NET OPERATING INCOME

Electric Net Operating Income	\$ 87,459,000
Annualize Electric Rate Increase	14,377,000
Group Hospital Insurance Increase	(211,000)
Employee Mileage Reimbursement Increase	(102,000)
Gasoline Increase	(96,000)
Research and Development	(304,000)
Year-End Depreciation Expense	(698,000)
Real and Personal Property Tax Increase	(2,747,000)
FICA Tax Increase	(172,000)
Elimination of Income Tax Deduction for Sales Promotion	(215,000)
Deductible Taxes Capitalized Based on Year-End Level of Operations	(174,000)
Proposed Increase in Appliance Repair Service Charge	106,000
Secondary Capacity Equalization	329,000
Michigan Franchise Tax Increase	(236,000)
Depreciation Adjustment for Plant Obsolescence	(719,000)
Postal Rate Increase	(130,000)
Wage and Related Pension Cost Increase	(2,910,000)
Profit on Reacquired Securities	1,102,000
Income Tax Effect on Pro Forma Financing	7,189,000
Advertising	195,000
Charitable Contributions and Donations	26,000
Allowance for Funds Used During Construction	15,523,000
Electric Revenue Adjustment Applicable to Year-End Level of Operation	-0-
Sale of Ludington Pumped Storage Capacity to Commonwealth Edison	2,591,000
Pumping Rate Increase	-0-
Other Operation and Maintenance Expense Based on Year-End Level of Operations	(648,000)
Redispatch and Fuel Adjustments	(1,823,000)
Non-jurisdictional Transactions with Commonwealth Edison Company	-0-
Unbilled Revenue	-0-
Billing Practices	(500,000)
Executive Salaries	-0-
Memberships	-0-
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TOTAL	\$117,232,000
JURISDICTIONAL AMOUNT	<u>\$114,275,000</u>

The Commission therefore finds that the exception taken by the Attorney General to the Hearings Examiner's findings with respect to Applicant's adjusted net operating income is correct and that Applicant's adjusted net operating income is \$117,232,000 and that the jurisdictional amount thereof is \$114,275,000 for the reasons set forth herein.

IX.

EARNINGS EROSION

Applicant requested that it be granted an earnings erosion allowance of \$35,000,000. The Staff and the Attorney General opposed the granting of a separate earnings erosion allowance in their respective cases.

Although the Staff has not recommended a separate earnings erosion, it attempted to recognize the problem by its approach of considering certain changes in cost or revenues occurring up to nine months beyond the end of the test year. These changes which the Staff has considered and have been approved in this Opinion and Order are as follows:

- (1) Reasonable quantifiable action resulting from other pending or completed proceedings that will become effective after the test year but prior to conclusion of the legislative nine-month mandate for decisions in rate proceedings.
- (2) Cost level increases arising from wages or property taxes to the extent they cannot be offset.
- (3) Changes in embedded cost of debt and preferred stock along with an adjustment for the income tax effect of the rate of return determination.
- (4) Changes in the rate used to compute the allowance for funds used during construction.
- (5) Changes in plant in service and construction work in progress as a result of new generating units going on line.

Furthermore, the Staff also argued that an allowance for working capital constitutes an earnings erosion in the instant case. The Hearings Examiner found that Applicant should be granted an earnings erosion allowance in the amount of \$10,000,000. The Attorney General filed numerous exceptions to the Hearing Examiner's decision and requested a finding that the rates established in this proceeding should include no amount for earnings erosion.

In particular, the Attorney General excepted to the Examiner's findings that:

1. It is relevant and material that Applicant's new plant costs are greater than depreciated embedded plant costs, per kilowatt of capacity.
2. The greater size and complexity of new generating plant necessarily reduces the reliability and performance of new plant.
3. The cost of new debt which may be issued by Applicant during the reasonable future period for which rates are being established in this proceeding will exceed the embedded cost of debt found by the Examiner.
4. Higher fuel costs which may be experienced by Applicant cannot be entirely passed on to its customers through operation of the fuel adjustment clause.
5. Applicant's inability to issue new debt and stock shows "earnings erosion."
6. The Commission must recognize "earnings erosion" beyond that contained in the Staff adjustment heretofore adopted by the Examiner.
7. The Commission's new billing practice rules will cause earnings erosion.
8. Applicant's earnings during the period 1971-1973 show earnings erosion that should be compensated for in this proceeding.
9. The "Commission shall not hesitate" to criticize Applicant for failing to use increased revenues in a manner so as to provide adequate electric service at the lowest possible cost, and "bring Applicant to task for its shortcomings."

The Commission directed its attention to the problem of earnings erosion in Applicant's last electric rate order in Case No. U-4332 where it stated that:

"The Commission has expressed its concern in several recent rate orders as to how it can deal with the problem of utilities, particularly electric utilities, being unable to earn the authorized rate of return on common equity after a rate order goes into effect. Rising costs of operation, particularly labor costs in the case of telephone utilities and new investment and fuel costs in the case of electric utilities, have resulted in Michigan utilities earning less than the rate of return this Commission has found reasonable and authorized. To give this current problem a title, the Commission has called it 'Earnings Erosion.'

The current period of inflation and higher costs of new productive facilities has caused this Commission to grant one large rate increase after another over relatively short intervals in recent

years. At some future point, if inflation and fuel cost increases abate or technological innovations increase productivity, frequent rate increases may become unnecessary. Until there is a cost breakthrough, however, electric utility rates will continually be forced upward and companies will experience earnings erosion. It is necessary for this Commission to reduce the impact of erosion, thus, assuring that the companies will be able to attract billions of dollars of new capital to Michigan to provide the state with adequate electric supply." (Opinion and Order, p. 25)

In the last several years, the erosion of Applicant's earnings and the decline of Applicant's financial condition have continued unchecked despite regular requests for rate relief before this Commission. As is readily apparent in this Opinion and Order, the relief granted in Case No. U-4332 has fallen far short of solving Applicant's fiscal problems.

As is apparent upon the record in this proceeding, Applicant's current financial situation is indeed precarious. Applicant's interest coverage has in 1974 either fallen below or been dangerously close to the 2.0 times factor, thus prohibiting or endangering the issuance of new bonds. Applicant cannot currently issue new preferred stock as its after-tax preferred dividend ratio is well below the 1.5 times requirement contained in its Articles of Incorporation. Applicant's earnings per share for the 12-month period ending September 30, 1974 was \$1.43 per share. The Commission cannot fail to also take note that reported earnings have since fallen to \$1.37 per share for 12 months ending October 31, 1974 and to \$1.16 per share for a similar period ending November 30, 1974.

Applicant's common stock has until very recently traded at less than \$10.00 per share, thereby precluding the issuance of additional common shares due to provisions of the Michigan Business Corporation Act restricting the sale of common stock at a price below par value. In December of 1974, Applicant's securities were further downrated in several respects. Preferred stock was downrated from A to Ba by Moody's on December 23, 1974 and from BBB to BBB- by Standard & Poor's on December 14, 1974.

Applicant's bonds were similarly reduced from A to Baa by Moody's and from A to A- by Standard & Poor's on the same dates respectively. Applicant's Commercial Paper rating of A2 has been withdrawn by Standard and Poor's which also downgraded Applicant's Pollution Control Revenue Bonds from A to BBB- on December 21, 1974. These events, since the close of the record in this proceeding, have further impaired Applicant's ability, notwithstanding legal impediments, to issue any new securities at reasonable cost. In short, since the Commission granted a portion of Applicant's request for interim relief on September 16, 1974, the situation has deteriorated even further.

As is readily apparent, Applicant has for some time failed to earn its dividend requirements on common stock of \$2.00 per share. It has continued to pay the dividend, however, in view of the consequences inherent in either suspending reducing the quarterly payout of \$.50 per share. Realistically, however, it is clear that Applicant cannot continue to pay the current dividend unless earnings per share improve significantly in the near future.

Applicant's financial difficulties and the resultant inability to issue new securities have taken a severe toll upon its construction program. In 1974, Applicant began reducing all construction expenditures to the bare minimum and has extensively curtailed planned expenditures for the next several years. In a similar period, it has reduced its employment levels and laid off hundreds of construction workers. The potential effects of these events - serious reductions in capacity reserve levels affecting the continuity and adequacy of Applicant's utility service and the future construction of planned generation facilities currently deferred, delayed or cancelled at costs far in excess of original projections due to inflation and increased carrying costs - cannot be ignored by this Commission.

The causes of the erosion of Applicant's earnings have been well documented

by the Hearings Examiner in his Proposal for Decision.

The costs of Applicant's new generating plant, despite the Attorney General's conclusion that such is irrelevant, have and are likely to continue to come on line at a much higher cost per unit than the embedded cost of capacity. For instance, as the record reflects, Applicant's new unit, Karn 3, which will come into service in the immediate future will have an average depreciated investment of \$178 per kilowatt hour. This compares to the average depreciated investment of \$104 per kilowatt hour of installed capacity in 1973. The effect of the addition of more expensive generating plant is to cause an attrition in the earnings of the utility since rates are based on historical costs. Therefore, the addition of new plant has adversely affected Applicant's financial situation.

The erosion of Applicant's earnings is in part due to its difficulties with new plant. The tremendous size and complexity of these newer units have created problems in obtaining operational reliability. For example, the Palisades Nuclear Plant has not yet operated as anticipated. While the Commission has spoken to this matter in the section of this Opinion and Order relating to fuel clause adjustments and redispatch it is yet another example of Applicant's problem. While newer and larger generating plant does not necessarily reduce its reliability and performance as the Attorney General suggests, the fact of the Palisades circumstance is clear and uncontroverted upon the record.

The effects of inflation upon Applicant's earnings is clearly indicated by continuous increases in its financing costs. The Commission has recognized Applicant's very substantial interest costs in its 1974 issuance of debt by including this in Applicant's overall rate of return to help alleviate this problem. Nevertheless, it is still more than likely that the cost of issuance of debt in the immediate and foreseeable future will exceed Applicant's authorized rate of return approved in

this case. Contrary to the Attorney General's view that this conclusion is improper, the Commission finds that this result is more than reasonable in view of the current continuing chaos in this nation's financial markets as acknowledged by the Attorney General himself (Exceptions of Attorney General and UAW-CAP To Proposal For Decision, p. 100).

In requesting an allowance for earnings erosion, Applicant argues that the Staff out-of-period approach does not recognize all changes causing earnings erosion. Mr. John Kluberg, Applicant's chief financial and policy witness in this case, pointed out that the Staff's approach does not recognize approximately \$52,000,000 of new electric plant put into service during the period January 1 to August 31, 1974. Mr. Kluberg further states that the rate of return requirement of this increased plant, plus related income and property taxes as well as depreciation, amounts to over \$11,000,000. Through interpolation he claims that this earnings attrition will be approximately \$16,500,000 by year-end 1974. Addition of this amount to the Staff's revenue deficiency of \$56,068,000 would, according to Mr. Kluberg, demonstrate a revenue deficiency of \$72,568,000. The Commission agrees that the Staff approach, while it sincerely attempts to address the issue, does not fully meet the problems causing the continuous erosion of Applicant's earnings.

Contrary to the Attorney General's argument that the Commission has no legal obligation to recognize erosion beyond that contained in the Staff presentation, the Commission must pragmatically face the reality that Applicant's deteriorating financial circumstances cannot and will not be relieved unless the Commission adopts new techniques to recognize rapidly changing circumstances.

The Commission has an overriding responsibility to take those steps necessary to insure that the ratepayer will continue to receive adequate electric service.

Applicant's financial situation and its inability to issue new securities is a direct

result of the continuous erosion of Applicant's earnings.

As the record in this case clearly reflects, Applicant has consistently been unable to even approach the level of earnings on common stock equity authorized by this Commission in its recent rate orders.

This is clearly indicated by Applicant's exhibits which show for the years 1971, 1972 and 1973 the extent to which earnings available have fallen short of the 12.12% rate of return authorized by the Commission. Although the Staff correctly points out that this approach to earnings erosion does not take into account an adjustment to annualize the effect of the rate increase in 1973 or the net cost of replacement power for the Palisades Plant in 1973, a sizable erosion of earnings has occurred even when these factors are considered.

The reason for this circumstance is obvious to this Commission. The rate-making process by its very nature requires an extended period of time. Even though adjustments are made in the rate case in an attempt to recognize certain known costs beyond the customary test period, the passage of time and a substantial inflation rate have made it impossible for rate adjustments to keep up with increases in almost all types of operating costs. This results in earnings erosion and unless provided for will result in Applicant selling electricity in 1975 at prices based upon costs incurred in 1973. Applicant's attainment of the level of earnings authorized in recent rate orders has not occurred and its chances for a reasonable opportunity to attain such levels in the foreseeable future diminishes with each passing day unless the Commission pragmatically addresses this issue.

In exercising its responsibilities to both Applicant and its ratepayers, the Commission therefore finds that it must approve additional revenues beyond those generated by normal pro forma adjustments if Applicant's financial situation is to improve and so as to provide Applicant a reasonable opportunity to approach the level of return authorized in this proceeding.

The Commission candidly admits that no precise methodology or exact formulaistic adjustment currently exists which invites the identification of an exact amount of revenues necessary and reasonable to provide adequate relief. Yet this lack of precision neither mandates a contrary result nor requires or permits this Commission to totally ignore the stark realities of Applicant's financial circumstances. The Commission finds that in exercising its best judgment, the most feasible approach is to authorize an additional return factor to be applied to Applicant's rate base as previously established herein. The Commission notes that the New York Public Service Commission has also utilized this approach in attempting to address the earnings erosion problems of New York utilities (Consolidated Edison Company of New York, Inc., Case 26538, November 12, 1974). The Commission concludes that an additional return allowance of $3/10$ of 1% is appropriate and should permit an improvement in Applicant's earnings sufficient to enable it to more readily finance the expansion of its facilities necessary to permit continuous, adequate and safe service to its customers.

The additional return factor of 30 basis points which the Commission believes reasonably reflects increased financing costs in the capital markets of today and in the foreseeable future will, therefore, be applied to Applicant's approved rate base and combined with the applicable tax factor will produce additional revenues in the amount of \$10,930,640 for earnings erosion in this proceeding.

The Commission therefore finds that Applicant is currently experiencing an erosion of earnings, affirms the finding of the Hearings Examiner that the erosion exists, rejects the proposed finding of the Attorney General that the approval of any revenue for earnings erosion is improper and finds that Applicant is therefore authorized additional revenues in the amount of \$10,930,640 for earnings erosion, all for the reasons fully set forth herein.

X.

REVENUE DEFICIENCY

The following table shows the revenue deficiency in Applicant's electric operations based upon the foregoing determinations of the Commission in this Opinion and Order:

Rate Base	\$1,746,713,000
Rate of Return	8.06%
Required Net Operating Income	140,785,068
Adjusted Net Operating Income	114,275,000
Net Operating Income Deficiency	26,510,068
Tax Factor	2.086
Revenue Deficiency Before Earnings Erosion Allowance	55,300,002
Earnings Erosion Allowance	10,930,640
Required Increase in Annual Revenues	66,230,642

XI.

FUEL CLAUSE ADJUSTMENTS

Applicant's approved fuel cost adjustment clause (FCAC) is intended to recover all increases in fuel costs which are beyond Applicant's control on a timely basis. As is normal in a rate proceeding, the parties assumed that changes in fuel costs would therefore be reflected in timely adjustments under the FCAC as approved in Applicant's tariffs.

The Commission finds, however, that the record reflects that Applicant's currently approved FCAC does not, in fact, achieve the goal of fully recognizing changes in fuel costs in a timely manner. Therefore, the Commission finds it necessary to modify operation of the clause to reduce the existing time lag between the incurring and the reflecting of increased or decreased costs of fuel in the fuel adjustment. The Commission also finds that modification of the clause to include nuclear fuel expenses as a portion of Applicant's total fuel mix is necessary and supported by the record in this proceeding.

The revenue requirement portion of a general rate proceeding inherently assumes that the FCAC in various rate schedules will recognize all variations in the cost of fuel used for the generation of kilowatt hours. This has not been achieved by Applicant because of a lag introduced into the determination of the adjustment factor necessitated by the use of actual cost of fuel burned. The adjustment factor is based upon actual costs of the calendar month in which the fuel is burned and applied to the second billing month following such month. Adjustments based upon actual cost charges can only be reflected in this manner. The effect of this lag in the test year was approximately \$2.9 million according to Applicant's witness Jefferson during cross-examination by the Staff (TR 1627). The impact of this lag has become a more significant problem with the rapidly escalating costs of electrical generating fuels and with the potential assessment of proposed new taxes on these fuels.

The Commission finds that a FCAC which recognizes changes in the per unit cost of fuel burned for electric generation in a timely manner is appropriate and in the public interest.

To assure fair treatment to both Applicant and the consumer, the FCAC should operate in a manner which does not erode the quality of Applicant's earnings due to increasing fuel costs and at the same time charges the consumer no more than the actual per unit cost of fuel burned.

The Commission finds that the existing FCAC should be modified with respect to the procedure used in determining the appropriate billing month adjustment factor so as to effectively eliminate the lag. This can be accomplished while continuing to use actual and verified figures as the basis for calculation of the adjustment factor. Specifically, the Commission finds that Applicant's FCAC should be calculated by first determining the adjustment factor based upon the two-month lag as under existing procedures. This factor should then be increased or decreased by the amount per KWh equal to the difference between it and the adjustment factor determined in the

same manner for the second immediately preceding billing month. As modified, the clause will effectively eliminate any annual undercollection or overcollection of incurred fuel burned costs by Applicant while continuing to calculate the adjustment factor on the basis of actual fuel cost data.

The purpose of a fuel cost adjustment clause (FCAC) is to automatically reflect changes up or down in the cost of fuel burned for electric generation in the prices charged the consumer each month. As pointed out by General Motors counsel, Mr. Veale, and agreed to by Applicant's witness Jefferson, any electric rate increase granted in these proceedings is attributable to factors other than fuel costs since increases in the cost of fuel are tracked automatically (TR 1613). This directly refers to the assumption used in the determination of additional revenue requirements that fuel costs are offset by FCAC revenues.

For purposes of this proceeding, therefore, the parties assumed that Applicant's electric generation during the test year consisted of both fossil fuel generation and nuclear fuel generation. Applicant's and the Staff's witnesses assumed that the Palisades Nuclear Plant would operate at approximately a 65% capacity factor. Mr. Wiskup for the Attorney General assumed an 80% capacity factor. The Commission must select a capacity factor which is most reasonable in terms of the generation to be provided by this plant. For purposes of the revenue requirement determination, the Commission has accepted the Staff's redispatch. The Commission is aware that this situation would be alleviated to some extent if the FCAC recognized nuclear fuel costs along with the cost of other fuels.

In addition, the Commission is well aware that Applicant's Palisades Nuclear Plant has had severe operational difficulties resulting in greatly increased costs. As acknowledged by Assistant Attorney General Coy, the economic impact of the Palisades Nuclear Plant is a substantial problem to Applicant (TR 1690). Staff witness Croy testified in detail as to the impact of the loss of generation to Applicant (TR 4622-23).

In terms of dollars, Mr. Croy testified that an additional \$56,066,000 of annual revenue requirement would be necessary if the Palisades generation was not available for a year (TR 4623). Three Staff witnesses, Croy, Fischer and Abramson, indicated that this item of cost, incurred when the Palisades Nuclear Plant is non-operational, had not been considered in arriving at the Staff's revenue deficiency, but that the Commission must address itself to the problem. Mr. Croy testified, at TR 4623, that this was a major cost item to Applicant and must be considered by the Commission. Staff witness Abramson testified to several possible methods that might be used by the Commission if it decided to pass these additional costs on to the customer (TR 4097).

The Commission has been greatly concerned with the resultant problems occasioned by the failure of the Palisades Nuclear Plant to operate. In terms of its impact upon the financial condition of Applicant, the Commission is persuaded that some relief can and should be granted on the basis of the record in these proceedings. Specifically, the Commission finds that the FCAC should be modified to include nuclear fuel costs along with the costs of other fuels. Based upon the Staff redispatch presented in these proceedings, this means that the base price included in the fuel clause should be set at 7.27 mills per KWh.

If Palisades operates at 65% of capacity on an annual basis, no net adjustment of rates under the fuel clause will occur. Based on test year data, the cost burden, if Palisades operates at less than 65% of capacity, will be approximately borne equally between Applicant and its ratepayers. Likewise, once Palisades operates beyond 65% of capacity, the benefits will be divided equally between Applicant and its ratepayers. In terms of revenue, Applicant will receive about \$1,800,000 for each 5% increment Palisades operates below a capacity factor of 65%.

This change in the FCAC essentially divides the burden of future Palisades operating difficulties between the stockholders and ratepayers of Applicant. Applicant has already borne enormous costs and will continue to bear approximately 1/2 of any

ongoing burden. This result recognizes that Applicant's management must bear a major responsibility for the design, construction and operation of Palisades. There is therefore a clear economic incentive for Applicant to bring this plant to operational status. On the other hand, if Applicant is to attract the new investors necessary to continue to provide adequate service to the public, the full future risk of Palisades is not appropriately borne by Applicant, and the Commission so finds.

The Commission is fully aware that Applicant has pending a \$300,000,000 lawsuit against contractors and designers of the Palisades Nuclear Plant. The Commission will take those steps necessary to insure that any recovery occasioned as a result of this litigation will be appropriately applied to the benefit of Applicant's rate-payers.

Applicant proposed to "zero out" the fuel cost adjustment clause in these rate proceedings based on fuel costs considered in Applicant's test year. This procedure results in no change in Applicant's revenues since it merely incorporates the fuel cost adjustment charges into the stated rates and resets the base price for future adjustments at the test year level. The Hearings Examiner adopted the requested change. Since no party excepted to his finding and the adjustment is normal, as previously discussed, the Commission approves zeroing out the fuel cost adjustment clause.

Applicant also proposed that the fuel cost adjustment clause should be instituted on its street and traffic light rates. The Staff took exception to this proposal. The Commission affirms the Hearings Examiner's rejection of Applicant's proposal to incorporate a fuel cost adjustment clause in its street and traffic light rates. Although in general fuel cost adjustment clauses are advisable for Applicant's customers, the Commission concludes that they are not justifiable for Applicant's street and traffic light rates since these rates are not billed on a metered kilowatt hour basis.

XII.

MISCELLANEOUS

Prompt Payment Discount

The Hearings Examiner adopted the Staff's elimination of Applicant's existing prompt payment discount from its rates in view of the Commission's new billing practice rules. The Commission finds that the prompt payment discount should be eliminated, as found by the Examiner.

Appliance Repair Service

Applicant requested that it be authorized to set the level of appliance repair charges. No party expressed any opposition to this request and it was authorized by the Hearings Examiner. In view of the Commission's action in Case No. U-4257 granting The Detroit Edison Company the same authority requested by Applicant, the Commission deems that similar authority should be granted Applicant.

Therefore, the Commission hereby authorizes Applicant to set the level of appliance repair charges; provided, however, that such charges shall be reasonably related to the actual expense of providing that service in order to achieve a basic break-even operation. Subsequent audits by the Staff shall detail the revenue and expenses in this area so that the Commission may maintain continuous surveillance of this operation. Further orders of the Commission may be necessary in the event Applicant shows excessive revenues or expenses in this area.

XIII.

RATE STRUCTURE

Overview

The question of appropriate rate design has been extensively and aggressively argued and discussed in this case to an extent unprecedented before this Commission.

The record before the Commission contains several innovative and attractive new approaches to the design of electric rates to achieve equity and to transmit appropriate price signals to Applicant's customers. The Commission is indebted to all of the parties, and particularly to Intervenor Environmental Defense Fund and West Michigan Environmental Action Council, Inc., the Staff and Intervenor General Motors, for their careful thought and attention to these vital matters, which often receive far too little attention in rate proceedings.

Among the proposals before the Commission, the Environmental Defense Fund suggests that the Commission take immediate steps toward implementing time-of-day rates for electrical service based upon the economic theory of marginal cost pricing.

The Staff proposes that inverted, graduated rates be adopted for residential customers, and concurs in the recommendation of the Environmental Defense Fund for immediate adoption of time-of-day rates for all primary industrial and commercial customers. The Public Interest Research Group in Michigan, intervening under Rule 16, also advocated inverted rates for residential customers.

Intervenor General Motors took three basic positions. It recommended that the average cost approach for setting rates and declining block rates for commercial and industrial customers be retained. It recommended that the Commission begin to take steps to more nearly equalize the rates of return to Applicant from the various classes of customers. General Motors also proposed that any rate increase be allocated to the various classes of customers on the basis of class revenue which recovers costs other than fuel, an approach known as the "zero fuel" method.

Applicant recommended that the overall structure approved in Case No. U-4332, with certain minor adjustments, be retained. That structure employs flat rates for residential customers and declining block rates for commercial and industrial customers, both of which are based on average cost methodology.

A general statement of the Commission's decision on these matters is appropriate

prior to addressing each subject in detail. The Commission, and individual Commissioners, have often stated both formally and informally, that innovative, equitable, and practical approaches to rate design are imperative for modern utility regulation. To that end, the Commission has affirmatively acted in other cases, e.g., Case No. U-4331 and Case No. U-4332. At the same time, the Commission has a responsibility to refrain from acting precipitously on dramatic changes in rate design, so that new inequities are not created and deleterious economic consequences do not result.

For the Commission, two significant hurdles must be surmounted before great changes can be made. First, the Commission must be persuaded that the theory underlying a proposed change is economically sound and equitable. Second, and equally important, the Commission must be convinced that there is sufficient persuasive information before it that the practical problems of implementing a newly adopted theory and abandoning the previous approach can be overcome.

The parties in this case have endeavored diligently to enable the Commission to surmount both of those hurdles. However, the Commission is constrained to conclude that immediate adoption of time-of-day pricing and inverted, graduated residential rates cannot responsibly be done at this time. Too many pragmatic questions of the consequences of implementation to Applicant, its customers, and the economic health of the State have been raised. Like the Wisconsin Commission in Re Madison Gas and Electric Company, this Commission believes that greater study and analysis must be done, so that the likely results of the novel rate design techniques proposed can be more precisely predicted by the Commission.

The Commission trusts that its decision will not be viewed as criticism of the presentations on these matters contained in the record, briefs, and exceptions, for that is not the intention of the Commission. Dramatic rate design changes are extremely complex. Most probably, it is unrealistic to expect that the issues surrounding

such proposals can be sufficiently treated solely in the first rate case in which they are proposed. The Commission expects that the same issues will be raised again, and that the studies ordered herein will set the stage for further actions in the future.

Finally, the Commission notes that several industrial and residential customers of Applicant intervened under Rule 16. The industrial intervenors in particular took strong positions on some of the proposed rate designs. It is unfortunate that those interventions were pursuant to Rule 16 and that, therefore, the statements they made were not subject to cross-examination and that they were not themselves able to cross-examine the presentations of the parties. Participation by the customers of Applicant in rate hearings is important for building an adequate evidentiary base for a Commission decision. Such participation would be most helpful if it were in the form of formal intervention as a party under Rule 11.

Residential Rates

Applicant proposed residential rates that include a service charge and a flat energy charge. Applicant requested that the residential service charge be calculated in a manner consistent with the methodology adopted by the Commission in Case No. U-4332 so that costs of metering, service drop and customer billing would be covered in the service charge. Applicant claimed that its proposed service charge covers these costs but that the service charge proposed by the Staff does not.

The Staff proposed inverted rates plus a service charge for the residential class of service. Specifically, the Staff proposed the division of the residential rates into three usage blocks: 0 to 500 kilowatt hours per month, 501 to 1,000 kilowatt hours per month and over 1,000 kilowatt hours per month. Under these rates residential users would pay more per kilowatt hour for usage in each higher block.

Applicant challenged the Staff proposal for several reasons:

- (1) The impact of the proposal on customers may be severe and is uncertain.
- (2) The impact of the proposal on low income customers is not sufficiently documented.
- (3) The economic justification for the proposal is incorrect and inconsistent with cost of service methodology.
- (4) The revenue impact of the proposal on Applicant is problematic.

The Environmental Defense Fund also opposed the Staff proposal. It argued that inverted rates do not constitute marginal cost pricing, because the Staff proposal would result in increased charges merely for the amount of energy consumed rather than focusing upon the time of consumption. Therefore, the Environmental Defense Fund asserted that inverted rates would offer no economic incentive for customers to shift a greater portion of their consumption to off-peak hours.

The Environmental Defense Fund forwarded three affirmative proposals on residential rates:

- (1) A study of time-of-day rates for residential rates should be undertaken.
- (2) Optional time-of-day tariffs should be made available to residential customers willing to bear the metering costs.
- (3) Seasonal rates for Applicant's customers should be adopted, since the Michigan Electric Coordinated System, of which Applicant is a member, has a summer peak.

The Hearings Examiner concluded that the present flat residential rates should be retained. The Staff, PIRGIM, and the Environmental Defense Fund filed exceptions to the Examiner's Proposal for Decision. The Commission is persuaded that too many consequential questions remain unanswered on the proposals relating to residential

rates and, therefore, affirms the Hearings Examiner's decision, denies the exceptions, and does not adopt any proposed findings deriving from those exceptions.

The Staff proposal was well and thoughtfully considered. It would have the advantage of signaling customers that energy consumption needs to be given greater attention, of potentially optimizing Applicant's revenues, and it may constitute one form of marginal pricing which is subject to practical implementation. On the other hand, sufficient question was raised in four respects to merit further consideration of the approach:

- (1) Serious questions were raised as to whether inverted rates would actually optimize revenues or would instead contribute to further earnings erosion experienced by Applicant.
- (2) The elasticity of electricity consumption is not adequately clear at this time.
- (3) The equity of inverted rates to farmers and those with low incomes is of concern.
- (4) And, whether invested rates, in fact, constitute a form of marginal pricing was seriously challenged on the record.

The recommendation of the Environmental Defense Fund to authorize time-of-day rates for those residential customers willing to bear the metering charge is at first blush attractive. However, it is unlikely that a significant number of customers would make such an election due to the expense of the meter and, therefore, the gain therefrom would not outbalance the increased administrative complexity and cost for Applicant that its adoption would entail.

Finally, an increase in the service charge as proposed by Applicant is not appropriate. As noted by the Staff, placing emphasis in a rate increase on the service charge would not operate to optimize revenues.

Commercial and Industrial Rates

Numerous proposals were presented relating to the proper design of commercial and industrial rates.

Applicant's proposal for commercial and industrial rates basically amounted to maintaining the existing rate schedule relationships and increasing the prices, with certain exceptions. Applicant proposed to increase the rates of commercial and industrial space heating Rate GH and commercial and industrial water heating Rate H, and to simultaneously close those rates to new business. Second, Applicant proposed to eliminate commercial and industrial seasonal Rate G and place the customers currently taking that service into other appropriate commercial and industrial rates. Since there was no opposition expressed as to this latter proposal, the Commission approves it.

The Staff proposed substantial revision of Applicant's commercial and industrial rate structure. First, the Staff proposed to apply flat rates to Applicant's commercial and industrial General Service Rate B, based on a lack of evidence as to any cost of service differentials between small volume and large volume customers in that rate schedule. No participants in this case took exception with that proposal, so the Commission therefore adopts it. The Staff also proposed elimination of two blocks of Applicant's commercial and industrial Rate C to streamline the rate and to maintain only cost-justified differentials. No participants in the case took exceptions to that proposal, so the Commission also approves it.

The major and most controversial rate proposal of the Staff related to Applicant's primary voltage commercial and industrial rates. The Staff proposed that commercial and industrial Rates D, F and J be placed on time-of-day pricing and that revenues from those rates be diverted from energy charges to demand charges. Also, the Staff commended incorporating existing Rate F into its new proposed Rate D.

In its time-of-day pricing proposal, the Staff recommended that a four mill per

kilowatt hour differential should exist between on-peak and off-peak energy charges. The Staff also indicated that the demand charges on Applicant's existing primary industrial and commercial rates are inadequate in comparison with the energy charges. The Staff, therefore, proposed to divert revenues from these energy charges to demand charges. As a result of that proposal, the Staff claimed that Rate D was now appropriate for all types of customers in the primary service class, and therefore, the rationale for separate Rate F no longer existed. Accordingly, customers currently taking service under Rate F should be incorporated into the Staff's new proposed Rate D.

The Staff took exception to Applicant's proposal to sharply increase and simultaneously close to new business its commercial and industrial space heating and water heating Rates GH and H. The Staff claimed that these rate classifications are potential users of a remote control service.

Although both Applicant and General Motors Corporation agreed with the theoretical concept of time-of-day pricing, both parties expressed objection to its adoption at this time. On the other hand, Intervenor Environmental Defense Fund expressed the opinion that time-of-day pricing for large commercial and industrial customers should be immediately implemented, but claimed that the Staff proposal was incorrect since it placed substantial portions of Applicant's revenues in demand rather than energy charges. It took the position that virtually all of Applicant's revenues from such industrial customers should be received through a two-tiered pricing system which would provide for single on-peak and off-peak charges.

Intervenor General Motors Corporation took exception to the abovementioned Environmental Defense Fund position and argued that the elimination of demand charges would be counter-productive, since customers would be given no incentive to control their level of maximum demands during the on-peak periods, thus worsening the system load factor and resulting in increased rather than decreased costs. Both Applicant and

the Staff agreed with General Motors Corporation in this regard.

Hooker Chemicals and Plastics Corporation, the Upjohn Company, Burdox, Inc., and the Dow Chemical Company, all of whom made unsworn presentations under Commission Rule 16, took issue with the Staff's position to eliminate existing Rate F. These corporations, all of whom receive electric power under Applicant's Rate F, claimed that they, because of their uniform level of use, would be unable to take advantage of a time-of-day pricing provision. These corporations also claimed that electric energy costs amount to a substantial portion of their total costs and that substantial price increases resulting from implementation of the Staff's proposal to eliminate Rate F would discourage similar industry from locating in Michigan, as well as discouraging existing Rate F customers from staying in Michigan.

Another time-of-day dispute concerned the appropriate selection of on-peak and off-peak hours. The Staff urged the adoption of time-of-day pricing of a winter on-peak period of 5:00 p.m. to 9:00 p.m. and a summer on-peak period of 11:00 a.m. to 7:00 p.m. The Staff also proposed that the same on-peak and off-peak periods be applicable to both demand and energy charges. The summer periods proposed by the Staff included the months of March through September and the winter periods covered the months of October through February.

Applicant claimed that the Staff's proposed on-peak and off-peak hours are incorrect. Applicant recommended that, in the event the Commission were to implement time-of-day pricing, the on-peak period for energy charges should be broader than the on-peak period for demand charges. According to Applicant, the on-peak periods for energy charges should be 8:00 a.m. through 10:00 p.m. Monday through Saturday during the summer and winter period and the on-peak periods for demand charges should be 5:00 p.m. through 8:00 p.m. for the months of October through February, 10:00 a.m. through 5:00 p.m. for the months of May through August, and for the months of March, April and September the periods should be 10:00 a.m. through 3:00 p.m. and 5:00 p.m.

through 8:00 p.m. These on-peak demand charges would be applicable to all weekdays and exclude Saturdays, Sundays and holidays.

The Staff disputed Applicant's proposed separate on-peak demand and energy charges on the basis that on-peak demand and energy charges ought to pivot off the same time frame so as to not simultaneously provide incentives and disincentives with respect to customer demands and customer energy consumption.

The Hearings Examiner adopted the basic Staff proposal for time-of-day pricing; rejected the Environmental Defense Fund proposal to roll fixed costs into the energy charge; rejected Applicant's proposal to have separate on-peak and off-peak hours for demand charges and energy charges; and adopted Applicant's proposed time-of-day hours for both demand charges and energy charges; and retained Rate F for certain commercial and industrial customers.

Exceptions to the Examiner's decision were filed by Applicant, the Staff, Environmental Defense Fund and the industrial intervenors under Rule 16.

As indicated previously, the Commission does not concur with the Hearings Examiner in his rulings relating to time-of-day pricing and instead adopts the major positions of Applicant, with certain minor exceptions noted below. The Examiner's decision regarding Rate F is affirmed.

No party disagreed with the propriety of the theory underlying time-of-day pricing. But, in light of the serious and substantial questions surrounding its implementation, the Commission determines that further study is necessary. This decision does not close the door for the future on rate structures which reasonably reflect true marginal costs. It simply stops short of immediate institution of time-of-day pricing until more complete study is performed.

One reason for the approach adopted here is the uncertain economic impact of time-of-day pricing. At a time of great economic difficulty and skyrocketing unemployment, particularly in Michigan, it is especially important that the economic

development implications of utility rates be well understood. The Commission understands the theoretical basis for the Environmental Defense Fund argument that time-of-day pricing could, over the long-run, only operate to eliminate cross-subsidization among the customers of a particular class. However, that long-run theoretical advantage is contingent in part upon other States allocating costs between classes similarly to Michigan. Second, even if there would be a long-run advantage, it does not follow that there would not be significant short-term disadvantages which at this time might prove unacceptable.

Another reason for the Commission's decision is the clear difficulty in computing with reasonable accuracy the appropriate marginal costs. Again, the Commission agrees with the Environmental Defense Fund witness that "it is better to be roughly right than precisely wrong" insofar as it relates to a long-run advantage, but desires greater information on the implications of marginal cost pricing during the implementation phase.

Finally, but not less importantly, the implications for Applicant's revenue stability deserves further investigation.

In sum, the Commission does not seriously question the theory of time-of-day pricing. Indeed, it is ordering extensive study of its implications and of fair and equitable means to implement the theory. The Commission hopes that all of the intervenors who assisted in the compilation of the record in this case will not view this decision as a foreclosure, but will instead continue to lend their advice and assistance in future considerations by the Commission of these issues.

Several other issues also require decision. The Hearings Examiner adopted the Staff position opposing the closing of Applicant's water heating rates GH and H to new customers. No exceptions were filed on that issue. Therefore, the Commission affirms the decision of the Hearings Examiner and directs that a proposed method of performing an economic evaluation and market feasibility of establishing remote control

water heating be submitted by Applicant within 120 days.

Studies and Experiments to be Conducted

Although the Commission declines to adopt the major rate design changes proposed by the Staff and the Environmental Defense Fund, the Commission expects that similar suggestions will again be made in the future. Therefore, the Commission intends to continue the exploration of the concepts of time-of-day pricing and inverted residential rates through a series of intensive studies.

The studies will be conducted by Applicant in cooperation with the Staff. The Commission also encourages Applicant to utilize the expertise of the State's universities, business and industry, and the public at large in these efforts. The issues of appropriate rate design are of sufficient magnitude and importance to merit involving everyone who can be of assistance in providing reliable and pertinent information and analysis.

The studies are designed to elicit further evidence on the advisability of the rate design proposals of the Environmental Defense Fund and the Staff. If properly done, they will answer the troubling questions that remain unanswered in the present case. The studies will give the Commission greater insight into the elasticity of customer demand. Information will be derived as to the effect of new rate structures on farmers, business and industry. Ways to insure that Applicant's financial stability is not adversely affected by rate design changes will become more apparent. Finally, and perhaps most importantly, the short- and long-term implications for Michigan's economic development and adequate employment opportunities for Michigan's citizens will be better delineated.

Specifically, the studies shall include:

1. Applicant shall submit monthly to the Commission a comparison of the amount billed each billing month under the rates approved by this order and the amount which would have been

billed if rate schedules based upon the Staff's proposal in these proceedings were in effect. Bill frequency distributions may be used in preparing the comparison. If practicable, the comparisons shall treat farm customers separately from other residential rate customers.

2. Residential loads shall be analyzed with respect to price elasticity on average for Applicant's service area. The analysis shall consider breakdowns for loads of less than 500 kwh per month, for loads of 500 to 1,000 kwh per month, and for loads in excess of 1,000 kwh per month. In addition, interstate comparisons of residential loads at different price levels shall be submitted.
3. The present and future availability and cost of installed two-register kwh meters or other time-of-day metering devices for customers other than primary commercial and industrial customers will be investigated and a report filed.
4. Commercial and industrial loads shall be analyzed to determine the potential for reduced customer usage:
 - a. During the on-peak hours proposed by the Staff, Applicant, and the Environmental Defense Fund.
 - b. Under rate schedules consistent with the positions taken in this case by the Staff, Applicant and the Environmental Defense Fund.
 - c. Occurring within a 6-month period of time and occurring over longer periods of time, such longer periods of time to be designated by Applicant.

- d. The revenue impact upon Applicant of the various time-of-day price structures analyzed for a depressed economic situation and a normal economic situation, as defined by Applicant.
 - e. The likely economic consequences of the various time-of-day rate schedules, to the extent they can be determined, and assuming the rates for similar service in other states do not change, over a 1-year period, and over such longer periods as are determined appropriate by Applicant.
 - f. The impact on electric bills of a sample of affected customers of the various time-of-day rate schedules.
5. The following additional information shall be submitted by Applicant based upon the year 1974:
- a. Kwh sales by time of day to each rate class.
 - b. KW demands by time of day for demand-energy rate classes.
 - c. The cost of purchased and interchange energy by time of day.
 - d. The effect on revenues collected under demand charges of various definitions of the demand peak period.
 - e. Data for a number of days throughout the year dealing with Applicant's generating cost per kwh for each hour of the day, adjusted to eliminate changes in fuel prices.

The Hearings Examiner adopted an Environmental Defense Fund proposal for an on-line experiment to gauge customer reaction to and the marketability to time-of-day pricing for customers other than primary industrial and commercial customers. No

exceptions were filed on that point, and the Commission therefore adopts the proposal.

Applicant requested a finding embodying the components Applicant viewed as necessary for an effective study of time-of-day pricing. Applicant's proposed finding is adopted and incorporated into the studies ordered herein.

Allocation of Rate Increases to Classes of Service

Intervenor General Motors Corporation opposed Applicant's and the Staff's proposed allocations of the rate increases between the various customer classes. It is the position of General Motors that such an allocation as proposed by Applicant and the Staff causes a further deviation from cost of service than which exists under the present tariffs.

Applicant asserted that rate increases to the various classes of customers should be based not only on cost of service, but also on value of service and rate history. The Staff submitted an exhibit comparing current costs with new costs and submitted that, as a result of that analysis, weight should be given in the allocation of a rate increase, not only to cost of service, but also to the consideration that new costs of power supply are roughly applicable on a per unit basis.

General Motors Corporation claims that the "zero fuel" concept, previously described, should be considered in allocating the proposed rate increase to the various customers, and that the Commission should take further steps toward equalizing the rate of return realized by Applicant from the various customer classes.

The Hearings Examiner did not adopt the approaches proposed by General Motors, to which General Motors filed exceptions. To the extent the exceptions question the statement of the General Motors' position by the Hearings Examiner, they are granted. However, the decision of the Hearings Examiner is affirmed, and the exceptions denied to the extent they challenge the Hearings Examiner's decision on substantive grounds.

General Motors ably presented its position. However, the Commission finds that

the weight of the persuasive evidence supports the decision of the Hearings Examiner.

The Commission FINDS that:

- a. Jurisdiction is pursuant to 1909 PA 106, as amended, MCLA 460.551 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, have been complied with in that an Examiner's Proposal for Decision was issued on December 20, 1974 and the parties have been given opportunity to submit exceptions thereto.
- c. The statutory requirement of Section 85 of 1969 PA 306, as amended, have been complied with in that the Commission has ruled upon all proposed findings submitted by the parties which would control this Opinion and Order.
- d. A rate base for Applicant's electric operations of \$1,746,713,000 is just and reasonable.
- e. An overall rate of return of 8.06%, including a return on common equity of 12.12%, is just and reasonable.
- f. The jurisdictional adjusted net operating income for the test year in this case is \$114,275,000.
- g. The revenue deficiency before earnings erosion allowance is \$55,300,002.
- h. The earnings erosion allowance is \$10,930,640.
- i. Applicant's financial condition has rapidly deteriorated since the last order of this Commission in Case No. U-4332, seriously impairing its present and future ability to provide adequate service to the public.
- j. Applicant's approved fuel cost adjustment clause should be amended to reduce the lag between the occurrence and recognition of increased or decreased costs of fuel in the monthly adjustment as described in this Opinion and Order.

k. Applicant's approved fuel cost adjustment clause should be amended to include nuclear fuel expenses as an integral part of Applicant's total fuel mix for purposes of calculation of the monthly adjustment as described in this Opinion and Order.

l. Applicant is experiencing an annual revenue deficiency of \$66,230,642 and an increase in Applicant's electric revenues in that amount is reasonable and in accordance with other findings and conclusions contained in this order.

m. The Order Granting Partial and Immediate Rate Relief issued by the Commission on September 16, 1974, approving electric rates on an interim basis pending the issuance of this order, was designed to produce additional annual electric revenues in the amount of approximately \$27,624,000. The collections of revenues by Applicant under these interim electric rates during the period from September 17, 1974 to the date of this order is hereby confirmed and Applicant's bond filed with the Commission to assure refund is hereby cancelled.

75.

n. An increase in Applicant's annual electric revenues in the amount of \$38,606,642 over and above the revenue increase granted to Applicant in the Order Granting Partial and Immediate Rate Relief is just and reasonable and in accordance with the findings and conclusions contained in this Opinion and Order.

o. The electric rate schedules attached hereto as Exhibit A will increase Applicant's annual electric operating revenues as authorized by this Opinion and Order and will result in just and reasonable rates and charges for the sale of electric energy and should be made effective for service rendered on and after January 24, 1975.

p. Applicant should be directed within 120 days of the issuance of this order to submit a plan for study of the feasibility of installing remote control water heating.

q. Applicant should be directed within 120 days to submit a plan for an on-line study of the feasibility of establishing time-of-day rates for all of its rate classes.

r. Applicant should be directed to immediately proceed to conduct the studies as

STANDARD RULES AND REGULATIONS

(Continued from Sheet No. 5.04)

12. Application of Rates (Continued)

(f) Special Minimum Charges:

General Secondary Service Rate "B", General Primary Service Rate "B-1" and Secondary Resale Rate "R-1."

Where the customer is billed on open order Rate "B", open order Rate "B-1" or Secondary Resale Rate "R-1," and the use of service is seasonal or occasional, or where equipment which creates high demands of momentary duration is used, and the Company continuously maintains distribution facilities (including transformers for Rate "B" or Rate "R-1" customers) primarily for the customer's individual use, the sum of the net monthly bills, excluding the service charge included in the rate, shall not be less than the following minimum charge for each contract year or any part thereof.

For General Secondary Service Rate "B" or General Secondary Resale Rate "R-1":

\$7.00 per kva for the first 10 kva or less of required transformer capacity, plus
\$2.00 per kva for all over 10 kva of required transformer capacity.

For General Primary Service Rate "B-1":

\$3.50 per kva for the first 10 kva or less of customer-provided transformer capacity, plus
\$1.00 per kva for all over 10 kva of customer-provided transformer capacity.

When in any contract year, the customer's net monthly bills total less than the annual minimum charge, the difference will be billed and paid for at the end of such contract year. Customers subject to the above Special Minimum Charges shall sign a contract providing for such minimum charges for a term of at least one year.

(Continued on Sheet No. 5.05)

RESIDENTIAL SERVICE (OPEN ORDER RATE "A")

Availability:

Open to any customer desiring service for domestic and farm uses, which include only those purposes which are usual in individual private family dwellings, or separately metered apartments, and in the usual appurtenant buildings served through the residential meter. This rate is not available for commercial or industrial service, or for resale purposes.

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

Nature of Service:

Alternating current, 60 hertz, single phase, 120/240 nominal volts.

Monthly Rates:

Service Charge: \$2.30 per customer per month plus,

Energy Charge: 2.90¢ per Kwh for all Kwh.

Water Heating Service:

When service is supplied to a Company approved water heater with a tank capacity of 30 gallons or greater, the rate of 2.45¢ per Kwh shall apply to 400 Kwh, but not to the first 250 Kwh per month. This provision for water heating service is not applicable to the use of electricity as an occasional or seasonal substitute for another method of water heating.

Fuel Cost Adjustment:

The fuel cost adjustment shall consist of an increase or decrease of .0109 mill per Kwh for each full .01 mill increase or decrease in the average delivered cost of fossil and nuclear fuel burned monthly above or below 7.27 mills per Kwh adjusted to the ratio of the monthly fossil and nuclear fuel generation to the monthly net generation. The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned.

To correct for the lag in this procedure between cost incurrance and billing adjustment, the increase or decrease in the charge per Kwh as determined above shall be appropriately increased or decreased by the difference between the "two month lag" adjustment factor applied in the second preceding billing month and the "two month lag" adjustment factor calculated for the immediate billing month.

RATE "A"
(Continued from Sheet No. 8.00)

Monthly Rate: (Contd)

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 electric energy, 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 generation or sale of electrical energy.

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.

Service for single phase motors may be included under this rate, provided the individual capacity of such motors does not exceed 5 hp, nor the total capacity of 10 hp, without the specific consent of the Company.

RESIDENTIAL ELECTRIC HEATING SERVICE (OPEN ORDER RATE "A-1")

Availability:

Open to any customer desiring service for domestic and farm uses, which include only those purposes which are usual in individual private family dwellings, or separately metered apartments, and in the usual appurtenant buildings served through the residential meter, provided the customer has permanently installed and uses electric heating equipment as the primary source of space heating in such dwelling or apartment. This rate is not available for commercial or industrial service or for resale purposes.

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

Nature of Service:

Alternating current, 60 hertz, single phase, 120/240 nominal volts.

Monthly Rate:

Service Charge: \$2.30 per customer per month plus,

Energy Charge: 2.90¢ per Kwh for the first 600 Kwh plus,
2.73¢ per Kwh for all over 600 Kwh during the months of
November through May,
2.90¢ per Kwh for all over 600 Kwh during the months of
June through October.

Water Heating Service:

When service is supplied to a Company approved water heater with a tank capacity of 30 gallons or greater, the rate of 2.45¢ shall apply to 400 kwh, but not to the first 250 kwh per month. This provision for water heating service is not applicable to the use of electricity as an occasional or seasonal substitute for another method of water heating.

Fuel Cost Adjustment:

The fuel cost adjustment shall consist of an increase or decrease of .0109 mill per Kwh for each full .01 mill increase or decrease in the average delivered cost of fossil and nuclear fuel burned monthly above or below 7.27 mills per Kwh adjusted by the ratio of the monthly fossil and nuclear fuel generation to the monthly net generation. The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned. To correct for the lag in this procedure between cost incurrance and billing adjustment, the increase or decrease in the charge per Kwh as determined above shall be appropriately increased or decreased by the difference between the "two month lag" adjustment factor applied in the second preceding billing month and the "two month lag" adjustment factor calculated for the immediate billing month.

(Continued on Sheet No. 8.03)

RATE "A-1"
(Continued from Sheet No. 8.02)

Monthly Rate: (Cont'd)

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 electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

The service charge included in the rate.

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.

Service for single phase motors may be included under this rate, provided the individual capacity of such motors does not exceed 7.5 hp, nor the total capacity of 15 hp, without the specific consent of the Company.

GENERAL SECONDARY SERVICE (OPEN ORDER RATE "B")

Availability:

Open to any customer desiring secondary voltage service. This rate is also available for service to any customer where the Company elects to provide one transformation from the available primary distribution voltage to another primary voltage desired by the customer. This rate is not available for auxiliary or standby service, for streetlighting service or for resale purposes.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Service Charge: \$3.25 per customer per month plus,

Energy Charge: 4.60¢ per Kwh for all Kwh.

Fuel Cost Adjustment:

The fuel cost adjustment shall consist of an increase or decrease of .0109 mill per Kwh for each full .01 mill increase or decrease in the average delivered cost of fossil and nuclear fuel burned monthly above or below 7.27 mills per Kwh adjusted by the ratio of the monthly fossil and nuclear fuel generation to the monthly net generation. The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned. To correct for the lag in this procedure between cost incurrance and billing adjustment, the increase or decrease in the charge per Kwh as determined above shall be appropriately increased or decreased by the difference between the "two month lag" adjustment factor applied in the second preceding billing month and the "two month lag" adjustment factor calculated for the immediate billing month.

(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 electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

accordance with Rule 12(f).

Special Minimum Charges shall be billed in

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.

(Continued on Sheet No. 9.01)

**GENERAL PRIMARY SERVICE
(OPEN ORDER RATE "B-1")**

Availability:

Open to any customer desiring primary voltage service. This rate is not available for auxiliary or standby service, for streetlighting service or for resale purposes.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Service Charge: \$3.25 per customer per month plus,

Energy Charge: 3.90¢ per Kwh for all Kwh

Fuel Cost Adjustment:

The fuel cost adjustment shall consist of an increase or decrease of .0109 mill per Kwh for each full .01 mill increase or decrease in the average delivered cost of fossil and nuclear fuel burned monthly above or below 7.27 mills per Kwh adjusted by the ratio of the monthly fossil and nuclear fuel generation to the monthly net generation. The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned. To correct for the lag in this procedure between cost incurrance and billing adjustment, the increase or decrease in the charge per Kwh as determined above shall be appropriately increased or decreased by the difference between the "two month lag" adjustment factor applied in the second preceding billing month and the "two month lag" adjustment factor calculated for the immediate billing month.

Tax Adjustment: billing month.

- (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 electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

accordance with Rule 12(f).

Special Minimum Charges shall be billed in

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.

(Continued on Sheet No. 10.01)

GENERAL SECONDARY SERVICE (OPTIONAL RATE "C")

Availability:

Open to any customer desiring secondary voltage service where the billing demand is 5 kW or more. This rate is also available for service to any customer where the Company elects to provide one transformation from the available primary distribution voltage to another primary voltage desired by the customer. This rate is not available for streetlighting service or for resale purposes.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Capacity Charge: \$31.00 per customer per month, which shall include the first 5 KW of billing demand, \$5.00 per KW for all over 5KW of billing demand.

Energy Charge: 1.90¢ per Kwh for the first 200 KWh per KW of billing demand, 1.50¢ per Kwh for the excess.

Fuel Cost Adjustment:

The fuel cost adjustment shall consist of an increase or decrease of .0109 mill per Kwh for each full .01 mill increase or decrease in the average delivered cost of fossil and nuclear fuel burned monthly above or below 7.27 mills per Kwh adjusted by the ratio of the monthly fossil and nuclear fuel generation to the monthly net generation. The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned. To correct for the lag in this procedure between cost incurrence and billing adjustment, the increase or decrease in the charge per Kwh as determined above shall be appropriately increased or decreased by the difference between the "two month lag" adjustment factor applied in the second preceding billing month and the "two month lag" adjustment factor calculated 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 electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

The capacity charge included in the rate.

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.

(Continued on Sheet No. 11.01)

**COMMERCIAL AND INDUSTRIAL
PRIMARY SERVICE
(CONTRACT RATE "D")**

Availability:

Open to any customer desiring primary voltage service for commercial or industrial use where the billing demand is 25 kW or more. This rate is not available for streetlighting service or for resale purposes.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Capacity Charge: \$4.40 per KW for the first 2,000 KW of billing demand.
\$3.50 per KW for the next 10,000 KW of billing demand.
\$3.05 per KW for all over 20,000 KW of billing demand.
Energy Charge: 1.41¢ per KWh for the first 180 Kwh per KW of billing demand.
1.31¢ per Kwh for the next 1,000,000 Kwh,
1.21¢ per Kwh for the next 12,000,000 Kwh,
1.11¢ per Kwh for the excess.

Fuel Cost Adjustment:

The fuel cost adjustment shall consist of an increase or decrease of .0109 mill per Kwh for each full .01 mill increase or decrease in the average delivered cost of fossil and nuclear fuel burned monthly above or below 7.27 mills per Kwh adjusted by the ratio of the monthly fossil and nuclear fuel generation to the monthly net generation. The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned. To correct for the lag in this procedure between cost incurrence and billing adjustment, the increase or decrease in the charge per Kwh as determined above shall be appropriately increased or decreased by the difference between the "two month lag" adjustment factor applied in the second preceding billing month and the "two month lag" adjustment factor calculated 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 electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

The capacity charge included in the rate.

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.

(Continued on Sheet No. 14.01)

**COMMERCIAL AND INDUSTRIAL
PRIMARY HIGH LOAD FACTOR SERVICE
(OPTIONAL CONTRACT RATE "F")**

Availability:

Open to any customer desiring primary voltage service for commercial or industrial use where the billing demand is 100 kW or more. This rate is not available for streetlighting service or for resale purposes.

Nature of Service:

Alternating current, 60 hertz, single phase, or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Capacity Charge: (Including 600 Kwh per KW of billing demand)
\$12.75 per KW for the first 2,000 KW of billing demand.
\$11.30 per KW for the next 8,000 KW of billing demand.
\$10.45 per KW for the next 15,000 KW of billing demand.
\$ 9.65 per KW for all over 25,000 KW of billing demand.
Energy Charge: .78¢ per KWh for all KWh over 600 KWh per KW of billing demand.

Fuel Cost Adjustment:

The fuel cost adjustment shall consist of an increase or decrease of .0109 mill per kwh for each full .01 mill increase or decrease in the average delivered cost of fossil and nuclear fuel burned monthly above or below 7.27 mills per Kwh adjusted by the ratio of the monthly fossil and nuclear fuel generation to the monthly net generation. The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned. To correct for the lag in this procedure between cost incurrence and billing adjustment, the increase or decrease in the charge per Kwh as determined above shall be appropriately increased or decreased by the difference between the "two month lag" adjustment factor applied in the second preceding billing month and the "two month lag" adjustment factor calculated for the immediate billing month.

- (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 electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

The capacity charge included in the rate.

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.

(Continued on Sheet No. 16.01)

SEASONAL SERVICE
(CONTRACT RATE "G")

This rate is cancelled.

(Continued on Sheet 17.01)

RATE "C"

(Continued from Sheet No. 17.00)

This rate is cancelled.

COMMERCIAL AND INDUSTRIAL ELECTRIC HEATING SERVICE (OPEN ORDER RATE "GH")

Availability:

Open to any commercial or industrial customer desiring service for electric space heating furnished through a separate meter to which no other device, except electric air-conditioning equipment or electric water heater(s) which complies with the Company's standards for commercial and industrial electric water heaters, may be connected and provided the customer has permanently installed and uses electric heating equipment as the primary source of space heating. Electric space heating will be considered to include heating by light systems when the lighting equipment provides a major portion of the heating requirements in accordance with the Company's specifications. This rate is not available for heating water for industrial processing or for resale purposes.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Service Charge: \$3.25 per customer per month plus,
Energy Charge: 2.90¢ per Kwh for all energy used.

Fuel Cost Adjustment:

The fuel cost adjustment shall consist of an increase or decrease of .0109 mill per Kwh for each full .01 mill increase or decrease in the average delivered cost of fossil and nuclear fuel burned monthly above or below 7.27 mills per Kwh adjusted by the ratio of the monthly fossil and nuclear fuel generation to the monthly net generation. The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned. To correct for the lag in this procedure between cost incurrance and billing adjustment, the increase or decrease in the charge per Kwh as determined above shall be appropriately increased or decreased by the difference between the "two month lag" adjustment factor applied in the second preceding billing month and the "two month lag" adjustment factor calculated for the

- Tax Adjustment:** month and the "two month lag" adjustment factor calculated for the
- (a) Bills shall be increased within the limits of political subdivisions which levy special taxes, license fees, immediate or rentals against the Company's property, or its operation, or the production and/or sale of electric billing energy, to offset such special charges and thereby prevent other customers from being compelled to month. 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 generation or sale of electrical energy.

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.

(Continued on Sheet No. 17.03)

COMMERCIAL AND INDUSTRIAL WATER HEATING SERVICE (OPEN ORDER RATE "H")

Availability:

Open to any customer desiring uncontrolled commercial and/or industrial service for electric water heater(s) served through a separate meter to which no other device shall be connected. Such water heaters shall comply with the Company's standards for commercial and industrial electric water heaters. This rate is not applicable to the use of electricity for space heating service or as an occasional or seasonal substitute for another method of heating water. This rate is not available for heating water for industrial processing or for resale purposes.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the secondary distribution voltage in each case to be determined by the Company.

Monthly Rate:

Service Charge: \$3.25 per customer per month plus,

Energy Charge: 2.50¢ per Kwh for all energy used.

Fuel Cost Adjustment:

The fuel cost adjustment shall consist of an increase or decrease of .0109 mill per Kwh for each full .01 mill increase or decrease in the average delivered cost of fossil and nuclear fuel burned monthly above or below 7.27 mills per Kwh adjusted by the ratio of the monthly fossil and nuclear fuel generation to the monthly net generation. The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned. To correct for the lag in this procedure between cost incurrence and billing adjustment, the increase or decrease in the charge per Kwh as determined above shall be appropriately increased or decreased by the difference between the "two month lag" adjustment factor applied in the second preceding billing month and the "two month lag" adjustment factor calculated 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 electric energy, 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 generation or sale of electrical energy.

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.

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.

PRIMARY ELECTRIC FURNACE SERVICE (CONTRACT RATE "J")

Availability:

Open to any customer desiring service for operation of electric furnaces for metal melting or the reduction of metallic ores, where the billing demand is 500 kW or more. This rate is applicable only to electric furnace use and the customer must provide a special circuit or circuits in order that the Company may install separate metering equipment for such furnace loads. This rate is not available for resale purposes.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Capacity Charge: \$2.40 per KW for the first 20,000 KW of billing demand.
\$2.70 per KW for all over 20,000 KW of billing demand.

Energy Charge: 1.17¢ per Kwh for all energy used.

Fuel Cost Adjustment:

The fuel cost adjustment shall consist of an increase or decrease of .0109 mill per Kwh for each full .01 mill increase or decrease in the average delivered cost of fossil and nuclear fuel burned monthly above or below 7.27 mills per Kwh adjusted by the ratio of the monthly fossil and nuclear fuel generation to the monthly net generation. The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned. To correct for the lag in this procedure between cost incurrence and billing adjustment, the increase or decrease in the charge per Kwh as determined above shall be appropriately increased or decreased by the difference between the "two month lag" adjustment factor applied in the second preceding billing month and the "two month lag" adjustment factor calculated 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 electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

The capacity charge included in the rate.

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.

(Continued on Sheet No. 18.02)

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

Availability:

Open only to customers desiring secondary voltage service for resale purposes in accordance with Rule 12(e) of the Company's Standard Rules and Regulations. This rate is not available for resale for streetlighting service.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Service Charge: \$3.25 per customer per month plus,

Energy Charge: 4.60¢ per Kwh for all Kwh used.

Fuel Cost Adjustment:

The fuel cost adjustment shall consist of an increase or decrease of .0109 mill per Kwh for each full .01 mill increase or decrease in the average delivered cost of fossil and nuclear fuel burned monthly above or below 7.27 mills per Kwh adjusted by the ratio of the monthly fossil and nuclear fuel generation to the monthly net generation. The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned. To correct for the lag in this procedure between cost incurrence and billing adjustment, the increase or decrease in the charge per Kwh as determined above shall be appropriately increased or decreased by the difference between the "two month lag" adjustment factor applied in the second preceding billing month and the "two month lag" adjustment factor calculated 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 electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

accordance with Rule 12(f).

Special Minimum Charges shall be billed in

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.

(Continued on Sheet No. 18.05)

SECONDARY RESALE SERVICE (OPTIONAL CONTRACT RATE "R-2")

Availability:

Open only to customers desiring secondary voltage service for resale purposes in accordance with Rule 12(e) of the Company's Standard Rules and Regulations. This rate is not available for resale for streetlighting service.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Capacity Charge: \$31.00 per customer per month, which shall include the 1st 5 KW of billing demand,
\$5.00 per KW for all over 5 KW of billing demand.

Energy Charge: 1.90¢ per Kwh for the 1st 200 Kwh per KW of billing demand,
1.50¢ per Kwh for the excess.

Fuel Cost Adjustment:

The ~~fuel~~ cost adjustment shall consist of an increase or decrease of .0109 mill per Kwh for each full .01 mill increase or decrease in the average delivered cost of fossil and nuclear fuel burned monthly above or below 7.27 mills per Kwh adjusted by the ratio of the monthly fossil and nuclear fuel generation to the monthly net generation. The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned. To correct for the lag in this procedure between cost incurrence and billing adjustment, the increase or decrease in the charge per Kwh as determined above shall be appropriately increased or decreased by the difference between the "two month lag" adjustment factor applied in the second preceding billing month and the "two month lag" adjustment factor calculated 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 electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

The capacity charge included in the rate.

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.

(Continued on Sheet No. 18.07)

PRIMARY RESALE SERVICE (CONTRACT RATE "R-3")

Availability:

Open only to customers desiring primary voltage service for resale purposes in accordance with Rule 12(e) of the Company's Standard Rules and Regulations. This rate is not available for resale for streetlighting service.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Capacity Charge: \$4.40 per KW for the first 2,000 KW of billing demand,
\$3.50 per KW for the next 10,000 KW of billing demand,
\$3.05 per KW for all over 20,000 KW of billing demand.
Energy Charge: 1.41¢ per Kwh for the first 180 Kwh per KW of billing demand,
1.31¢ per Kwh for the next 1,000,000 Kwh,
1.21¢ per Kwh for the next 12,000,000 Kwh,
1.11¢ per Kwh for the excess.

Fuel Cost Adjustment:

The fuel cost adjustment shall consist of an increase or decrease of .0109 mill per Kwh for each full .01 mill increase or decrease in the average delivered cost of fossil and nuclear fuel burned monthly above or below 7.27 mills per Kwh adjusted by the ratio of the monthly fossil and nuclear fuel generation to the monthly net generation. The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned. To correct for the lag in this procedure between cost incurrence and billing adjustment, the increase or decrease in the charge per Kwh as determined above shall be appropriately increased or decreased by the difference between the "two month lag" adjustment factor applied in the second preceding billing month and the "two month lag" adjustment factor calculated for the immediate Tax Adjustment: billing month.

- (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 electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

The capacity charge included in the rate.

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.

(Continued on Sheet No. 18.09)

INCANDESCENT STREETLIGHTING SERVICE
(COMPANY-OWNED SYSTEM CONTRACT RATE "SL-1")

Availability:

Open to the State of Michigan or any political subdivision or agency thereof having jurisdiction over public streets or roadways, for streetlighting service for any system consisting of five or more luminaires where the Company has an existing distribution system with secondary voltage available. Luminaires installed as a part of the original streetlighting system shall be spaced at intervals not exceeding an average (for all such luminaires) of 600 linear feet if luminaires rated at 6,000 lumens or 10,000 lumens are used, and at intervals not exceeding an average (for all such luminaires) of 350 linear feet if luminaires rated at 2,500 lumens are used. Luminaires which are subsequently added to the original streetlighting system shall also be spaced at intervals not exceeding an average (for all such additional luminaires) of 600 linear feet if luminaires rated at 6,000 lumens or 10,000 lumens are used, and at intervals not exceeding an average (for all such additional luminaires) of 350 linear feet if luminaires rated at 2,500 lumens are used. Where an overhead line extension is required to serve an original streetlighting system or to serve luminaires subsequently added to such system, the Company will furnish, as a part of the facilities to be provided by it under this rate, an average of 350 linear feet of line extension per luminaire to be served from such extension. If more than an average of 350 linear feet of line extension per luminaire is required, the furnishing of the excess shall require special arrangements and be the subject of special agreement.

Nature of Service:

The Company will furnish, install and own all equipment comprising the streetlighting system. The Company will supply the energy, and renew and maintain the entire equipment. In areas where the Company has installed an underground electric distribution system pursuant to the Company's residential underground electric distribution policy as set forth in its Standard Rules and Regulations, the streetlighting system will be served from said underground electric distribution system. In all other areas, the streetlighting system will normally be served from overhead lines or from underground cables installed at customer's request pursuant to special streetlighting provisions contained in Yearly Rate clause herein. The Company reserves the right to furnish such service from either a series or multiple system or both.

Yearly Rate:

The charge per luminaire per year (when mounted on standard wood poles and served from overhead lines), payable in equal monthly installments, shall be:

<u>Nominal Rating of Lamps</u>	<u>Rate per Luminaire</u>
<u>Lumens</u>	
2,500	\$56.00
6,000	64.00
10,000	75.00

Note: The above rates apply to existing luminaires only and are not open to new business except where the Company elects, at the customer's request, to install additional luminaires within an area already served by an incandescent streetlighting system.

(Continued on Sheet No. 19.01)

RATE "SL-1"
(Continued from Sheet No. 19.00)

Yearly Rate: (Contd)

For energy conservation purposes, customers may, at their option, elect to have any or all luminaires served under this rate disconnected for a period of six months or more. The charge per luminaire per year, payable in equal monthly installments for each disconnected luminaire, shall be 40 percent of the yearly rate set forth above provided, however, that should any such disconnected luminaire be reconnected at the customer's request after having been disconnected for less than six months, the yearly rate set forth above shall be applicable to the period of disconnection. An \$8.00 disconnect/reconnect charge will be made per luminaire at the time of disconnection except that when the estimated disconnect/reconnect cost is significantly higher than \$8.00, the estimated cost per luminaire shall be charged.

At the customer's request and subject to charges in addition to the annual charges per luminaire set forth above, the Company will install special streetlighting facilities in lieu of its standard overhead streetlighting facilities under the following conditions:

- (a) If special streetlighting poles are requested, the customer shall contribute to the Company the difference between the Company's estimated installed costs of such special poles and the Company's estimated installed costs of standard wood poles.
- (b) If underground streetlighting cable is requested, except that requested in conjunction with the Company's residential underground electric distribution policy, the customer shall contribute to the Company the difference between the Company's estimated installed costs of the underground streetlighting cable and the Company's estimated installed costs of standard overhead streetlighting conductors.

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill which is not paid within thirty days after its issuance.

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 electric energy, 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 generation or sale of electrical energy.

(Continued on Sheet No. 19.02)

RATE "SL-1"
(Continued from Sheet No. 19.01)

Contract:

Standard Streetlighting Contract, Form 548, initial term of contract five years, or more, and year to year thereafter until terminated by mutual consent or upon twelve months' written notice given by either party. In case of new or added installation requiring a substantial investment, the Company may require a contract for a reasonable period not exceeding ten years.

Special Terms and Conditions:

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

Customers requiring streetlighting service during seasonal periods only, shall pay 80% of the above annual rates for lamps which are in service six months or less; if in service more than six months per annum, annual rates shall apply.

Hours of Lighting:

Streetlights shall be burning at all times when the natural general level of illumination is lower than about 3/4 footcandle, and under normal conditions this is approximately one-half hour after sunset until approximately one-half hour before sunrise.

**INCANDESCENT STREETLIGHTING SERVICE
(CUSTOMER-OWNED SYSTEM CONTRACT RATE "SL-2")**

Availability:

Open to the State of Michigan or any political subdivision or agency thereof having jurisdiction over public streets or roadways, for streetlighting service where the Company has existing distribution lines available for supplying energy for such service.

Nature of Service:

Except for control equipment which will be furnished, installed and owned by the Company, the customer will furnish, install and own all equipment comprising the streetlighting system including, but not limited to, the overhead wires or underground cables between the luminaires and the supply circuits extending to the point of attachment with the Company's lines. All of the customer's equipment will be subject to the Company's approval. The Company will connect the customer's equipment to the Company's lines, supply the energy, control the burning hours of the lamps, provide normal replacement of luminaire glassware and lamps and paint metal parts as needed; all other maintenance and replacement of the customer's equipment shall be paid for by the customer. The Company reserves the right to furnish such service from either a series or multiple system or both.

Yearly Rate:

The charge per luminaire per year, payable in equal monthly installments, shall be:

<u>Nominal Rating of Lamps</u> <u>Lumens</u>	<u>Rate per Luminaire</u>
1,000	\$42.00
2,500	44.00
4,000	47.00
6,000	52.00
10,000	63.00

Note: The above rates apply to existing luminaires only, and are not open to new business except where the Company elects, at the customer's request to install additional luminaires within an area already served by an incandescent streetlighting system.

For energy conservation purposes, customers may, at their option, elect to have any or all luminaires served under this rate disconnected for a period of six months or more. The monthly instalment for each luminaire so disconnected shall be waived during the period of disconnection provided, however, that should any such disconnected luminaire be reconnected at the customer's request after having been disconnected for less than six months, the yearly rate set forth above shall be applicable to the period of disconnection. An \$8.00 disconnect/reconnect charge will be made per luminaire at the time of disconnection except that when the estimated disconnect/reconnect cost is significantly higher than \$8.00, the estimated cost per luminaire shall be charged.

(Continued on Sheet No. 20.01)

RATE "EL-F"

(Continued from Sheet No. 20.00)

Yearly Rate: (Continued)

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill which is not paid within thirty days after its issuance.

Tax Adjustments:

- (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 electric energy, 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 generation or sale of electrical energy.

Contract:

Standard Street Lighting Contract, Form 548; initial term of contract *five years*, or more, and year to year thereafter until terminated by mutual consent or upon twelve months' written notice given by either party. In case of new or added installation requiring a substantial investment, the Company may require a contract for a reasonable period not exceeding ten years.

Special Terms and Conditions:

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

Hours of Lighting:

Street lights shall be burning at all times when the natural general level of illumination is lower than about $\frac{1}{4}$ foot-candle, and under normal conditions this is approximately one-half hour after sunset until approximately one-half hour before sunrise.

FLUORESCENT STREETLIGHTING SERVICE
(COMPANY-OWNED SYSTEM CONTRACT RATE "SL-4")

Availability:

Open to the State of Michigan or any political subdivision or agency thereof having jurisdiction over public streets or roadways, for streetlighting service for any system consisting of one or more luminaires where the Company has an existing distribution system with secondary voltage available. Luminaires may be installed with no limitations as to spacing between luminaires. Where an overhead line extension is required to serve one or more luminaires, the Company will furnish, as a part of the facilities to be provided by it under this rate, an average of 350 linear feet of line extension per luminaire to be served from such extension. If more than an average of 350 linear feet of line extension per luminaire is required, the furnishing of the excess shall require special arrangements and be the subject of special agreement.

Nature of Service:

The Company will furnish, install and own all equipment comprising the streetlighting system. The Company will supply the energy, and renew and maintain the entire equipment. In areas where the Company has installed an underground electric distribution system pursuant to the Company's residential underground electric distribution policy as set forth in its Standard Rules and Regulations, the streetlighting system will be served from said underground electric distribution system. In all other areas, the streetlighting system will normally be served from overhead lines or from underground cables installed at customer's request pursuant to special streetlighting provisions contained in Yearly Rate clause herein. The Company reserves the right to furnish such service from either a series or multiple system or both.

Yearly Rate:

The charge per luminaire per year (when mounted on standard wood poles and served from overhead lines), payable in equal monthly installments, shall be:

Nominal Rating of Lamps (All Lamps in One Luminaire)		Rate per Luminaire
Watts	Lumens	
190	10,000	\$ 82.00
380	20,000	120.00

Note: The above rates apply to existing luminaires only and are not open to new business except where the Company elects, at the customer's request, to install additional luminaires within an area already served by a fluorescent streetlighting system.

For energy conservation purposes, customers may, at their option, elect to have any or all luminaires served under this rate disconnected for a period of six months or more. The charge per luminaire per year, payable in equal monthly installments for each disconnected luminaire, shall be 40 percent of the yearly rate set forth above provided, however, that should any such disconnected luminaire be reconnected at the customer's request after having been disconnected for less than six months, the yearly rate set forth above shall be applicable to the period of disconnection. An \$8.00 disconnect/reconnect charge will be made per luminaire at the time of disconnection except that when the estimated disconnect/reconnect cost is significantly higher than \$8.00, the estimated cost per luminaire shall be charged.

(Continued on Sheet No. 22.01)

RATE "SL-4"
(Continued from Sheet No. 22.00)

Yearly Rate: (Contd)

At the customer's request and subject to charges in addition to the annual charges per luminaire set forth above, the Company will install special streetlighting facilities in lieu of its standard overhead streetlighting facilities under the following conditions.

- (a) If special streetlighting poles are requested, the customer shall contribute to the Company the differences between the Company's estimated installed costs of such special poles and the Company's estimated installed costs of standard wood poles.
- (b) If underground streetlighting cable is requested, except that requested in conjunction with the Company's residential underground electrical distribution policy, the customer shall contribute to the Company the difference between the Company's estimated installed costs of the underground streetlighting cable and the Company's estimated installed costs of standard overhead streetlighting conductors.

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill which is not paid within 30 days after its issuance.

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 electric energy, 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 generation or sale of electrical energy.

(Continued on Sheet No. 22.02)

RATE "SL-4"
(Continued from Sheet No. 22.01)

Contract:

Standard Streetlighting Contract, Form 548, initial term of contract five years, or more, and year to year thereafter until terminated by mutual consent or upon twelve months' written notice given by either party. In case of new or added installation requiring a substantial investment, the Company may require a contract for a reasonable period not exceeding ten years.

Special Terms and Conditions:

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

Hours of Lighting:

Streetlights shall be burning at all times when the natural general level of illumination is lower than about 3/4 footcandle, and under normal conditions this is approximately one-half hour after sunset until approximately one-half hour before sunrise.

FLUORESCENT STREETLIGHTING SERVICE
(CUSTOMER OWNED SYSTEM CONTRACT RATE "SL-5")

Availability:

Open to the State of Michigan or any political subdivision or agency thereof having jurisdiction over public streets or roadways, for streetlighting service where the Company has existing distribution lines available for supplying energy for such service.

Nature of Service:

Except for control equipment which will be furnished, installed and owned by the Company, the customer will furnish, install and own all equipment comprising the streetlighting system including, but not limited to, the overhead wires or underground cables between the luminaires and the supply circuits extending to the point of attachment with the Company's lines. All of the customer's equipment will be subject to the Company's approval. The Company will connect the customer's equipment to the Company's lines, supply the energy, control the burning hours of the lamps, provide normal replacement of luminaire glassware, ballasts and lamps, and paint metal parts as needed; all other maintenance and replacement of the customer's equipment shall be paid for by the customer. The Company reserves the right to furnish such service from either a series or multiple system or both.

Yearly Rate:

The charge per luminaire per year, payable in equal monthly installments, shall be:

Nominal Rating of Lamps (All Lamps in One Luminaire)		Rate per Luminaire
<u>Watts</u>	<u>Lumens</u>	
120	6,500	\$50.00
190	10,000	\$58.00
380	20,000	\$75.00
640	35,000	100.00

Note: The above rates apply to existing luminaires only and are not open to new business except where the Company elects, at the customer's request, to install additional luminaires within an area already served by a fluorescent streetlighting system.

For energy conservation purposes, customers may, at their option, elect to have any or all luminaires served under this rate disconnected for a period of six months or more. The monthly installment for each luminaire so disconnected shall be waived during the period of disconnection provided, however, that should any such disconnected luminaire be reconnected at the customer's request after having been disconnected for less than six months, the yearly rate set forth above shall be applicable to the period of disconnection. An \$8.00 disconnect/reconnect charge will be made per luminaire at the time of disconnection except that when the estimated disconnect/reconnect cost is significantly higher than \$8.00, the estimated cost per luminaire shall be charged.

RATE "SL-5"

(Continued from Sheet No. 23.00)

Yearly Rate: (Contd)

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill not paid within 30 days of its issuance.

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 electric energy, 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 generation or sale of electrical energy.

Contracts:

Standard Street Lighting Contract, Form 548; initial term of contract *five years*, or more, and year to year thereafter, until terminated by mutual consent or upon twelve months' written notice given by either party. In case of new or added installation requiring a substantial investment, the Company may require a contract for a reasonable period not exceeding ten years.

Special Terms and Conditions:

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

Hours of Lighting:

Street lights shall be burning at all times when the natural general level of illumination is lower than about $\frac{1}{4}$ foot-candle, and under normal conditions this is approximately one-half hour after sunset until approximately one-half hour before sunrise.

MERCURY VAPOR STREETLIGHTING SERVICE
(COMPANY-OWNED SYSTEM CONTRACT RATE "SL-6")

Availability:

Open to the State of Michigan or any political subdivision or agency thereof having jurisdiction over public streets or roadways, for streetlighting service for any system consisting of one or more luminaires where the Company has an existing distribution system with secondary voltage available. Luminaires may be installed with no limitations as to spacing between luminaires. Where an overhead line extension is required to serve one or more luminaires, the Company will furnish, as a part of the facilities to be provided by it under this rate, an average of 350 linear feet of line extension per luminaire to be served from such extension. If more than an average of 350 linear feet of line extension per luminaire is required, the furnishing of the excess shall require special arrangements and be the subject of special agreement.

Nature of Service:

The Company will furnish, install and own all equipment comprising the streetlighting system. The Company will supply the energy, and renew and maintain the entire equipment. In areas where the Company has installed an underground electric distribution system pursuant to the Company's residential underground electric distribution policy as set forth in its Standard Rules and Regulations, the streetlighting system will be served from said underground electric distribution system. In all other areas, the streetlighting system will normally be served from overhead lines or from underground cables installed at customer's request pursuant to special streetlighting provisions contained in Yearly Rate clause herein. The Company reserves the right to furnish such service from either series or multiple system or both.

Yearly Rate:

The charge per luminaire per year (when mounted on standard wood poles and served from overhead lines), payable in equal monthly installments, shall be:

Nominal Rating of Lamps (One Lamp per Luminaire)		Rate per Luminaire
Watts	Lumens	
100	3,200	\$ 56.00
175	6,500	64.00
250	10,000	75.00
400	20,000	104.00
700	35,000	142.00
1,000	50,000	172.00

For energy conservation purposes, customers may, at their option, elect to have any or all luminaires served under this rate disconnected for a period of six months or more. The charge per luminaire per year, payable in equal monthly installments for each disconnected luminaire, shall be 40 percent of the yearly rate set forth above provided, however, that should any such disconnected luminaire be reconnected at the customer's request after having been disconnected for less than six months, the yearly rate set forth above shall be applicable to the period of disconnection. An \$8.00 disconnect/reconnect charge will be made per luminaire at the time of disconnection except that when the estimated disconnect/reconnect cost is significantly higher than \$8.00, the estimated cost per luminaire shall be charged.

RATE "SL-6"

(Continued from Sheet No. 24.00)

Yearly Rate: (Contd)

At the customer's request and subject to charges in addition to the annual charges per luminaire set forth above, the Company will install special streetlighting facilities in lieu of its standard overhead streetlighting facilities under the following conditions:

- (a) If special streetlighting poles are requested, the customer shall contribute to the Company the difference between the Company's estimated installed costs of such special poles and the Company's estimated installed costs of standard wood poles.
- (b) If underground streetlighting cable is requested, except that requested in conjunction with the Company's residential underground electric distribution policy, the customer shall contribute to the Company the difference between the Company's estimated installed costs of the underground streetlighting cable and the Company's estimated installed costs of standard overhead streetlighting conductors.

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill not paid within 30 days after its issuance.

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 electric energy, 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 generation or sale of electrical energy.

Contract:

Standard Streetlighting Contract, Form 548; initial term of contract five years, or more, and year to year thereafter until terminated by mutual consent or upon twelve months' written notice given by either party. In case of new or added installations, requiring a substantial investment, the Company may require a contract for a reasonable period not exceeding ten years.

Special Terms and Conditions:

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

Hours of Lighting:

Streetlights shall be burning at all times when the natural general level of illumination is lower than about 3/4 footcandle, and under normal conditions this is approximately one-half hour after sunset until approximately one-half hour before sunrise.

MERCURY VAPOR STREETLIGHTING SERVICE
(CUSTOMER-OWNED SYSTEM CONTRACT RATE "SL-7")

Availability:

Open to the State of Michigan or any political subdivision or agency thereof having jurisdiction over public streets or roadways, for streetlighting service where the Company has existing distribution lines available for supplying energy for such service.

Nature of Service:

Except for control equipment which will be furnished, installed and owned by the Company, the customer will furnish, install and own all equipment comprising the street lighting system including, but not limited to, the overhead wires or underground cables between the luminaires and the supply circuits extending to the point of attachment with the Company's lines. All of the customer's equipment will be subject to the Company's approval. The Company will connect the customer's equipment to the Company's lines, supply the energy, control the burning hours of the lamps, provide normal replacement of luminaire glassware and lamps, and paint metal parts as needed; all other maintenance and replacement of the customer's equipment shall be paid for by the customer. The Company reserves the right to furnish such service from either a series or multiple system or both.

Yearly Rate:

For normal service the charge per luminaire per year, payable in equal monthly installments, shall be:

Nominal Rating of Lamps (One Lamp per Luminaire)		Rate per Luminaire
Watts	Lumens	
100	3,200	\$ 38.00
175	6,500	\$ 43.00
250	10,000	\$ 50.00
400	20,000	\$ 70.00
700	35,000	\$100.00
1,000	50,000	\$128.00

For 24-hour service the charge per luminaire per year, payable in monthly installments, shall be 125 percent of the foregoing rates.

For energy conservation purposes, customers may, at their option, elect to have any or all luminaires served under this rate disconnected for a period of six months or more. The monthly installment for each luminaire so disconnected shall be waived during the period of disconnection provided, however, that should any such disconnected luminaire be reconnected at the customer's request after having been disconnected for less than six months, the yearly rate set forth above shall be applicable to the period of disconnection. An \$8.00 disconnect/reconnect charge will be made per luminaire at the time of disconnection except that when the estimated disconnect/reconnect cost is significantly higher than \$8.00, the estimated cost per luminaire shall be charged.

(Continued on Sheet No. 25.01)

RATE "SL-7"

(Continued from Sheet No. 25.00)

Yearly Rate:

Delayed Payment Charge:

A delayed payment charge of 2% of the net bill shall be added to any bill not paid within 30 days after its issuance.

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 electric energy, 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 generation or sale of electrical energy.

Contract:

Standard Street Lighting Contract, Form 548; initial term of contract five years, or more, and year to year thereafter, until terminated by mutual consent or upon twelve months' written notice given by either party. In case of new or added installations requiring a substantial investment, the Company may require a contract for a reasonable period not exceeding ten years.

Special Terms and Conditions:

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

Hours of Lighting:

For normal service street lights shall be burning at all times when the natural general level of illumination is lower than about $\frac{1}{4}$ foot-candle, and under normal conditions this is approximately one-half hour after sunset until approximately one-half hour before sunrise. For 24-hour service, street lights shall be burning 24 hours per day.

HIGH-PRESSURE SODIUM STREETLIGHTING SERVICE

(Company-Owned System Contract Rate SL-9)

Availability:

Open to the State of Michigan or any political subdivision or agency thereof having jurisdiction over public streets or roadways, for streetlighting service for any system consisting of one or more luminaires where the Company has an existing distribution system with secondary voltage available. Luminaires may be installed with no limitations as to spacing between luminaires. Where an overhead line extension is required to serve one or more luminaires, the Company will furnish, as a part of the facilities to be provided by it under this rate, an average of 350 linear feet of line extension per luminaire to be served from such extension. If more than an average of 350 linear feet of line extension per luminaire is required, the furnishing of the excess shall require special arrangements and be the subject of special agreement.

Nature of Service:

The Company will furnish, install and own all equipment comprising the streetlighting system. The Company will supply the energy, and renew and maintain the entire equipment. In areas where the Company has installed an underground electric distribution system pursuant to the Company's residential underground electric distribution policy as set forth in its Standard Rules and Regulations, the streetlighting system will be served from said underground electric distribution system. In all other areas, the streetlighting system will normally be served from overhead lines or from underground cables installed at customer's request pursuant to special streetlighting provisions contained in Yearly Rate clause herein. The Company reserves the right to furnish such service from either series or multiple system or both.

Yearly Rate:

The charge per luminaire per year (when mounted on standard wood poles and served from overhead lines), payable in equal monthly installments, shall be:

Nominal Rating of Lamps (One Lamp per Luminaire)		Rate per Luminaire
Watts	Lumens	
250	24,000	\$150.00
400	45,000	\$183.00

For energy conservation purposes, customers may, at their option, elect to have any or all luminaires served under this rate disconnected for a period of six months or more. The charge per luminaire per year, payable in equal monthly installments for each disconnected luminaire, shall be 40 percent of the yearly rate set forth above provided, however, that should any such disconnected luminaire be reconnected at the customer's request after having been disconnected for less than six months, the yearly rate set forth above shall be applicable to the period of disconnection. An \$8.00 disconnect/reconnect charge will be made per luminaire at the time of disconnection except that when the estimated disconnect/reconnect cost is significantly higher than \$8.00, the estimated cost per luminaire shall be charged.

At the customer's request and subject to charges in addition to the annual charges per luminaire set forth above, the Company will install special streetlighting facilities in lieu of its standard overhead streetlighting facilities under the following conditions:

- (a) If special streetlighting poles are requested, the customer shall contribute to the Company the difference between the Company's estimated installed costs of such special poles and the Company's estimated installed costs of standard wood poles.
- (b) If underground streetlighting cable is requested, except that requested in conjunction with the Company's residential underground electric distribution policy, the customer shall contribute to the Company the difference between the Company's estimated installed costs of the underground streetlighting cable and the Company's estimated installed costs of standard overhead streetlighting conductors.

(Continued on Sheet No. 25.05)

RATE "SL-9"
(Continued from Sheet No. 25.04)

Yearly Rate: (Contd)

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill not paid within 30 days after its issuance.

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 electric energy, 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 generation or sale of electrical energy.

Contract:

Standard Streetlighting Contract, Form 548, initial term of contract five years, or more, and year to year thereafter until terminated by mutual consent, or upon twelve months' written notice given by either party. In case of new or added installations, requiring a substantial investment, the Company may require a contract for a reasonable period not exceeding ten years.

Special Terms and Conditions:

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

Hours of Lighting:

Streetlights shall be burning at all times when the natural general level of illumination is lower than about 3/4 footcandle, and under normal conditions this is approximately one-half hour after sunset until approximately one-half hour before sunrise.

HIGH-PRESSURE SODIUM STREETLIGHTING SERVICE (CUSTOMER-OWNED SYSTEM CONTRACT RATE "SL-10")

Availability:

Open to the State of Michigan or any political subdivision or agency thereof having jurisdiction over public streets or roadways, for streetlighting service where the Company has existing distribution lines available for supplying energy for such service.

Nature of Service:

Except for control equipment which will be furnished, installed and owned by the Company, the customer will furnish, install and own all equipment comprising the streetlighting system including, but not limited to, the overhead wires or underground cables between the luminaires and the supply circuits extending to the point of attachment with the Company's lines. All of the customer's equipment will be subject to the Company's approval. The Company will connect the customer's equipment to the Company's lines, supply the energy, control the burning hours of the lamps, provide normal replacement of luminaire glassware and lamps, and paint metal parts as needed; all other maintenance and replacement of the customer's equipment shall be paid for by the customer. The Company reserves the right to furnish such service from either a series or multiple system or both.

Yearly Rate:

The charge per luminaire per year, payable in equal monthly installments, shall be:

Nominal Rating of Lamps (One Lamp per Luminaire)		Rate per Luminaire
Watts	Lumens	
250	24,000	\$75.00
400	45,000	\$90.00

For energy conservation purposes, customers may, at their option, elect to have any or all luminaires served under this rate disconnected for a period of six months or more. The monthly installment for each luminaire so disconnected shall be waived during the period of disconnection provided, however, that should any such disconnected luminaire be reconnected at the customer's request after having been disconnected for less than six months, the yearly rate set forth above shall be applicable to the period of disconnection. An \$8.00 disconnect/reconnect charge will be made per luminaire at the time of disconnection except that when the estimated disconnect/reconnect cost is significantly higher than \$8.00, the estimated cost per luminaire shall be charged.

(Continued on Sheet No. 25.07)

RATE "SL-10"
(Continued from Sheet No. 25.06)

Yearly Rate: (Contd)

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill not paid within 30 days after its issuance.

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 electric energy, 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 generation or sale of electrical energy.

Contracts:

Standard Street Lighting Contract, Form 548; initial term of contract five years, or more, and year to year thereafter, until terminated by mutual consent or upon twelve months' written notice given by either party. In case of new or added installations requiring a substantial investment, the Company may require a contract for a reasonable period not exceeding ten years.

Special Terms and Conditions:

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

Hours of Lighting:

Streetlights shall be burning at all times when the natural general level of illumination is lower than about $\frac{1}{4}$ foot-candle, and under normal conditions this is approximately one-half hour after sunset until approximately one-half hour before sunrise.

TRAFFIC LIGHT SERVICE (RATE "TL")

Availability:

Open to the State of Michigan, or any political subdivision thereof, for filament and/or gaseous discharge lamp installations maintained for traffic regulation or guidance, as distinguished from street illumination and police signal systems. Where the Company's investment to serve an individual traffic light exceeds three times the annual revenue to be derived from such traffic light, a contribution to the Company shall be required of such excess.

Nature of Service:

Customer furnishes and installs all fixtures, lamps, ballasts, controls and other equipment, including wiring to point of connection with Company's overhead or underground system, as directed by the Company. Company furnishes and installs, where required for center suspended overhead signals, messenger cable and supporting wood poles and also makes final connections to its lines. If, in the Company's opinion, the installation of wood poles is not practical, the customer shall furnish, install and maintain suitable supports other than wood poles. Customer maintains equipment, including lamp renewals, and Company supplies energy for its operation.

Monthly Rate

2.75¢ per Kwh for all Kwh

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill not paid within 30 days after its issuance.

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 electric energy, 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 generation or sale of electrical energy.

Determination of kWh:

Monthly kWh shall be determined by multiplying the total connected load in kW (including the lamps, ballasts, transformers, and control devices) times 730 hours. The kWh for cyclical devices shall be 50% of the total kWh so calculated. The kWh for continuous, nonintermittent devices shall be 100% of the total kWh so calculated.

No reduction in kWh will be made for devices not operated 24 hours per day, or not operated every day; except that the kWh of devices used for the control of school traffic, and operated not more than 6 hours per day during the school year only, shall be 10% of the total kWh so calculated.

Contract:

Service may be supplied on informal request but, under special circumstances, the Company may require a term contract of reasonable duration.

Special Terms and Conditions:

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

STATE OF MICHIGAN
Office of the Michigan Public Service Commission

SS.

3-17-75

I, Earl B. Klomparens, Secretary of the Michigan Public Service Commission Do Hereby Certify,
That I have compared the annexed copy of the Dissenting Opinion of Commissioner
William W. Ralls in Case No. U-4576 dated January 23, 1975,

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Re: In the matter of the application of
CONSUMERS POWER COMPANY for authority
to increase its rates for the sale of
electric energy,

with the original, and that it is a true and correct transcript therefrom, and of the whole of such
original.

In Testimony Whereof, I have hereunto set my hand and affixed
the seal of the Commission, at Lansing, this 23rd
day of January in the year of our
one thousand nine hundred seventy-five.

Earl B. Klomparens

S T A T E O F M I C H I G A N
B E F O R E T H E M I C H I G A N P U B L I C S E R V I C E C O M M I S S I O N

* * * * *

In the matter of the application)
of CONSUMERS POWER COMPANY for)
authority to increase its rates)
for the sale of electric energy)

Case No. 4576

DISSENTING OPINION OF COMMISSIONER WILLIAM R. RALLS

(submitted on January 23, 1975 in opposition to
the final Rate Order issued on the same date)

I do not join in the decision of the Commission today to grant an additional rate increase to Consumers Power Company because the problems of the Company are not treated in a fundamental way by the Commission.

I do not doubt the need of Consumers Power Company for rate relief. Consumers may need more than the Commission grants, or it may need less. Unfortunately, the evidence before the Commission cannot serve as a basis for a rational decision on the actual amount the Company needs to meet its financial obligations and to provide adequate and reliable electric power.

What the record does provide is a basis to allocate any rate increase in a fair manner to customers. Unfortunately, this was rejected by the Commission and today's multi-million dollar rate increase is allocated unfairly to customers of Consumers Power Company with the small customers continuing to pay a higher price per unit of energy than the larger users. Today's massive increase passes costs on to consumers who are not themselves responsible for those costs. Today's action requires small users of electricity

to subsidize larger users of electricity.

In addition, the higher costs of power generation because of higher petroleum prices and the costs of plant breakdowns which are automatically passed on to customers through fuel cost adjustments only adds to the immediate need for rate reform to assure proper distribution of electricity costs.

The central task of this Commission is simply stated. We must insure -- to the extent that it is possible -- that the public now and in the future has adequate and reliable electric service, for in modern times electricity is critical to both our social and economic well-being. In order to meet this responsibility, the Commission must be able to answer two questions in every rate case:

- (1) How much electric power will be needed in the future, and for what purpose?
- (2) How much present and future investment is necessary to supply that amount of electric power, and what level of rates is likely to enable that investment to be made?

Though Michigan's consumers, businesses, and industries will be paying these increased charges, no one -- not the members of this Commission, nor its Staff, nor the officers of Consumers Power Company -- can make a reasonable judgement based upon the record in this case as to whether or not this award will permit the Company to meet Michigan's needs for energy in the immediate future at reasonable cost.

Will this rate award permit a prudently managed Consumers to undertake needed modernization and expansion programs to produce needed electric energy at the lowest possible cost consistent with reliable service? Will this award

permit Consumers to meet all of its financial obligations and attract needed capital in the competitive market place? Will this award permit Consumers to meet the legitimate service needs of its customers, and provide adequate maintenance of its equipment? Does this rate award permit this Commission to evaluate the future effectiveness of Consumers Power Company in meeting its obligations to the people of Michigan? I think the answer to all these critical questions is no, and I therefore will not join in this award.

I submit that no one can now make a determination based upon this record of the need for modernization and new construction of the Company's generation and transmission and distribution equipment, no one can make a determination upon this record of the capital needs of the Company, no one can quantify the increased income necessary to support needed additional equipment and employees. These are basic elements of the Company's operations which underpin financial vigor and adequate service. They are the proper responsibility of this Commission, as well as the management of Consumers Power Company.

Providing a rate award based upon faulty logic which fails to measure in a meaningful way the real needs of the Company and its appropriate future performance goals makes a mockery of our present process while assuring that the Company will not be held accountable in the future. All affected interests are ill-served. Based on the record in this case, the Commission cannot properly discharge its responsibilities to the public it represents, Consumers is kept in financial jeopardy, and the customers of the Company receive no assurance that their skyrocketing utility bills will purchase sufficient electric power for the future.

The Commission has now approved rate increases effective successively for 1972, 1973, 1974, and 1975. In each case there has been no assurance

that adequate resources have been provided to the Company; In each case no performance objectives have been publicly disseminated. Further, because there is no clear connection between the evidence presented, and the final decision, the Commission is unable to hold the Company accountable for the proper exercise of its public trust. The Company shares the Commission's duty to assure adequate electric power for Michigan. But absent a clear delineation in the rate case of the uses to which the increased revenues will be put, the Commission is without a clear set of guidelines upon which the performance of the Company can be judged. Each year the hole gets deeper, and as far as I can tell the prospective rescuers have neither plumbed the depths of the excavation nor conceived a plan for extricating the victim.

Instead of continuing on our present course, I propose that we turn our attention to articulating and quantifying the needs of Michigan's utilities, and their responsibilities to their customers. The traditional methods have been overtaken by the times, and we need a fresh start.

A Sick Company

Consumers Power Company is facing a crisis. It has already cut \$138 million from its construction program scheduled for 1975. Over a billion dollars of construction expenditure cutbacks have been projected through 1984. What will be the effect of these cutbacks on the economy of Michigan? What options are available to meet any impending crisis in electric energy supply?

The Company's financial base has been stretched to the breaking point. Its bonds have been severely downgraded. Common stock can't be sold at a reasonable price. Consumers Power must rely upon high cost short term money, and even this source is rapidly drying up.

Consumers Power Company suffers from a serious imbalance of generating equipment. Purchased energy and high cost generation must supply kilowatt hours that should properly be produced by lower cost base load generators. A primary base load unit, the Palisades Nuclear Plant, has been out of service since August, 1973, and its return to service remains problematic.

Mistaken Regulatory Approach

Our present system for deciding rate cases focuses on precisely the opposite set of circumstances than those which are pertinent to the Commission's ultimate responsibility. A rate case looks backward instead of forward. In this case, the foundation of the record is a minute and detailed depiction of the events which transpired at Consumers Power Company in 1973. We are told the amount of property owned by the Company on December 31, 1973. We are told the capital structure of the Company on December 31, 1973. The expenses of the Company from January 1, 1973 to December 31, 1973, are precisely set forth. And when all of those facts are compiled into the record, consuming 64 days of hearings, untold costs for the Company and the public, and enormous energy by the talented participants, we are no better off then when we began. We know nothing about the year 1975, for which we are setting rates, nor about 1976, 1977, and beyond, the years in which additional power will be required.

This problem is well exemplified by the year-end approach to ratemaking and the associated simulation of test year generation requirements on the basis of generation available at the end of the year. Even the technical experts can't agree as to what constitutes reasonable results.

It is necessary to simulate generating the year's electricity requirements with the generator inventory available on the last day of the test period to conduct a year-end rate case. This process, called redispatch, is

normally complex and subject to varying methodologies and critical generating assumptions. Redispatches may be conducted with simple displacement concepts involving only manual computation, or they may require complex programming and computer processing. This case included three separate redispatches, submitted for Commission consideration by the Company, the Staff, and the Intervenor Attorney General. Each of the redispatches has been subjected to trenchant criticism. The Company's manual application lacks thoroughgoing analysis of the detailed interrelationships between different generator outputs and the relevant cost considerations. The staff computer simulation provides a much better developed program of generator choice but it lacks explanatory power supporting the cost of the required outside purchased power. The Intervenor Attorney General provides a thoroughgoing and conceptually persuasive exercise, but he postulates extremely ambitious operating targets for the Company's generating units.

The revenue impact upon the total Company electric generation costs inclusive of fuel charges flowing from the three redispatches varies enormously. The Intervenor Attorney General concludes that a reduction in revenues of \$32,199,000 is called for by the redispatch, exclusive of any other adjustment. The Company would also decrease these revenues, the amount of its adjustment being \$9,171,000. The Staff concludes that an increase is required, in the amount of \$3,761,000. It should be noted that the Intervenor Attorney General and the Company used identical sales figures to calculate energy sold, while there was an insignificant variation in the Staff approach. Redispatch calculations and adjustments have been the subject of contention in prior cases before this Commission, though the earlier controversies have not yielded any reliable aids to choose among the existing alternatives.

Reconciliation of the three redispatches would be conceptually challenging. Nevertheless, the Commission today adopts the Staff approach, resulting in the highest possible rate award.

In addition, out-of-period adjustments are utilized which act to enlarge rate relief without rational reasons. A dramatic example of this is presented by the adjustments to test year wage and salary costs. The Company introduced into evidence increased wage costs incurred in 1973, arguing for recognition of these costs through a downward adjustment to net income. The Staff proposed a further adjustment to reflect wage increases in 1974. Intervenor Attorney General sought to prove that increased productivity would offset a portion even of the 1973 wage increases. He sought also to adjust average employment figures because of reductions in manpower experienced in the latter part of 1973, and in 1974. Nowhere was there a showing as to the number of employees truly required by the Company to conduct its business in an efficient and prudent manner. Nowhere was there a showing of the number of employees required assuming various levels of service to the customer. Under procedures which allow such neglect of the issues, a decline of confidence in the regulatory process is a practical reality that must be acknowledged.

Persuasive testimony showed that 85% of the 1969-1973 wage increases were indeed offset by increased productivity, and there was no controversy about the decline in Company payrolls. Nevertheless, both adjustments tending to reduce the rate award were rejected by the Commission today, and out-of-period wage increase was adopted. It is logically insupportable to couple the high average 1973 employment levels with the increased 1974 wage rates; nevertheless, adoption of such a proposition contributes to the rate increase awarded.

Treatment of Symptoms

Consumers Power Company requested an "earnings erosion" allowance of \$35 million. By so doing, it tacitly acknowledged that present procedures are not able to respond to the reality of today's financial problems. But rather than propose well conceived substantive solutions to the problem, it resorted to general representations of earnings deficiencies in the years 1972 and 1973. Nothing was placed on the record in a definitive manner to point to the specific causes of the earnings deficiencies. What would the deficiency have been if the Palisades Nuclear Plant had been fully operational? What is the prospect for cost changes under various levels of service to the customer? Is a rate increase the only viable option open to the Company for improvement of its financial situation? Nowhere in the record can I find answers to questions such as these which are basic to prudent and effective management.

Two justifications were advanced in support of this request. First, it was alleged that an earnings deficiency -- defined as earnings below the Commission authorized level of 12.12% on common equity -- existed in that amount in the years 1972 and 1973. Alternatively, it was alleged that the disparity between the growth of electric sales in the years 1971, 1972, and 1973 and the amounts needed to recover the added costs of providing those services justified an allowance of \$35,000,000 in this case.

Certainly one is entitled to wonder why a laboriously compiled record does not provide insight into or substantiation of a shortfall of the magnitude of 35 million dollars. The Commission's response in awarding approximately \$10,000,000 is equally mystifying. The figure has no concrete substantive basis in the record and is calculated by a method that has never seen the light of day of the hearing room.

One is forced to conclude that the Commission divined an additional need for Company revenues, and chose to provide those revenues by means of its \$10,000,000 earnings erosion allowance. Among the many arbitrary choices for making such an award, the Commission chose one that has the beauty of simplicity, simply multiplying the Company's total base by successive .1 factors until the desired dollars emerged from the other side of the equation.

Reliance upon out-of-period adjustments to reach intuitive judgments as to required revenues, although on the surface suspect, do begin with understandable and quantifiable recorded test year results. By contrast, so-called allowances for earnings erosion have not been shown to be based on the sort of substantive findings which can be evaluated for validity.

Today's Order contains both of these attempts at justification of the increase granted. It may very well be that the rate increase granted today is necessary. In my opinion, however, it cannot be justified on the basis of the record before this Commission

Needed Changes in Pricing Policies

The necessity for immediate reform in the pricing of electricity is made clear not only by today's award of 66 million dollars, but also by changes in the fuel adjustment clause which will assure that Consumers Power Company may be able to collect an additional 20 million dollars from customers in 1975. In addition, the changes in the fuel adjustment clause will assure that half of the costs of the breakdown of Palisades or possibly 25 million dollars will be passed on to the consumer in 1975 and the proposed higher petroleum costs of untold millions proposed by the President will be passed on to the consumer under the fuel adjustment clause in 1975. Therefore, it is critical that changes be made in the way these costs will be shared among classes of customers to assure that customers whose demand for electricity results in the

Company incurring these higher costs are required to pay their proportionate share of these costs. The record in this case presented ample evidence to make appropriate reforms in the pricing system to assure economic and fair distribution of these costs in 1975. Today's Order rejected this evidence and approved the pass-through of all these costs in 1975 in an unfair distribution pattern to customers.

The historic pattern of electric pricing is to favor the large commercial or industrial users with lower rates than are charged residential or small commercial users. The small customer pays a higher price per unit of energy consumed. The small users -- while consuming a relatively small amount of the energy produced -- account for a disproportionate part of the revenues paid to utilities.

Clearly there are some physical efficiencies in delivering energy to large users. Purchasing and maintaining the large distribution networks which characterize residential electric service is expensive. In addition, expenses are reduced using high voltage lines to deliver electric energy to large customers. Nevertheless, it is clear that these historical patterns of electric pricing result in a quantity discount scheme which heavily favors the large user. This pricing scheme does not encourage industry to develop energy saving technologies. Moreover, it now seems likely that economics of scale and technical improvements in the future will be insufficient to offset inflation and high incremental costs of additional electric generating capacity.

No one doubts any longer that energy is an increasing cost factor. Therefore, it is imperative that any Commission before pricing rate increases to users reform the pricing structure to assure that these increases are

paid for by customers who are causing the utilities to incur higher costs in the generation of electricity.

It is a fundamental principle of economics that a product must be sold at marginal cost in order that economic optimality is established. If the product is sold at precisely the cost of producing it, e.g., the marginal cost, then the transaction takes place under the ideal economic circumstances.

Time-of-day pricing is a "real world" adaptation of this fundamental economic tenet.

In this case virtually all parties agreed as to the theoretical applicability of such a pricing mechanism. The Environmental Defense Fund and the West Michigan Environmental Council presented two eminent economists who put forth the economic basis for the time-of-day pricing in a most eloquent and convincing manner.

The Staff of this Commission proposed a modification of the Company's industrial rate structure that was effectively a "first step" approach towards a time-of-day pricing mechanism. This proposal, although it did not meet the economists theoretically pure situation, was a step in the right direction. It set the stage for further evaluation of the time-of-day application in the real world situation. The time-of-day proposal as proposed would have created a clear incentive for large industrial customers to use electricity at times when it is least costly to produce. It would also have created a situation of improved equity between the "on-peak" (high cost) user and the "off-peak" (low cost) user.

We are surrounded by time-of-day pricing in various sectors of the marketplace. Easy to understand examples of time-of-day pricing are the discounted matinee tickets at the theatre (off-peak) and the premium hair-cut price on

Saturdays (on-peak).

The most common time-of-day pricing mechanism of public utilities is that practiced by the telephone industry on long distance calls. This system charges the on-peak caller a higher price than the off-peak caller. This mechanism has operated to the mutual benefit of the customers and the telephone company.

Time-of-day pricing is currently operative in the electric industry in Great Britain and France. In these cases it appears to have resulted in customer satisfaction and financial stability for the electric supplier.

Time-of-day pricing is also considered as the principal ingredient in electric rate reform by many experts in the energy field.

In spite of all of these advantages and endorsements, why aren't we establishing time-of-day pricing in this Order today? Unfortunately, for all of us, the applicant and a few industrial intervenors were successful in convincing my colleagues that we ought to "study" the concept, "sit" on the idea, and maintain the status quo.

In conclusion, although pricing alone will not be the panacea ending to all the ills of this Company or the electric industry, proper price mechanisms can substantially affect the buyers and sellers simultaneous decision in such a way as to ameliorate some of the current ills of our energy supply picture. For that reason, I heartily endorse the peak day pricing proposal as submitted by the Environmental Defense Fund and the West Michigan Environmental Council as the long term pricing policy objective. Additionally, I endorse the Commission Staff's proposal as a realistic "first step" towards time-of-day pricing.

Reform of Rate Proceeding

Without appropriate and rationally established rates, it is no longer

In the Company's interest to supply the increasing power needs of the public. The only viable solution for bringing public and private interests back into harmony is drastic and immediate reform of the whole process of regulation, if privately-owned electric utilities are to survive.

It is not yet too late to re-fashion our system to serve the interest of all the affected parties. We can have a system which enables the Commission to make reasoned and accurate decisions, which focuses on the power needs of the public and the financing necessary to supply those needs, and which gives the Company the opportunity to earn a reasonable rate of return.

This Commission must take a broad new look at tightening and strengthening the regulatory process so as to provide a reasonable approach for the addressing of the myriad of problems facing utilities in today's economy. Adversity, if viewed from a positive perspective, can serve as a catalyst to strengthen the ability of our utilities to more fully serve the needs of the public and to raise confidence in a regulatory process that must serve the public.

I believe that each applicant for rate relief coming before this Commission has the responsibility to present a case documenting total revenues requested and price structures needed for projected energy supplies.

I believe that the electric energy needs of this state must be quantified and articulated by appropriate Company witnesses so that the reasoning behind their decision-making is available for review. Quite obviously, the days of single option decision-making are over. The people are entitled to know the options available in this complex area of electric energy supply so that they can participate in their own energy destinies. This may mean a vast increase in the effort spent studying viable alternatives and evaluating the consequences of today's decision, but it is the only means available in these troubled

times to retain the faith of the persons who must pay the bill.

In my opinion, one of the most serious problems facing the regulatory-utility-consumer relationship is the development of straight forward procedures that address the real problems. Demonstrating absolute certainty may not always be a practical reality, but at the very minimum the public deserves rational procedures.

We must be presented with the dynamic facts facing the utility in its obligation to provide adequate service. Sales forecasts in the short-term and long-term must specify needs and underlying assumptions. This Commission must have alternatives for action. And it must have the necessary information to insure that it selects the route in cooperation with Company management that best fits the needs of the people of Michigan.

Such a constructive course of action would have two outstanding advantages. First, accurate information presented before the fact would allow the Commission to make meaningful choices, rather than receiving an out-of-date bill after the fact. Second, over time the Commission and the general public would have the opportunity to assess management's planning and performance, since utilities would have been provided with needed resources to meet stated objectives.

The Challenge to the Commission and Michigan's Electric Utilities in 1975

I cannot join in today's rate award which provides no assurance to the stockholder of Consumers Power Company or to the public that this money granted today will remedy the crisis now facing Consumers Power Company. Neither the Company nor the Commission meets the obligations with a rate award which is characterized by the Company itself as, "now inadequate." Such a rate award places an additional burden on the public without any assurance from the

Company that it will meet its financial obligations. Indeed, the management of Consumers Power Company cannot now be held accountable for its record in 1975 by this Commission. This Order only assures one thing: that rates will be higher for the customers of Consumers Power Company.

I voted for an interim rate award to this Company on September 16, 1974. As I stated at that time, I believed that the then incomplete record provided sufficient evidence of the Company's acute financial needs so as to justify the extraordinary step of interim relief. I wrote then that, "further evidence in the form of Staff's case in chief and that of intervenors will be necessary for knowledgeable decision-making." I still believe that further evidence is necessary if this Commission is to responsibly discharge its obligations to Consumers' customers, its investors, and the people of Michigan.


William R. Ralls
Commissioner

January 23, 1975
Lansing, Michigan

ISHAM, LINCOLN & BEALE
COUNSELORS AT LAW

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February 20, 1975

3-17-75

90
Mr. Michael Glaser, Chairman
Atomic Safety and Licensing Board
1150 17th Street, N.W.
Washington, D.C. 20036

Re: Midland Show Cause Proceeding

Dear Mr. Glaser:

In recognition of this Company's duty to furnish notice of any developments within the regulatory framework which have an incontrovertible bearing upon the subject matter of an on-going adjudicatory licensing proceeding, Consumers Power Company (Consumers) submits the following informational letter and requests that it be made a part of the record in the instant show cause proceeding.

Since the time of the Show Cause hearing in July of 1974, Consumers Power Company has been forced to severely curtail its 1975 construction budget. As a result, Consumers was required to reduce the construction budget for the Midland project for 1975 to approximately 65 million dollars. This budget reduction has forced Consumers to slow construction work at the Midland site and to extend the completion dates for these units by two years, to 1981 and 1982, respectively. The peak work force on the site last year consisted of approximately 983 manual, 293 non manual and 177 subcontractor employees. Due to the slowdown, however,

3045

these figures have presently been reduced to 173, 103 and 29, respectively.

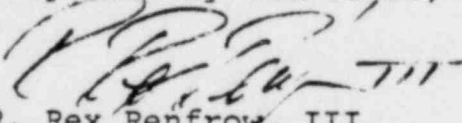
In view of this construction slowdown, a reduction in contractor manpower in the areas of design, procurement, construction, quality engineering, quality control, and quality assurance is consistent with the decreasing workload. Consumers has reviewed the changes made or proposed by Bechtel, and believes there will be no dilution of the overall quality program at the Midland site.

With regard to Consumers quality assurance program, Consumers has been implementing the suggestions made by General Electric Nuclear Engineering Services Apollo Group for reorganizing and upgrading the Company Quality Assurance Program Manuals. The Corporate Quality Assurance Program Volume I, "Policies," has recently been issued. A copy of this manual is enclosed. The training of new employees and the retraining of present employees has been accomplished and will be continued. In short, Consumers is continuing all of the commitments made in its Show Cause hearing testimony. It will continue to implement its quality assurance organization with the same depth of audit and surveillance activities as previously represented, despite the construction slowdown at the Midland site.

In conclusion, Consumers would again like to request that the Atomic Safety and Licensing Board (Board) take prompt and

appropriate action to finally terminate this show cause proceeding. An extensive inquiry into the Midland quality assurance program has been conducted and this Board has issued comprehensive findings regarding the issues set forth under the December 3, 1973 Order to Show Cause. Since the issuance of the Board's Initial Decision in September of 1974, this proceeding has been subjected to a number of attempts to unjustifiably delay its conclusion. No further delays are merited or should be tolerated. It is time to finally terminate this show cause proceeding.

Respectfully submitted,


R. Rex Renfrow, III
Attorney for
Consumers Power Company

RRR/lb

Enclosure

Dated: February 20, 1975

ISHAM, LINCOLN & BEALE
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Suite 4200
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cc: W/Encl.

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Myron M. Cherry, Esq.
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NRC: Region III

cc: W/O/Encl.

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Mr. Michael C. Farrar
Dr. Lawrence R. Quarles
Docketing and Service Section,
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February 24, 1975

3-17-75

Mr. Michael Glaser, Chairman
Atomic Safety and Licensing Board
1150 17th Street N.W.
Washington, D. C. 20036

Re: Midland Show Cause Proceeding

Dear Mr. Glaser:

In ALAB-184 the Appeal Board stated that a party has the duty of furnishing notice, "of any significant development within the regulatory framework ... which has an incontrovertible bearing upon the subject matter of the proceeding" to the other parties of that proceeding. This duty persists even though the evidentiary record may have been closed. On January 14, 1974, I informed you that certain changes had taken place in the Bechtel's portion of the Midland Quality Assurance Program since the Show Cause hearing. Although Bechtel does not believe that these changes are within the parameters outlined in ALAB-184, Bechtel nevertheless wishes to advise the Board regarding them, and to make this advice a part of the record in this proceeding. It is Bechtel's understanding that Consumers Power Company has had discussions with Region III concerning these changes.

Bechtel's Ann Arbor office has had a substantial cutback in the Engineering, Construction and Procurement activities which were in existence or in planning at the time of the Show Cause hearing in July, 1974. The Ann Arbor office had responsibility for six projects for two different utilities. Most of the projects, including the Midland project, for which the Ann Arbor office had Engineering, Construction and Procurement responsibilities have been suspended, cancelled or had their completion dates extended. As a result of the reduced level of activity at Bechtel's Ann Arbor office, there have been manpower reductions commensurate with the activities which have declined. In addition, there have been promotions and transfers in the ordinary course of business. The current manpower status at the Ann Arbor office will fluctuate depending on the amount of work to be performed by the Ann Arbor office. Due to the reduced level of activity, various levels of responsibility for the Midland project, formerly assumed by the Ann Arbor office, will be assigned to the San Francisco home office.

FEB 26 1975

C. P. Co. Legal

In addition to changes in manpower and personnel, Bechtel's Quality Assurance Program has continued to evolve since the Show Cause hearing. Some of these changes are programatic. For example, Procedure G-8, providing for certification of Quality Control personnel in accordance with ANSI M45.2.6 was added to the Field Inspection Manual and Procedure G-4 (Calibration and Control of Measuring and Test Equipment) was amended to change the responsibility for administration of the calibration program from Quality Control to Field Engineering in order to allow Quality Control to assume the pure quality function of inspection/surveillance of calibration lab activities. Some responsibilities of Quality Engineers have changed. For example, Quality Engineers are now responsible for indoctrination and training of Project Engineering personnel in the use of applicable Engineering procedures, but they no longer coordinate the design review and checking program (the Project Engineer has that responsibility now, thereby allowing Quality Engineering to assume the quality responsibilities of monitoring that program). A Bechtel Quality Assurance Department Manual containing detailed procedures for accomplishing Quality Assurance Department activities was issued effective January 1, 1975, and the Nuclear Quality Assurance Manual has been revised and upgraded to provide further policy definition. Other changes to Bechtel's Quality Assurance Program are procedural and were or will be initiated in some instances because of the reduced levels of activity or because of the transfer of responsibilities from Ann Arbor to San Francisco. For example, the monitoring of test lab activities will be continued on a part time basis since there is no longer sufficient test lab activity to warrant assigning a Quality Control Engineer to full time monitoring of those activities. Also, the functions of the Quality Control Training Coordinator will revert to the Project Field Quality Control Engineer since the reduced number of Quality Control Engineers at the job site now allows the Project Field Quality Control Engineer the time to undertake this responsibility directly. As above mentioned, however, there may be further changes depending on the level of activity in the future and any adjustments will be made as necessary.

In addition to the above, changes have occurred or will occur in the following organizations as noted:

QUALITY ASSURANCE

1. Quality Assurance Personnel

It is anticipated that the current level of seven (7) Quality Assurance Engineers assigned to Midland (the same number as at the time of the Show Cause hearing) will be reduced to a level commensurate with the 1975 Engineering and Construction activities.

Mr. Michael Glaser, Chairman
February 24, 1975
Page Three

QUALITY CONTROL

2. Ann Arbor Quality Control Supervisor

Mr. Zolly G. Tucker has been transferred from Ann Arbor to San Francisco, effective February 1, 1975. The functions for which Mr. Tucker was responsible have been assigned to a Project Quality Control Supervisor who is located in San Francisco. This transfer will necessitate various procedural changes to reflect the fact that the functions will now be supervised from San Francisco. However, there will be no reduced responsibilities or duties relative to the quality control functions.

3. Quality Control Staff, Ann Arbor

The Quality Control Staff in Ann Arbor has been transferred to San Francisco, and the Midland Project Field Quality Control Engineer will now receive any necessary support from the San Francisco office.

4. Project Quality Control Personnel

Because the jobsite construction forces have decreased from more than 1000 personnel to less than 200, the 29 field Quality Control personnel have been reduced to 13. It is anticipated that further reductions consistent with the decreased level of activity at the Midland site may occur in 1975.

ENGINEERING AND QUALITY ENGINEERING

5. Personnel

Consistent with the reduced level of activity at Midland, Engineering manpower has been reduced from 220 to 133 at the present time and further reductions may be made in the future.

6. Ann Arbor Supervisor of Quality Engineering.

The Ann Arbor Supervisor of Quality Engineering has been transferred to San Francisco effective February 14, 1975, and will become the Supervisor of Quality Engineering for the San Francisco Power Division. His functions and relationship to the Midland Quality Engineering Group will remain the same.

7. Quality Engineering Personnel

Consistent with the reduced level of activity, the Midland Quality Engineering personnel have been reduced from 7 Quality Engineers to 4.

Mr. Michael Glaser, Chairman
February 24, 1975
Page Four

Discipline Quality Engineering activities will be reorganized commensurate with reduced engineering activities.

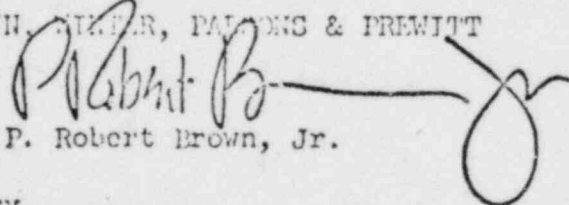
The issue before this Board was not whether any changes would ever be made in Quality Assurance activities at Midland or whether each change in Quality Assurance activities requires reopening of the Show Cause hearing. The changes which have taken place at Midland are outlined above and do not require further comment except to recognize that the fact of continued change in the Midland Quality Assurance Program was extensively developed in the record herein. The fact of continued change between administrative hearings, final agency action and judicial review was recognized by the Atomic Energy Commission as being "almost inevitable." However, such changes were not to trigger rehearings since "there would be little hope that the administrative process could ever be consummated in an order that would not be subject to reopening," In the Matter of Consumers Power Company (Midland Plant, Units 1 and 2), CLI-74-7, RAI 74-2 at 145 (February 5, 1974). See also, United States v I.C.C., 396 US 491, 520 (1970).

The precise issues before this Board were whether Quality Assurance activities were being properly implemented at Midland and whether there was reasonable assurance that they would be properly implemented in the future. This Board answered each issue in the affirmative and the matter is now complete except for Saginaw-Sierra's motion to reopen because of the Palisades lawsuit; which motion has been fully briefed and is awaiting decision.

As you can see, the above changes have resulted either from reduced levels of activity at Bechtel's Ann Arbor office or from the continued evolution of the Midland Quality Assurance Program. There will, however, be no reduction in the responsibilities and duties which comprise Bechtel's Midland Quality Assurance Program. Bechtel does not feel that these changes represent significant developments having an incontrovertible bearing on the subject matter of this proceeding and, accordingly, does not plan to advise the Board of similar changes in the future, unless the Board so requests.






Very truly yours,

CLARK, KLEIN, BAKER, PALMONS & PREWITT


P. Robert Brown, Jr.

c.c. Messrs. Murray, Luebke, Cherry,
Miller, Kornblith, Olmstead

CONSUMERS
POWER COMPANY
NATURAL GAS
SERVICE AREA

-  Service Area
-  Division Headquarters City
-  Storage Fields
Consumers Power Company
-  Storage Fields
Michigan Gas Storage Company
-  Gas Fields
Consumers Power Company

TRAVERSE CITY

GAS PRODUCING AREA IN NORTHERN MICHIGAN

Riverside Storage Field

Winterfield Storage Field

Cranberry Lake Storage Field

MICHIGAN

BAY CITY

SAGINAW

ALMA

FLINT

GRAND RAPIDS

Salem Storage Field

Overisel Storage Field

LANSING

MASON GAS PRODUCING AREA

KALAMAZOO

BATTLE CREEK

JACKSON

Ray Storage Field

Lenox Storage Field

PONTIAC

EAST DETROIT

ROYAL OAK

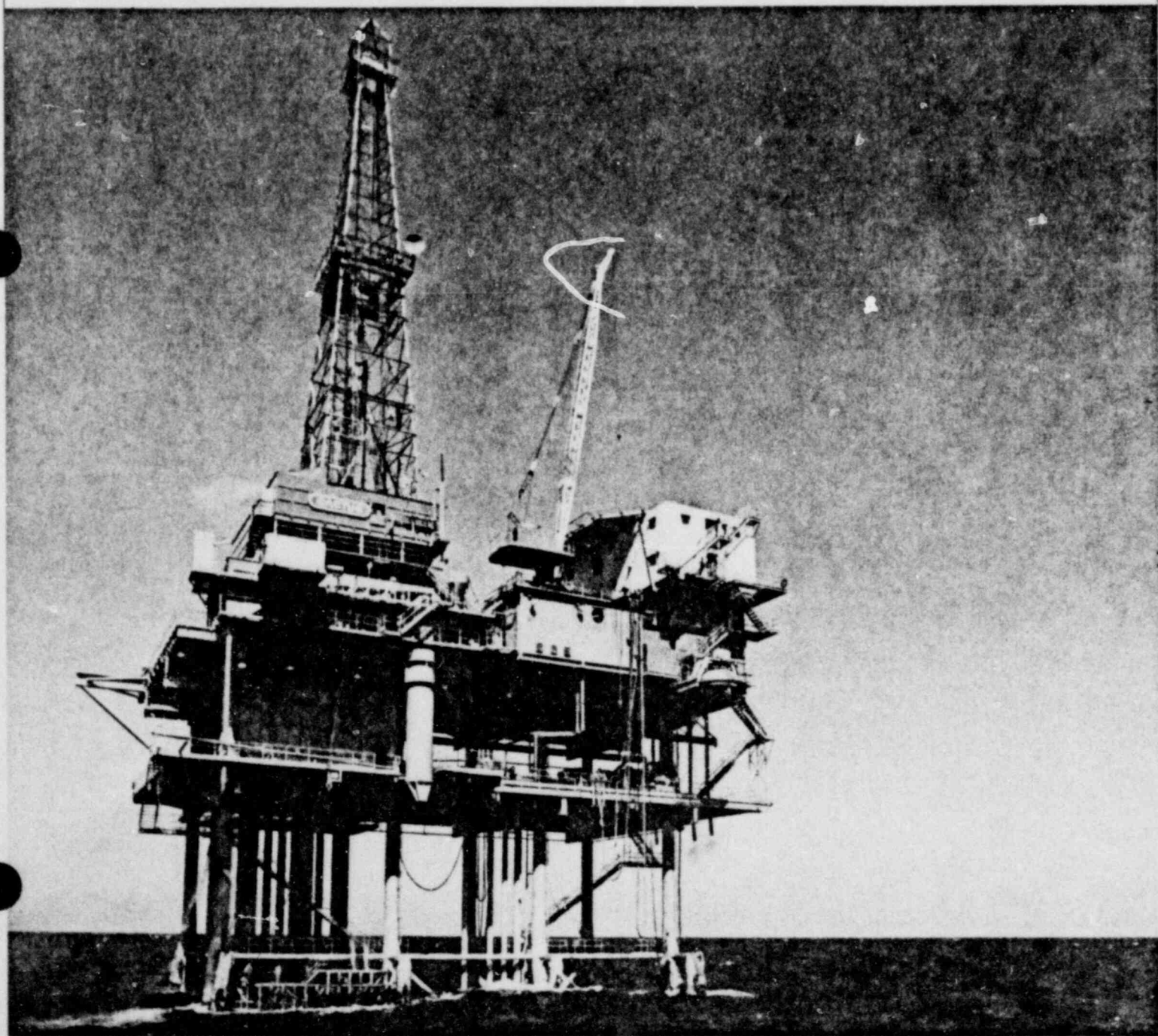
LIVONIA

Northville Storage Field

Puttygut Storage Field

Ira Storage Field

Consumers Power Company
212 West Michigan Avenue
Jackson, Michigan 49201



STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

3-17-75

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

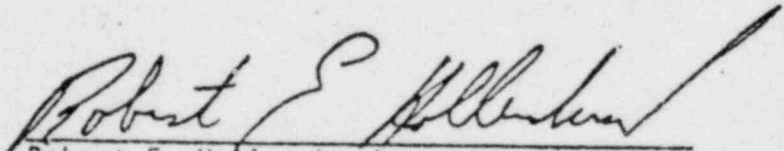
Case No. U-4576

NOTICE OF PROPOSAL FOR DECISION

The attached Proposal for Decision is being issued and served on all parties of record in the above captioned matter.

Exceptions, if any, must be filed with the Michigan Public Service Commission, Law Building, 525 West Ottawa Street, Lansing, Michigan 48913, and served on all other parties of record, no later than January 9, 1975, or within such further period as may be authorized for filing exceptions. An original and twelve copies of such exceptions are necessary to meet proper filing requirements, as well as proof of service on all other parties of record.

At the expiration of the period for filing of exceptions, the attached order will become the order of the Commission and will become effective unless exceptions are seasonably filed or the order is stayed or postponed by the Commission. To be seasonably filed, exceptions must reach the Commission on or before the date they are due.


Robert E. Hollenshead
Hearings Examiner

December 20, 1974
Lansing, Michigan

mc

3045

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)
electric energy)
_____)

Case No. U-4576

PROPOSAL FOR DECISION

On April 23, 1974, the Consumers Power Company (Applicant) filed its application in the above captioned matter.

The undersigned was duly appointed by the Commission to hear and preside throughout the proceedings in this matter. Except for the oral argument held before the Commission on August 30, 1974, the undersigned presided at all 55 days of hearings in this matter.

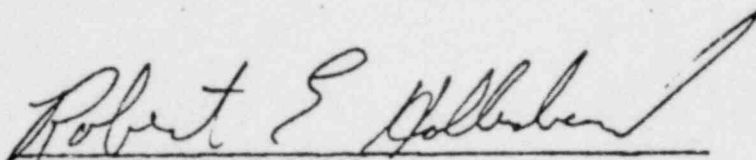
Pursuant to the provisions of Section 81 of the Administrative Procedures Act of 1969, as amended, (MCLA 24.281 et seq; MSA 3.560 (181) et seq.), this Examiner proposes as his Proposal for Decision the attached Opinion and Order in the form normally entered by the Commission in rate proceedings. The Examiner adopts and incorporates herein as his own the findings of fact and conclusions of law as set forth in said attached Opinion and Order.

It should be pointed out however, that in the event that the Commission, prior to the issuance of its Opinion and Order, approves a depreciation order for

plant obsolescence in a differing amount than that proposed by Applicant, this Examiner recommends that amount be substituted for the amount stated in the attached Opinion and Order, and that appropriate changes be made to the Opinion and Order reflecting said amount. In the event that the Commission entirely rejects Applicant's application for a depreciation order for plant obsolescence or has not acted on said application, the depreciation adjustment should be deleted and appropriate changes be made deleting the adjustment contained in the attached Opinion and Order.

Exceptions, if any, to this Proposal for Decision, must be filed with the Commission and served on all other parties of record, no later than January 9, 1975, or within such further period as may be authorized for filing exceptions.

At the expiration of the period for filing of exceptions, the attached Opinion and Order will become an order of the Commission and will become effective unless exceptions are seasonably filed or the order is stayed or postponed by the Commission, in accordance with the provisions of Section 81 (3) of the Administrative Procedures Act of 1969, as amended.


ROBERT E. HOLLENSHEAD
Hearings Examiner

December 20, 1974
Lansing, Michigan

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
CONSUMERS POWER COMPANY for authority)
to increase its rate for the sale of)
electric energy.)

Case No. U-4576

At a session of the Michigan Public Service Commission held at its offices
in the city of Lansing, Michigan, on the

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

OPINION AND ORDER

I.

HISTORY OF PROCEEDINGS

On April 23, 1974, Consumers Power Company (Applicant) filed an application in this matter requesting that the Commission conduct hearings and thereafter approve for Applicant additional annual revenues of at least \$72,159,000. 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 electric rate schedules designed to produce at least \$54,659,000 of additional annual electric 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 May 6, 1974, the Commission issued its Order and Notice of Hearing and

Notice of Hearing on Motion for Partial and Immediate Rate Relief (Order and Notice of Hearing) to which was attached summaries of Applicant's proposed rate changes and proposed electric rate schedules designed to produce the additional revenues requested. The Order and Notice of Hearing required that Applicant publish notice of hearing in the same newspapers throughout its electric service area and in substantially the same style and manner as the notice of hearing was published in Case No. U-4332. In addition, Applicant was required to mail a copy of the Order and Notice of Hearing to all cities, incorporated villages, counties and townships within its electric service area as well as to all intervenors or participants who had appeared in Cases Nos. U-4174 and U-4332, being the most recent two electric rate increase proceedings of Applicant.

The Order and Notice of Hearing established the following hearing dates:

1. June 6, 1974, in Lansing, an initial hearing being in the nature of a Prehearing Conference.
2. June 25, 1974, 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 7:00 p.m. on such date.
3. July 15, 1974, in Lansing, for the purpose of commencing cross-examination of Applicant's witnesses.

The initial hearings proceeded as scheduled. A second initial hearing in the nature of a prehearing conference was held on June 21, 1974. Cross-examination of the direct testimony of Applicant's witnesses commenced on July 15, 1974 and continued until completion on August 5, 1974.

On August 5, 1974, 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 electric rates designed to produce at least \$54,659,000 of additional, annual revenue from electric operations.

After due notice, cross-examination of the Investigation and Report submitted by the Commission Staff (Staff) and oral argument on Applicant's motion for interim relief, the Commission on September 16, 1974, issued its order granting Partial and Immediate Rate Relief in the amount of \$27,624,000 annually. These increased revenues were to be obtained by an interim surcharge of 1.272 mills per kilowatthour applicable to all jurisdictional electric rate schedules except street and traffic lighting.

Cross-examination of the direct cases of Staff and Intervenor commenced on September 12, 1974 and continued until completion on October 16, 1974. In addition the direct testimony of Dr. Ralph Turvey, witness for the Environmental Defense Fund was cross-examined on August 19 and 20, 1974.

Cross-examination of the rebuttal phase of the case commenced on October 29, 1974 and continued through November 7, 1974. Additional evidence related strictly to billing demands of Applicant's industrial and commercial customers was presented on November 27, 1974.

On November 14, 1974, Applicant filed an Emergency Motion for Additional Partial and Immediate Rate Relief in the amount of at least \$27,035,000. Notice of Hearing was issued on November 15, 1974, and hearing on this Motion was conducted on December 5, 1974. No action has been taken by Commission on Applicant's request for additional interim relief.

Among the Intervenor who have actively participated in this case are the Attorney General of the State of Michigan, the Environmental Defense Fund, the West Michigan Environmental Action Council, the Michigan UAW-CAP and General Motors Corporation. In addition Myrtle Roby, Clyde Roby, Estelle Collins, Lucille Allen and Willie Mae Campbell, all of whom are rate payers of Applicant and recipients of public assistance, intervened as parties and were jointly represented by Legal Services of Eastern Michigan. Also, unsworn presentations under Rule 16 of the Commission's Rules of Practice and Procedure were made by the Public Interest Research Group in Michigan (PIRGIM), Dow Chemical Company, Upjohn Company,

Burdock, Inc., and Hooker Chemicals and Plastics Corporation.

A total of 101 exhibits were offered into evidence. There was a total of 55 days of hearings and the record of the case consists of 7,836 pages. Except for oral argument held before the Commission on August 30, 1974, Hearings Examiner Robert E. Hollenshead presided over all hearings held in this proceeding.

In order that the record of this proceeding would be freely available to the public in Applicant's electric service area, the Hearings Examiner directed Applicant to file a copy of the transcript of the proceedings, together with Applicant's exhibits, in a public library in each of the following communities: Jackson, Battle Creek, Kalamazoo, Muskegon, Traverse City, Alma, Lansing, Bay City, Flint, Saginaw and Grand Rapids.

Simultaneous briefs were filed in this case during the period of December 4 through December 6, 1974; no provision was made for reply briefs. On December 20, 1974, the Hearings Examiner issued his Proposal for Decision and Exceptions to the Examiner's Proposal for Decision have been submitted. There was no provision made for Replies to Exceptions to the Examiner's Proposal for Decision.

II.

DESCRIPTION OF APPLICANT

Applicant is a Michigan corporation with its principal office in Jackson, Michigan and is engaged, among other things, in generation, transmission, distribution and sale of electric energy. Applicant's service area includes all, or portions, of 61 counties in the Lower Peninsula of Michigan. Applicant serves more than 1,184,000 customers in 1,540 communities and townships through twelve operating divisions: Battle Creek, Northeast (Bay City), Central (Alma), Flint, Grand Rapids, Jackson, Kalamazoo, Lansing, Muskegon, Pontiac, Saginaw and Northwest (Traverse City).

III.

STATEMENT OF FACTS

Prior to the Order Granting Partial and Immediate Rate Relief on September 16, 1974, Applicant's rates for electric service were those authorized by the Commission on January 18, 1974 in Case U-4332, which utilized the twelve months ending December 31, 1972 as the test period.

During 1974, for the first time in many years, Applicant has experienced a decrease in electric sales. After 1974 Applicant expects growth to continue but at a lesser rate than in the past. Over the five-year period, 1974-1978 Applicant forecasts sales to increase 20% over 1974 sales.

To provide sufficient facilities to meet the projected growth, Applicant plans to invest \$1.9 billion in electric plant construction during the period 1974-1978. The \$1.9 billion reflects a reduction from \$2.7 billion originally planned for investment in new plant. The reduction results from Applicant's cancellation of its Quanicassee Nuclear Reactor Facility and deferral for one year of its Campbell #3 unit.

The record discloses that in order for Applicant to finance its construction program it will need to issue substantial amounts of new securities over the next few years. Presently, however, Applicant's financial standing is depressed to such a degree that it is unable to raise necessary capital by issuance of bonded indebtedness or preferred or common stock. In order to meet increased demands for electricity Applicant must be in a financial position to issue such securities.

IV.

TEST PERIOD

In each rate proceeding, it is necessary to select the test period and to adjust the operating results of this test period for changes in revenue and cost levels so

that the adjusted operating results of this test period will be representative of the future, and thereby afford a reasonable basis upon which to predicate rates which will be effective during a future period. In this proceeding, all parties, including Staff, adopted the twelve months ending December 31, 1973 as the test period. The Commission also adopts the twelve months ending December 31, 1973 as the appropriate test period in this proceeding.

Staff, in addition to utilizing calendar 1973 as the test year, also looked forward to "significant known changes" for a period of nine months beyond the test year in order to provide a more current view of Applicant's financial condition. The Commission will give due consideration to Staff's approach to "significant known changes" as is hereafter set forth in this Opinion and Order.

V.

POSITIONS OF THE PARTIES

At the outset, and before discussing the major issues in this case, the overall positions of the various parties as well as the major areas contested are indicated in this section. To properly accomplish this, a brief and very fundamental discussion of a utility rate case is in order.

A utility rate case involves the determination of certain major matters prior to reaching conclusions as to the rates that should be charged to a utility's customers. First, a rate base should be selected to which an appropriate rate of return is applied. Next, the income of the utility is measured against this figure to determine whether the utility is earning its authorized rate of return. If the utility is earning less than its authorized rate of return, this indicates that the utility has a revenue deficiency and therefore its rates should be increased. If the utility is earning more than its authorized rate of return, a decrease in rates is in order. The final element of a rate case concerns rate design, or a determination of

what rates should be charged to the utility's various classes of customers.

In the instant case, only Applicant and Staff discussed all of the major areas. The Attorney General contested the matter of rate base, rate of return, net operating income and revenue deficiency but did not contest the matter of rate design. The Michigan UAW-CAP, although it did not actively participate in the case to the degree that the Attorney General did, takes the exact same positions on the issues as the Attorney General. Therefore, during the discussion of this case, only the Attorney General will be mentioned, but it should be noted that this also represents the positions taken by the Michigan UAW-CAP. Intervenors Myrtle Roby et al, while they did not actively contest the various issues in the case, took a position opposed to any rate increase.

The remaining intervening parties, the Environmental Defense Fund, the West Michigan Environmental Action Council and General Motors Corporation, took no position as to the appropriate level of revenues Applicant should earn but, instead, contested the matter of rate design. Likewise, the Rule 16 participants, PIRGIM, Dow Chemical Company, Burdiox, Inc., and Hooker Chemicals and Plastics Corporation also only were concerned with the matter of rate design.

In order to avoid problems basically related to coping with inflation and therefore to attempt to ensure that new rates would earn Applicant its authorized rate of return, Applicant and Staff address the matter of "earnings erosion." Although the matter of "earnings erosion" will be separately discussed in this Opinion and Order, it is appropriate to mention at this time that Staff's policy of updating the test year by "significant known changes" nine months beyond the test year actually constitutes an attempt to address the problem of earnings erosion. As a result of Staff's approach, many of the figures it uses are higher than those of either Applicant or the Attorney General. Applicant approached the problem of earnings erosion by means of a separate earnings erosion allowance which will be later discussed in a

separate section. The Attorney General claims that Applicant has a revenue excess so therefore he deems that any provision for earnings erosion is not appropriate in this case.

VI.

RATE BASE

Applicant, Staff and the Attorney General all presented cases based upon a year-end rate base. In addition, the Attorney General also presented some testimony and exhibits utilizing an average year rate base approach. However, the Attorney General did not present complete information indicating all effects of an average year rate base nor did the Attorney General argue in his brief for use of an average year rate base. Since the Commission, in its Opinion and Order in Case U-4332 utilized a year-end rate base and since it does not appear that there is any actual dispute as to utilization of a year-end rate base, the Commission adopts the usage of a year-end rate base for this case.

The total amount of rate base presented by each party varies considerably as a result of the different approaches taken by the parties to the various issues which are hereinafter discussed. At the outset however, it is relevant to indicate the amount of jurisdictional rate base advocated by each party. Applicant claims that the appropriate jurisdictional rate base should be \$1,578,387,000; Staff claims that the appropriate jurisdictional rate base should be \$1,751,702,000; and the Attorney General claims that the appropriate jurisdictional rate base should be \$1,645,887,000.

As to the matter of determination of an appropriate rate base, the issues in dispute are as follows:

1. Whether net utility plant or a capital structure rate base should be adopted?
2. Whether an allowance for working capital should be included in the rate base?

3. What is the proper methodology for making separations to non-jurisdictional business?
4. Whether interest bearing construction work in progress should be included in the rate base?
5. Whether the portion of Applicant's investment in the Ludington Pumped Storage Plant which relates to sales to Commonwealth Edison Company of Illinois should be included in the rate base?
6. Whether Applicant's facilities used to serve its municipal pumping customers should be included in the rate base?

Other issues which may have an effect on the rate base, but are more appropriately covered in other areas of this order are discussed in this Opinion and Order. The effect of such issues on the rate base will be indicated in these sections.

Utility Plant vs. Capital Structure

The first major issue to be discussed concerning determination of an appropriate rate base is whether a net utility plant rate base or a capitalized rate base should be used. Determination of this issue has a definite effect on treatment of some of the other issues hereinafter discussed. Both Applicant and Staff proposed utilization of a net utility plant rate base; the Attorney General recommends using a capital structure rate base.

The Commission, in Applicant's last Rate Case No. U-4332 and in The Detroit Edison Company's last Rate Case No. U-4257, as well as in numerous other cases, used a net utility plant rate base. The Commission concludes that a net utility plant rate base appears more in accord with the requirements of MCLA 460.557 which provides for a return on ". . . all property used in the service" The Commission, therefore, determines, as it has in the past, that a net utility plant rate base is appropriate and will be used in this case.

Working Capital

Both Applicant and Staff included in their respective rate bases an allowance for working capital in the sum of \$43,312,000. This working capital allowance is based on the formulistic approach adopted by the Commission in past electric rate cases. The Attorney General, since he uses a capitalized rate base, does not provide for an allowance for working capital. In accordance with its past decisions, the Commission concludes that an allowance for working capital should be included in the rate base. The Commission further concludes that \$43,312,000 is the proper amount for this allowance.

Non-Jurisdictional Separation Methodology

The method utilized for separating jurisdictional from non-jurisdictional plants affects the ultimate determination of the jurisdictional rate base. Applicant and Staff differ on their approaches to this matter. Since determination as to the proper methodology to be used for separating jurisdictional from non-jurisdictional plant relates to net utility plant, the Attorney General did not present evidence on this issue.

Both Applicant and Staff's separation studies involve determination of the actual or relative use of Applicant's utility property. Both Applicant and Staff utilized an average twelve-month peak responsibility method for allocating jurisdictional and non-jurisdictional customers. However, Staff, unlike Applicant, allocated 25% of the demand charges on Applicant's generation and transmission facilities to the energy portion to meet the basic requirement that all customers should pay a part of the fixed charges on utility facilities used to render service to them.

Staff methodology is that which the Commission has followed in Case No. U-4332, as well as in numerous other cases. The Commission sees no reason to depart from utilization of Staff methodology for separation between jurisdictional and non-jurisdictional plant and, therefore, adopts Staff's methodology in this case.

Construction Work in Progress

Applicant, in the instant case, raises the issue as to whether construction work in progress should be excluded from its rate base. Applicant, contra to its position in recent rate cases, contends that interest bearing construction work in progress should be excluded from its rate base. On the other hand, Staff claims that interest bearing construction work in progress is properly part of Applicant's rate base.

Applicant's position concerning exclusion of interest bearing construction work in progress is coupled with its exclusion of allowance for funds used during construction from net operating income. Applicant argues that interest bearing construction work in progress should be excluded since, by so doing, this removes from determination of cost of service the anomalous results which arise if the rate base used to determine the allowance for funds used during construction is different from the overall authorized return. When the overall rate of return is greater than the rate used for allowance for funds used during construction, Applicant argues that it receives a windfall since cost of service is credited with the allowance for funds used during construction which is calculated using the lower rate while revenue deficiency is determined by the higher rate. Conversely, Applicant argues that when the allowance for funds used during construction rate is greater than the authorized overall rate of return, the customers receive a windfall and Applicant's investors bear the burden thereof. Applicant claims that the converse situation usually prevails today because the allowance for funds used during construction rate is based upon current costs which are higher than the embedded costs which are used to determine the overall rate of return.

Although Applicant's approach of excluding construction work in progress from the rate base coupled with exclusion of allowance for funds used during construction from net operating income appears attractive at first blush, the Commission favors Staff's position. Applicant unilaterally determines the rate for allowance for funds

used during construction. Also, Applicant's proposal, if adopted, would serve as an incentive for Applicant to record an allowance for funds used during construction rate at as high a rate as possible, which could be detrimental to future rate payers. Furthermore, Applicant includes allowance for funds used during construction as income on its books. Exclusion of this would cause a disparity between Applicant's books and the income shown for rate making purposes. Therefore, the Commission shall, consistent with its prior practice, continue to include construction work in progress in the rate base.

Sales to Commonwealth Edison Company
from Ludington Pumped Storage Plant

The Attorney General asserts that Applicant's portion of its investment in the Ludington Pumped Storage Plant which relates to sales from that plant to Commonwealth Edison Company of Illinois should be excluded from Applicant's rate base. According to the Attorney General, these sales, which are pursuant to a long-term contract, are non-jurisdictional since the Federal Power Commission (FPC) controls the price charged Commonwealth Edison Company. Both Applicant and Staff contend that the sales from Ludington Pumped Storage Plant are jurisdictional and, therefore, are properly includable in Applicant's rate base.

The Ludington Pumped Storage Plant is jointly owned by Applicant and The Detroit Edison Company. In Case No. F-180, the Commission determined that in view of the economic benefit derived by Applicant's rate payers as a result of installing all six units of that plant rather than delaying construction of two of the units until they could be wholly utilized by Applicant in Detroit Edison's systems, it was reasonable to treat sales of excess capacity to other utilities as jurisdictional sales.

The Commission agrees that sales from the Ludington Pumped Storage Plant to Commonwealth Edison Company should be treated as jurisdictional. The sales of a portion of the Ludington Pumped Storage Plant's capacity are not the same as sales for resale made a municipality, which sales are treated as non-jurisdictional. In the

Ludington Pumped Storage Plant situation Applicant merely files with the FPC a copy of the contract for such sales. In the case of sales for resale to municipalities, the FPC actually sets the rates for such sales.

Furthermore, there is no legal requirement that sales, such as from the Ludington Pumped Storage Plant, be excluded from Applicant's rate base. Faced with a similar issue, the Missouri Public Service Commission, In the matter of Union Electric Company, 81 PUR 3d 265, concluded in its report and order that:

"For rate-making purposes, the commission need not separate the revenues and expenses of the company on sales for resale and need not eliminate plant applicable to sales for resale from the rate base but may consider such in arriving at the overall rate base, overall revenues of the company, and such is the conclusion in this case."

Therefore, the Commission adheres to its determination made in Case No. F-180 and concludes that the portion of Applicant's investment involved with sales from the Ludington Pumped Storage Plant to Commonwealth Edison Company are properly includable in Applicant's rate base.

Municipal Pumping Facilities

The Staff recommends that the facilities which are utilized for municipal pumping rate operations should be treated as non-jurisdictional and, therefore, excluded from Applicant's rate base. On the other hand, Applicant claims that these facilities should be included in its rate base. Determination of this matter has an effect on the net operating income and will later be discussed in that section.

The basis of Staff's exclusion of municipal pumping facilities from jurisdictional treatment is that the municipal pumping service is presently governed by contractual agreement between Applicant and each municipality. At the time of filing this case Applicant had pending before this Commission an application to establish rates for these customers which would have made these sales jurisdictional. Subsequently, Applicant withdrew that application. Although Applicant has recently filed a new application for establishment of rates to these customers that application is still a matter yet to

be heard by the Commission. For these reasons, the Commission concurs with Staff and excludes from the rate base Applicant's facilities utilized for its municipal pumping customers.

Summary

The Commission, therefore, concludes that the rate base which is appropriate and proper for use in this case is as follows:

Net Utility Plant	\$ 1,776,813,000
Working Capital	<u>43,312,000</u>
Total Rate Base	1,820,125,000
Less Non-Jurisdictional	73,412,000
Net Jurisdictional Rate Base	1,746,713,000

This net jurisdictional rate base reflects the effect on the rate base of the Commission's treatment of the profit on reacquired securities which is discussed in Section VII., Rate of Return.

VII.

RATE OF RETURN

Rate of return testimony for Applicant was presented by J.A. Parker; Paul A. Carlson presented this testimony for the Staff and Hugh Larkin presented it for the Attorney General. Mr. Parker advocated use of an overall rate of return on 7.61%, Mr. Carlson recommended use of an overall rate of return on 8.06%, and Mr. Larkin recommended use of an overall rate of return of 7.528%.

It should be noted at the outset that all parties utilized a return on common equity of 12.12%, the same as approved in Applicant's last Rate Case No. U-4332. Therefore, the appropriate rate of return on common equity has not been an issue in this case. Accordingly and in view of the fact that the Commission recently determined 12.12% as a reasonable return on common equity, the Commission adopts 12.12% as the proper rate of

return on common equity in this case.

Capital Structure

Applicant and the Attorney General both utilized a capital structure based on year-end 1973. Staff, on the other hand utilized a 13-month average capital structure based on the test year ending December 31, 1973.

Applicant's capital structure presented by Mr. Parker consists of:

Total Debt	49.70%
Preferred Stock	13.45
Deferred Taxes	7.49
Common Equity	<u>29.36</u>
	100.00%

Staff's proposed capital structure presented by Mr. Calson is as follows:

Long-term Debt	49.23%
Notes Payable	1.51
Preferred Stock	11.04
Common Equity	30.62
Deferred Taxes	<u>7.59</u>
	99.99%

The Attorney General's witness, Mr. Larkin, proposed the following capital structure:

Long-term Debt	50.05%
Preferred Stock	13.54
Common Equity	27.83
Deferred Taxes	7.46
Customer Deposits	3.9
Reserve for Rate Refund	<u>.98</u>
	100.00%

Mr. Larkin's notably lower percentage of common equity results from his subtraction of \$16,631,000, which represents Applicant's investment in its subsidiary,

Northern Michigan Exploration Company, from Applicant's common equity. Mr. Larkin claimed that this investment should be deleted from the common equity portion of Applicant's capital structure since this investment constitutes risk capital involved in gas and oil exploration. As risk capital the Attorney General claims that it has a cost of not less than 12.12%, Applicant's common equity rate of return. Applicant and Staff oppose the Attorney General's exclusion from Applicant's capital structure the investment in Northern Michigan Exploration Company.

The Commission agrees with Applicant and Staff and, therefore, concludes that Applicant's investment in Northern Michigan Exploration Company is properly includable in the common equity portion of Applicant's capital structure. Applicant's investment in its subsidiary comes from general funds; it is not traceable to common equity funds alone. Furthermore, the Commission's refusal to exclude this investment from Applicant's rate base is in accord with the Commission's determination of this matter in Case No. U-4332.

The Commission concludes that Staff's 13-month average capital structure is the appropriate capital structure to be utilized in this case. It has the advantage of more nearly approximating Applicant's typical financial mix and is, therefore, not subject to the transient elements of a year-end capital structure.

Cost of Debt and Preferred Stock

Applicant and the Attorney General both show 6.27% as the proper embedded cost of debt. Both parties calculate this total debt as of year-end 1973 and both parties combined short-term and long-term debt in this figure.

On the other hand, Staff calculates long-term debt at 6.81% and calculates short-term debt at 11.656%. Staff's long-term debt, not only takes into account Applicant's debt as of year-end 1973, but also includes long-term debt issued in 1974. Specifically, Staff includes in its calculations issuance of \$34,700,000 of pollution control

venue bonds and a \$50,000,000 long-term note in June, 1974. Staff also includes a \$60,000,000 first mortgage bond issue in July, 1974 and a \$50,000,000 bond issue in August, 1974. Staff's short-term debt reflects cost of notes payable on July 31, 1974.

Both Applicant and the Attorney General determine that the embedded cost of preferred stock is 6.94% basing their determinations on year-end 1973. Staff determines that embedded cost of preferred stock is 7.40%, represented by cost of preferred stock at year-end 1973 and adjusted to reflect issuance of \$30,000,000 of preference stock in July, 1974.

The Commission finds Staff's figures for embedded cost of debt appropriate for use in this case since Staff's figure gives the most recent picture of Applicant's embedded cost of debt and preferred stock.

Job Development Investment Tax Credit

Applicant differs from Staff and the Attorney General as to the treatment afforded to the Job Development Investment Tax Credit. This issue concerns whether the unamortized balance of the Job Development Investment Tax Credit should be included in the common equity portion of the capital structure, as is recommended by Applicant, or whether these credits should earn the overall rate of return as recommended by Staff and the Attorney General.

This same issue also arose in Case No. U-4332 where the Commission decided in favor of Staff and the Attorney General. The parties cite the same basis for their respective conclusions as they cited in Case No. U-4332. The Commission sees no reason to change its decision on this matter and, therefore, will continue to treat the Job Development Investment Tax Credit as earning the overall rate of return.

Summary

As a result of the Commission's conclusions concerning capital structure, cost of debt and preferred stock, as well as the return to be earned by common equity, the

Commission determines that a fair and reasonable rate of return on Applicant's rate base is 8.06%. The calculation of this figure is set forth below.

<u>Type of Capital</u>	<u>Weight</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-term Debt	.4923	6.81	3.35%
Notes Payable	.0151	11.656	0.18
Preferred Stock	.1104	7.40	0.82
Common Equity	.3062	12.12	3.71
Deferred Taxes	.0759	-0-	-0-
Totals	<u>.9999</u>		<u>8.06%</u>

VIII.

ADJUSTED NET OPERATING INCOME

The test year net operating income of Applicant was \$87,459,000. Applicant and the Attorney General claim that the jurisdictional net operating income was \$84,385,000 and Staff claims that the net operating income was \$84,228,000. The \$157,000 difference results from the differing methodology used for separating jurisdictional and non-jurisdictional business. In view of the Commission's determination as to the proper methodology for separating jurisdictional and non-jurisdictional rate base, the Commission adopts Staff's recommended jurisdictional net operating income of \$84,228,000.

The adjusted net operating income, as determined by the various parties is as follows:

Applicant	\$ 85,519,000
Staff	114,309,000
Attorney General	131,728,000

Where the parties are in agreement concerning adjustments to net operating income no comment will be made regarding such adjustments. The discussion hereinafter concerns only those adjustments upon which the parties differ. In view of the differing methodology used for non-jurisdictional separation, the adjustments will be discussed

terms of net operating income except where otherwise indicated.

Michigan Franchise Tax

Applicant and Staff both proposed adjustments reducing net operating income in the amount of \$236,000 to reflect an increase in the Michigan Franchise Tax. This proposed adjustment is primarily related to Applicant's issuance of \$130,000,000 of preferred stock during the 1973 test period.

The Attorney General contends that no adjustment should be made for a franchise tax increase since this expense relates to 1974 rather than 1973 level of operations. Also, the Attorney General claims that the proposed adjustment is for the privilege of doing business in Michigan in 1974 rather than 1973.

The Attorney General disputed this adjustment in Case No. U-4332. The Commission in Case No. U-4332 decided against the Attorney General and it sees no reason to change its position in this case. The date of computation of the annual privilege fee is December 31, 1973 so, therefore, this reflects a known increase in expenses at the end of the test year. The Commission, therefore, allows the adjustment for the Michigan Franchise Tax increase proposed by Applicant and Staff.

Depreciation Adjustment for Plant Obsolescence

Both Staff and Applicant have made an adjustment in the amount of \$2,133,000 to reflect a reduction in net operating income resulting from a change in Applicant's depreciation rates.

The Attorney General opposes this adjustment since, as of the completion of hearings in this case, this adjustment did not represent a known change because the Commission had not yet approved any change to Applicant's depreciation rates. The Attorney General further opposes this adjustment since, even if the Commission were to approve a change in Applicant's depreciation rates prior to the issuance of an order in this case, this change would not take effect until 1975.

In view of the Commission's recent action in Case No. F-665 and in view of our

determination that rates should be based on as up-to-date cost figures as possible, the Commission adopts Applicant's and Staff's proposed depreciation adjustment for plant obsolescence.

Postal Rate Increase

Applicant and the Attorney General both recommend an adjustment decreasing net operating income in the amount of \$130,000 to reflect the postal rate increase effective March 1, 1974.

Staff opposes this adjustment because it does consider it a "major item" of expense which increased within a nine-month period beyond the end of the test year. In addition, Staff claims that nonrecognition of this postal rate increase might serve as an offset to possible increases in revenues or decreases in cost.

The Commission approves the proposed adjustment for postal rate increases. Staff's own witness, Mr. Charles Geyer, indicated on cross-examination that he has, in the past, recommended such an adjustment. He also stated that he would have made this adjustment in the instant case if it were not for the abovementioned Staff policy of adjusting only "major items" of expense.

The Commission has in the past approved adjustments for postal rate increases which became effective after the end of the test period. This is a significant known change which should be recognized.

Wage and Related Pension Cost Increase

Applicant, Staff and the Attorney General all recommend adjustments for increased wage and pension costs. Applicant recommends an adjustment decreasing net operating income in the amount of \$1,113,000. Staff's adjustment would decrease net operating income in the amount of \$2,910,000 and the Attorney General's adjustment would decrease net operating income in the amount of \$203,000.

Both Applicant and the Attorney General's adjustment take into account wage and

pension cost increase through February 2, 1974. The Attorney General, however, deducts from this amount \$1,113,000 on the basis that Applicant could offset 84.6% of the increased cost because of increased productivity.

Staff, on the other hand, based its increase on wage and related pension costs through September, 1974. Staff conducted an offset study of the wage and pension cost increase and, although it found that there was an increase in employee productivity, determined that no reduction should be made to its adjustment since cost level increases could not be offset without depressing the earned rate of return on Applicant's common equity.

In addition to its position mentioned above, the Attorney General contended that if the Commission utilizes Staff's adjustment, this adjustment should be decreased \$1,069,000 to represent a reduction in Applicant's employment level from 1973 to 1974.

The Commission concludes Staff's proposed adjustment should be adopted since it reflects the most current information concerning Applicant's wage and related pension costs. The Commission further concludes that this adjustment should not be reduced to reflect offsets based on productivity since Staff's study indicates that Applicant was unable to offset any cost level increases without depressing Applicant's earned rate of return.

In addition, the Commission rejects the Attorney General's proposed reduction of the wage and related pension cost adjustment reflecting a reduction in Applicant's employment level. Applicant's employment level reduction is the result of an austerity program caused by Applicant's financial difficulties. In addition, the Attorney General's reduction is speculative since it is calculated by averaging the salaries and wages of all of Applicant's employees without a study as to whether or not these employees were compensated in that amount. Finally, the proposed reduction was made without a study to determine whether any of the laid-off employees were construction workers whose salaries and wages are capitalized in capital accounts and, therefore,

not considered an operating expense of Applicant.

Profit on Reacquired Securities

Applicant adjusted net operating income upward in the amount of \$1,100,000 to reflect profit on its reacquired securities. Both Staff and the Attorney General propose an upward adjustment to net operating income in the amount of \$1,896,000. The reason for this difference relates to whether the profit on reacquired securities is to be treated as net after taxes, as recommended by Applicant, or whether the entire profit is to be added to Applicant's net operating income, as recommended by Staff and the Attorney General.

Under applicable provisions of the Internal Revenue Code, Applicant has the option of reporting the profit for tax purposes for the year in which bonds are purchased and paying the tax in that year, or of accruing the tax liability in a tax accrual account and paying the tax over a period of years. In recent years Applicant has elected to defer the tax payment. The Commission in recent cases, as a result of such election, has treated the gross rather than the net profit as an addition to revenue.

Contra to its earlier procedure, when Applicant filed its 1973 tax return in September of 1974, it reported the profit on reacquired securities as taxable income. Applicant indicated that it will continue to pay tax on the profit on reacquired securities if it receives favorable treatment on this adjustment from the Commission.

The Commission concludes that Applicant's proposed adjustments on its profit on reacquired securities is the proper one to be made. Staff's witness, Mr. Geyer, conceded that Staff's recommended adjustment was not consistent with Applicant's recognition of this profit as taxable. Mr. Geyer implied that a change in Staff's approach would be appropriate if Applicant consistently treated the profit on reacquired securities as taxable income in the year realized. Since Applicant has indicated it will continue to elect to treat the profit on reacquired securities as taxable, Applicant's

position is correct for this case. Furthermore, Applicant's payment of the tax on its profit on reacquired securities will enable it to take maximum advantage of the investment tax credit.

Income Tax Effect on Pro Forma Financing

Applicant, Staff and the Attorney General propose an adjustment to reflect the income tax effect of pro forma financing. Applicant recommends an adjustment that would increase net operating income in the amount of \$1,952,000. Staff recommends an adjustment increasing net operating income \$7,189,000 and the Attorney General recommends an upward adjustment of \$1,918,000.

According to Applicant, this adjustment should be based on the actual amount of interest-bearing debt attributable to the electric department on December 31, 1973. Applicant states that the adjustment should merely reflect that the year-end level of debt was greater than the average debt during the year and that the year-end rates were higher than the average rates.

On the other hand, Staff calculates the income tax effect of pro forma financing by taking the rate base, multiplying that by Staff's capital structure and then multiplying the product by Staff's cost of debt. The Attorney General uses the same approach as Staff but reaches a different result because of his smaller rate base, lower amount of debt and lower overall cost of debt.

Applicant argues that, in the event that the Commission adopts the overall rate of return of 8.06% recommended by Staff which reflects new security issues, the adjustment should be \$4,955,000. This adjustment is based on utilizing Applicant's method of computing the income tax effect of pro forma financing. Applicant claims that Staff's and Attorney General's method used for computing this income tax adjustment results in a hypothetical cost of debt and, therefore, hypothetical interest cost.

The Commission adopts Staff's adjustment for income tax effect of interest expense. This is the method which has been uniformly followed by this Commission.

Furthermore, since the rate base of Staff is larger than the invested capital, the resulting tax saving from this adjustment should accrue to the ratepayer.

Advertising

Staff and the Attorney General each make adjustments increasing net operating income for advertising expenses they did not deem to be proper to be charged to Applicant's ratepayers. Staff recommended disallowing \$195,000 of advertising expense and the Attorney General recommended disallowing \$298,000. Applicant opposes Staff's and the Attorney General's proposed adjustments.

The Staff claimed that the advertising it recommended disallowing did not fall within the three categories of advertising which it deems properly includable in the cost of service. These categories are:

- (1) Advertising related to public health and safety.
- (2) Advertising related to conservation of energy.
- (3) Explanations of billing practices, utility services, rates, etc.

The Attorney General claimed that one-half of Applicant's total expense for advertising should be excluded from cost of service. In support of this disallowance, the Attorney General indicated that Applicant had included substantial amounts in cost of service for institutional advertising expenses associated with the Big Rock and Palisades Information Centers, which amounts were no longer necessary since these informational centers have been closed. The Attorney General also supported its adjustment on the premise that the great majority of Applicant's advertising is image-building and does not benefit the ratepayer.

Applicant opposes Staff's and the Attorney General's adjustments on the basis that the excluded advertising is beneficial to both Applicant and its customers. Applicant also states that Staff's category of eliminated advertising includes advertising which the Commission in Case No. U-4332 permitted in cost of service. Furthermore, Applicant claimed that the annual cost of advertising that Staff proposes to eliminate amounts to

only 35¢ per customer.

Turning first to the Attorney General's recommended adjustment, the Commission finds no merit in the Attorney General's exclusion of 50% of Applicant's advertising costs. This exclusion is arbitrary and without any support in the record.

On the other hand, the Commission finds that Staff's proposed adjustment is meritorious and, therefore, adopts it. The Commission recognizes that such an exclusion is in variance with that part of its order in Case No. U-4332 which permitted as part of cost of service advertising that would:

"Describe any program or activity which will objectively benefit the ratepayer, including demand/supply studies and specific plans or identifiable projects to provide adequate supplies of utility services."

The Commission concludes that deletion from cost of service of the above-quoted advertising is warranted at this time. The Commission now concludes that this category of advertising is basically image building and does not afford any direct benefit to the ratepayer. Advertising which advises the ratepayer of the problems of complying with environmental standards and the problems of providing energy are not costs which should be passed on to the ratepayer. Advertising which indicates the cost and problems of air pollution abatement, reasons and expenses for cooling towers, efforts for reforestation, the need for construction of extra-high voltage lines, problems and promise of nuclear power and the importance of electricity to the economic well-being of the state inure more to the benefit of Applicant and its stockholders than to its ratepayers.

Therefore, the Commission now concludes that advertising which is permissible to be included in cost of service is that advertising which:

- (1) Advises the ratepayer of matters of public health and safety.
- (2) Promotes conservation of energy resources.
- (3) Explains billing practices, utility services, and rates to its ratepayers.

(4) Provides factual and objective data programs in educational institutions.

Although the Commission concludes that only the above-referenced advertising will be given cost of service treatment chargeable to the ratepayer, it does not restrain Applicant from disseminating other information, either through the news media or by means of advertising chargeable to its stockholders. However, in this era of energy shortage and cost consciousness the Commission believes it would be an injustice to charge ratepayers with the cost of advertising which is not directly beneficial to them.

Charitable Contributions and Donations

Both Staff and the Attorney General recommend increasing net operating income by \$26,000 to reflect elimination of all charitable contributions from cost of service. Applicant opposes this adjustment.

Applicant indicated that it had made considerable charitable contributions which it did not include in cost of service and that the sums involved herein represented dues paid to local, state and national chambers of commerce.

Consistent with its past practice as followed in Case No. U-4332, the Commission agrees with Staff and the Attorney General that such expenditures should not be credited to cost of service. This is not to infer that Applicant should not make charitable contributions if it so chooses as a matter of good corporate citizenship. It instead is to indicate that any such contributions should not be chargeable to Applicant's ratepayers, some of whom may not be in agreement with the particular contributions made.

Allowance for Funds Used During Construction

Both Staff and the Attorney General recommend that net operating income be increased by an adjustment reflecting an allowance for funds used during construction. Applicant opposes this adjustment for the reasons previously indicated relating to

Applicant's recommended exclusion of interest bearing construction work in progress from the rate base.

Staff recommends that net operating income should be increased \$15,523,000 as an allowance for funds used during construction and the Attorney General recommends an adjustment increasing net operating income \$18,184,000. Both Staff and Applicant utilized construction work in progress as of December 31, 1973 and utilized 7-3/4%, the allowance for funds used during construction rate in effect as of January 1, 1974, in calculating their adjustments. The Attorney General, however, also includes an additional \$1,845,000 of allowance for funds used during construction beyond that proposed by Staff in order to adjust to year-end levels.

The Commission rejects Applicant's exclusion of allowance for funds used during construction as an adjustment to net operating income for the reasons stated for rejecting Applicant's exclusion of construction work in progress. Specifically, Applicant alone determines the allowance for funds used during construction rate and, therefore, Applicant's approach would allow it to set the rate as high as possible, to the possible detriment of the ratepayers. Furthermore, Applicant's exclusion of allowance for funds used during construction for ratemaking purposes would result in treating it differently from Applicant's books where this allowance is recorded.

The Commission deems that Staff's method is the appropriate one to follow as it is consistent with the approach approved in Case No. U-4332, whereas the Attorney General's adjustment is not.

Electric Revenue Adjustments Applicable
to Year-End Level of Operations

Applicant and the Attorney General each reflect an adjustment of \$1,946,000 to net operating income to reflect increased electric revenues at the year-end test period level. This adjustment is based on the premise that 1973 actual sales would reflect the proper level of sales for the test period, but that the mix of sales would change to reflect a larger percentage of year-end sales to residential customers.

Staff, on the other hand, recommends that no such adjustment be made.

The Commission concurs with Staff that electric revenues should not be adjusted to reflect increased revenues at year-end. Staff compared Applicant's 1974 sales with its 1973 sales. As a result of this comparison, it is shown that Applicant's sales were down approximately 5% for the first five (5) months of 1974 compared with the same period in 1973 and were down 4% through August, 1974 from the same period of 1973. With an actual showing of decreased, rather than increased sales, an upward adjustment to revenues would be inappropriate.

Pumping Rate Increase

Applicant has proposed an upward adjustment to net operating income in the amount of \$341,000 which represents the income Applicant would have received if its March 5, 1974 filing for increased rates had been approved. The Attorney General accepted this adjustment and recognized it in his operating income. Staff opposes this adjustment for the same reason it recommended excluding municipal pumping facilities from Applicant's rate base.

In view of the Commission's exclusion of the municipal pumping facilities from Applicant's rate base, the Commission rejects this adjustment to Applicant's net operating income. Applicant withdrew its original municipal pumping rate filing. Although Applicant has refiled an application for increased pumping rates, the eventual outcome of this matter is unknown at this time. Any recognition of income in this case would certainly be speculative and, therefore, improper in our judgment.

Other Operation and Maintenance Expense Based on Year-end Level of Operations

Applicant, Staff and the Attorney General propose an adjustment decreasing net operating income for operation and maintenance expense based on the year-end number of customers. Applicant proposed an adjustment of \$622,000 net to operating income or \$604,000 to jurisdictional net operating income. The Attorney General accepted

Applicant's adjustment without comment.

Staff shows an adjustment of \$648,000 net of income tax or a jurisdictional amount of \$601,000. Both Applicant and Staff used estimated amounts. In its brief, Applicant accepted Staff's adjustment since the degree of difference between jurisdictional amounts was not material.

In view of Applicant's acceptance of the jurisdictional adjustment and the absence of comment by the Attorney General on the matter, the Commission adopts Staff's proposed adjustment.

Non-Jurisdictional Transactions With Commonwealth Edison

Consistent with his approach of recommending that Applicant's rate base exclude that portion of Applicant's investment in the Ludington Pumped Storage Plant which involves sales to Commonwealth Edison Company, the Attorney General recommends an adjustment to remove all recorded test year revenues and expenses applicable to these sales. This proposed adjustment would reduce Applicant's net operating income by \$4,201,000. Both Applicant and Staff oppose the Attorney General's adjustment.

In view of the Commission's rate base treatment of the Ludington Pumped Storage Plant, the Commission rejects the Attorney General's proposed adjustment. If Applicant's investment in that portion of the Ludington Pumped Storage Plant involved with sales to Commonwealth Edison Company is jurisdictional, the income realized from these sales should be included in Applicant's net operating income.

Unbilled Revenue

The Attorney General recommends an adjustment for unbilled revenue which would increase Applicant's net operating income by \$841,000. "Unbilled Revenue" concerns electric energy that has been provided to customers within a billing period, but which has not been billed to the customer by the end of the period. The Attorney General proposes this adjustment in order to properly match Applicant's revenue and expenses. Both Applicant and Staff oppose the Attorney General's proposed adjustment.

The Commission disallows this adjustment just as it disallowed the adjustment in Case No. U-4332. First, Applicant has not recognized this revenue on its books. Furthermore, Applicant is entitled, under the Uniform System of Accounts, to exclude this adjustment. Finally, this unbilled revenue is automatically realized in revenue the following year.

Billing Practices

During the rebuttal phase of the case, Applicant proposed an adjustment of \$1,402,000 to represent expense for the new billing practice rules for residential customers. Staff and the Attorney General oppose this adjustment.

Although the Commission recognizes that these new billing practices will constitute an additional expense, it rejects Applicant's proposed adjustment. This proposed adjustment is indeed speculative as obviously such rules were not in effect during the hearing in this case. Furthermore, Applicant has not conducted a study nor presented any convincing evidence showing the basis for its recommended amount of expense.

Redispatch and Fuel Adjustments

Applicant, Staff and the Attorney General all proposed redispatch related adjustments to normalize the actual 1973 electric operating results in terms of megawatt hours of generation and dollars of fuel cost to test year levels which could be deemed representative of how Applicant would operate its electric system during the period in which the rate level being set would be applicable. To accomplish this normalization these parties conducted redispatches.

Applicant's redispatch was performed by Mr. Joseph Brager, Staff's redispatch was performed by Mr. Kenneth Croy and Mr. Samuel Byers, and the Attorney General's redispatch was performed by Mr. Alexander Wiskup. All parties considered the following changes in Applicant's generating capacity in their redispatches: Palisades Nuclear

Plant was treated as being in service; the Weddock #7 Unit was in service for the entire year; the complete Ludington Pumped Storage Plant was considered in service for the entire year; and the Elm Street Plant was considered to be retired.

Both Applicant and the Attorney General utilized manual redispatches and directed their attention to Applicant's requirements and capabilities only. Staff, on the other hand, conducted a computerized redispatch of the Michigan Electric Coordinated System and, therefore, redispatched both Applicant's and The Detroit Edison Company's generating systems.

Applicant's proposed redispatch adjustment increases net operating income \$4,337,000. Staff's proposed redispatch related adjustments, on a composite basis, decreased net operating income \$1,803,000 and the Attorney General's proposed redispatch adjustments increases net operating income \$15,437,000.

In performing its redispatch Applicant first created a model to simulate actual 1973 for use as a standard upon which to judge its redispatch year. Applicant then performed its redispatch assuming the abovementioned changes in generating capability. Applicant assumed that hydroelectric and purchased power would remain constant. With these assumptions, megawatt hours were redispatched with the guideline that net generation added would displace 85% interchange and purchased power and the balance would displace fossil generation. When Applicant obtained the resulting megawatt hours that would be generated in the redispatch, it determined what additional power would have to be purchased. The cost of both its fossil fuel generation and purchased power were adjusted to 1973 year-end.

Staff's redispatch utilized the General Electric Single Area Production Cost System to perform its redispatch. Staff, like Applicant, performed a simulated dispatch or "base case" run in its redispatch. Staff's "base case" assumptions and input were taken from The Detroit Edison Company's books in order to produce a "run" which would yield results close to actual 1973. Staff's base case is based on 1974 using

average fuel cost and the priority list of December, 1973. The base case load model is not changed for the redispatch.

Essentially, the changes for Staff's redispatch included recognition of all additions or retirements of generating capacity occurring on or before September 30, 1974; the assumption that Palisades would have a capacity factor of 64.5% and that Monroe #3 and #4 would have a capacity factor of 59.7%; that the Ludington Pumped Storage Plant would float at economic dispatch within reasonable capacity factor limits and with Commonwealth Edison Company sharing in all outages; that May 1974 levels of fuel and purchased and interchange power cost would be used; and that maintenance would follow actual 1973 as close as reasonably possible with the exception that additional scheduled maintenance resulting from added generating capacity available would be recognized.

Staff's redispatch assumes no flow of economy energy between the Michigan Electric Coordinated System and third party utilities, as it assumed that energy would be generated within the system. Staff did, however, calculate the economy energy transfer from The Detroit Edison Company to Applicant under the redispatch. To arrive at the redispatch cost of this energy, the base cost to Applicant of \$10.22 per megawatt hour was multiplied by the ratio of the cost per kilowatt hour of fuel from the redispatch to the cost per kilowatt hour of fuel from the base cost. The resulting cost of economy energy was calculated at \$16.22 per megawatt hour.

After reviewing all of the matters presented, the Commission concludes that Staff's redispatch adjustment should be adopted for this case. Staff's redispatch, taken as a whole, appears to represent most closely what the actual results would be in terms of fuel costs and purchase and interchange power costs during the period of time the rates approved in this order would be in effect.

First, Applicant's redispatch of the Michigan Electric Coordinated System appears more realistic to actual fact since electric power for Applicant's customers is generated by means of economic dispatch of Applicant and The Detroit Edison Company's

generating units. Both Applicant's and the Attorney General's redispatch suffer from not taking this into full consideration. Second, Staff performed a computerized, rather than a manual, redispatch. A computerized redispatch, when properly performed as The Commission is convinced that Staff's redispatch was, can more accurately indicate operation of the various generating units of the Michigan Electric Coordinated System. The accuracy of the General Electric system's results were established by auditing these results to the book entries for the test year. This indicated that the system was less than 1% off from net generation and less than 1/2% off on fuel cost which is regarded as very accurate.

The Attorney General criticized Staff's redispatch on three major grounds: use of a 65% capacity factor for the Palisades Plant, pricing economy energy at \$16.22 per megawatt hour and the assumption that, in the instant case, Applicant would buy all of its economy energy from The Detroit Edison Company. Applicant, on the other hand, had no serious challenge to the use of Staff's redispatch. The major issues raised by the Attorney General shall hereinafter be discussed in detail.

The Commission concludes that 65% is the proper capacity factor for the Palisades Plant. Applicant, as well as Staff, utilized a 65% capacity factor for Palisades. The actual 1973 operating experience of Palisades, during the period it operated, was 64.7%. Palisades is obviously still within its break-in period and, as such, a 65% factor rather than the 80% capacity factor recommended by the Attorney General is appropriate. Also industry experience shows that all nuclear units in service for the 1960-1972 period experienced an average capacity factor of 64.5%.

The Attorney General cited an Atomic Energy Commission study published in January, 1974 indicating that nuclear units, after a three-year maturity, were operating on the average at approximately 80% availability. However, availability and capacity are not the same. Availability involves whether a unit is available for operation, whereas capacity involves not only whether the unit is available but also at what degree of

maximum capability it is operating. Also, although Palisades originally commenced operations in December, 1971, it has had many difficulties and, therefore, use of an 80% capacity factor is unrealistic.

The Attorney General also challenges Staff's redispatch on the grounds that Staff's pricing of economy energy at \$16.22 per megawatt hour was excessive. Actually, the record discloses that the price of \$16.22 to be quite reasonable since the price for economy energy from The Detroit Edison Company was \$20.36 per megawatt hour in June, 1974; \$21.15 per megawatt hour in July, 1974; and \$22.00 per megawatt hour in August, 1974.

The final challenge to be considered concerns Staff's assumption in the instant case that Applicant would purchase 100% of its economy energy from The Detroit Edison Company. The Attorney General sets this assumption against Staff's assumption in Case No. U-4570 that The Detroit Edison Company would sell Applicant only 30% of this power. Although this shows an inconsistency this inconsistency is not relevant to the instant case. Staff's presumption in the instant case is important only as a method of determining a reasonable expected cost that Applicant would have to pay for economy energy. As was earlier indicated, the price of \$16.22 per megawatt hour is indeed reasonable. Whether or not Staff's assumption is proper that The Detroit Edison Company will sell Applicant only 30% of this capacity is a matter for consideration in Case No. U-4570 and not in this instant case.

In addition to the reasons already stated for adoption of Staff's redispatch, the Attorney General's redispatch is, in particular, inappropriate for adoption in this case. As was previously indicated, the Attorney General's use of an 80% capacity factor for Palisades is unrealistic. Also, Mr. Wiskup utilized some of Applicant's generating units more than their maximum expected capacity and even utilized the Campbell #1 Unit at more than its actual availability. As a result, Mr. Wiskup's redispatch shows Applicant generating an inordinately large amount of power from its

on system. Furthermore, since Mr. Wiskup indicated an excessive amount of native generation he had to make increased usage of Applicant's higher cost units even though lower cost interchange power purchases were available. Also, the cost of the small amount of interchange power shown in Mr. Wiskup's redispatch was unrealistically low (\$9.53 per megawatt hour). Furthermore, Mr. Wiskup's use of Applicant's simulated dispatch was improper since his methodology for redispatch was fundamentally different from Applicant's approach.

In view of Applicant's lack of any real contest of Staff's redispatch and in view of the advantages of Staff's redispatch, the Commission does not find it necessary to discuss the reasons for rejecting Applicant's redispatch.

Summary of Net Operating Income Adjustments

The following is a tabulation of all of the adjustments made to the net operating

Income of Applicant:

NET OPERATING INCOME

Electric Net Operating Income	\$ 87,459,000
Annualize Electric Rate Increase	14,377,000
Group Hospital Insurance Increase	(211,000)
Employee Mileage Reimbursement Increase	(102,000)
Gasoline Increase	(36,000)
Research and Development	(304,000)
Year-End Depreciation Expense	(698,000)
Real and Personal Property Tax Increase	(2,747,000)
FICA Tax Increase	(172,000)
Elimination of Income Tax Deduction for Sales Promotion	(215,000)
Deductible Taxes Capitalized Based on Year-End Level of Operations	(174,000)
Proposed Increase in Appliance Repair Service Charge	106,000
Secondary Capacity Equalization	329,000
Michigan Franchise Tax Increase	(236,000)
Depreciation Adjustment for Plant Obsolescence	(2,133,000)
Postal Rate Increase	(130,000)
Wage and Related Pension Cost Increase	(2,910,000)
Profit on Reacquired Securities	1,102,000
Income Tax Effect on Pro Forma Financing	7,189,000
Advertising	95,000
Charitable Contributions and Donations	26,000
Earnings Erosion Allowance	-0-
Allowance for Funds Used During Construction	15,523,000
Electric Revenue Adjustment Applicable to Year-End Level of Operation	-0-
Sale of Ludington Pumped Storage Capacity to Commonwealth Edison	2,591,000
Pumping Rate Increase	-0-

Other Operation and Maintenance Expense Based on Year-End Level	
of Operations	\$(648,000)
Redispatch and Fuel Adjustments	(1,803,000)
Nonjurisdictional Transactions With Commonwealth Edison Company	-0-
Unbilled Revenue	-0-
	<hr/>
Total	\$116,318,000
Jurisdictional Amount	\$113,423,000

IX.

EARNINGS EROSION

Applicant requests in this case that it be granted an earnings erosion allowance of \$35,000,000. The Staff and the Attorney General oppose the granting of a separate earnings erosion allowance in their respective cases.

Although Staff has not recommended a separate earnings erosion, it has recognized the problem by its approach of considering certain changes in cost or revenues occurring up to nine months beyond the end of the test year. These changes which Staff has considered are as follows:

- (1) Reasonable quantifiable action resulting from other pending or completed proceedings that will become effective during the 9-month period.
- (2) Cost level increases arising from wages or property taxes to the extent they cannot be offset.
- (3) Changes in embedded cost of debt and preferred stock along with an adjustment for the income tax effect of the rate of return determination.
- (4) Changes in the rate used to compute the allowance for funds used during construction.
- (5) Changes in plant in service and construction work in progress as a result of new generating units going on line.

Furthermore, Staff also claims that an allowance for working capital constitutes an earnings erosion in the instant case.

By approving Staff's position of looking forward nine months beyond the test

or to approve major changes that are reasonably identifiable, the Commission recognizes it has, in effect, granted Applicant an earnings erosion allowance. The Commission, however, is not in accord with Staff's position that the allowance for working capital constitutes an earnings erosion in the instant case.

The Commission spoke of the matter of earnings erosion in Case No. U-4332 in which it stated at page 25 of the Opinion and Order:

"The Commission has expressed its concern in several recent rate orders as to how it can deal with the problem of utilities, particularly electric utilities, being unable to earn the authorized rate of return on common equity after a rate order goes into effect. Rising costs of operation, particularly labor costs in the case of telephone utilities and new investment and fuel costs in the case of electric utilities, have resulted in Michigan utilities earning less than the rate of return this Commission has found reasonable and authorized. To give this current problem a title, the Commission has called it 'Earnings Erosion'.

The current period of inflation and higher costs of new productive facilities has caused this Commission to grant one large rate increase after another over relatively short intervals in recent years. At some future point, if inflation and fuel cost increases abate or technological innovations increase productivity, frequent rate increases may become unnecessary. Until there is a cost break-through, however, electric utility rates will continually be forced upward and companies will experience earnings erosion. It is necessary for this Commission to reduce the impact of erosion, thus, assuring that the companies will be able to attract billions of dollars of new capital to Michigan to provide the state with adequate electric supply."

The problems causing earnings erosion which the Commission mentioned in its order in Case No. U-4332 continue to exist and in fact have increased. New generating plant which will come on line has a much higher cost per unit than the embedded cost of capacity. For instance, when Applicant's new unit, Karn 3, comes into service in the immediate future, the average investment per kilowatt of capacity will increase from \$104 per kilowatt of capacity depreciated in 1973 to \$178 per kilowatt of capacity.

The tremendous size and complexity of newer units has caused unusual difficulties obtaining operational reliability. For example, the Palisades Nuclear Plant has not yet operated as anticipated and its future is questionable. Although the Palisades

problem has been removed from this case by treating it as operating at 65% of capacity, the Palisades situation is illustrative of the problem.

Another facet of rising costs pointed out in Case No. U-4332 is the higher cost of financing being experienced by Applicant. The Commission's recognition of the very substantial interest cost incurred by Applicant in its 1974 issuance of debt by including this in Applicant's overall rate of return helps alleviate the problem. Furthermore, the recent reduction in interest cost is also helpful. Nevertheless, it is still most likely that the cost of issuance of debt, in the immediate and foreseeable future, will exceed Applicant's authorized rate of return approved in this case.

The problem related to the national energy crisis mentioned in Case No. U-4332 has in large part come to pass. Energy conservation programs have resulted in decreased sales and sales growth. The cost of fuel has risen drastically and much of this cost cannot be passed on to Applicant's customers by a fuel adjustment clause. Furthermore, the recent settlement between the coal industry and the United Mine Workers will undoubtedly raise the cost of coal in the immediate future.

Applicant has made definite efforts to decrease its costs by drastically reducing its construction budget and by decreasing its work force. In spite of these efforts the problem of earnings erosion increases as is most forcefully shown by Applicant's inability to issue debt, preferred and common stock.

For all of these reasons, the Commission recognizes that Applicant must be provided with an amount for earnings erosion even above that which has been indicated appropriate by Staff through its policy of recognizing changes nine months beyond the test year.

Applicant has indicated on the record that Staff's approach to earnings erosion does not recognize all changes causing earnings erosion. Mr. John Kluberg, Applicant's chief financial and policy witness in this case, pointed out that Staff's approach does not recognize approximately \$52,000,000 of net electric plant put into service during

the period January 1 to August 31, 1974. Mr. Kluberg further states that the rate of return requirement of this increased plant, plus related income and property taxes as well as depreciation, amounts to over \$11,000,000. Through interpolation he claims that this earnings attrition will be approximately \$16,500,000 by year-end 1974. Addition of this amount to Staff's revenue deficiency of \$56,068,000 would, according to Mr. Kluberg, demonstrate a revenue deficiency of \$72,568,000.

Although the Commission earlier indicated its denial of Applicant's proposed downward adjustment to net operating income to reflect expenses which will be incurred as a result of the new billing practice rules, the Commission recognizes that these will constitute an expense to Applicant. Even though this amount is not identifiable in precise amount, its effect on earnings erosion should be recognized.

The impact of earnings erosion is also indicated by Applicant's exhibits which have show that for the years 1971, 1972 and 1973 the extent to which earnings available have fallen short of the 12.12% rate of return authorized by the Commission. Although Staff argues that this approach to earnings erosion does not take into account an adjustment to annualize the effect of the rate increase in 1973 or the net cost of replacement power for the Palisades Plant in 1973, still sizable earnings erosion is indicated. Furthermore, the Commission is convinced that this problem has increased as indicated by Applicant's depressed financial picture.

The dismal performance of Applicant's stocks and bonds is readily apparent. Its interest coverage is below 2.0 times, thus prohibiting the issuance of any new bonds. New preferred stock cannot be issued since its after-tax preferred dividend ratio is well below the minimum 1.5 times required by its Articles of Incorporation. Applicant's earnings per share on its stock for the 12 months ending September 30, 1974 was only \$1.43 per share. Also, the price of Applicant's common stock has been below \$10.00 per share, the stock's par value. Applicant is legally prevented by the Michigan Business Corporation Act from issuing any common stock below its par value.

Therefore, as a result of the above considerations, in an attempt to improve

Applicant's financial picture, and so that both present and future ratepayers of Applicant may be provided with sufficient electric service at reasonable rates, the Commission concludes that an earnings erosion allowance of \$10,000,000 is properly includable in this Opinion and Order. In so doing, the Commission wishes to make it absolutely clear that it shall be watching Applicant closely to see that it makes good use of the increased revenues authorized in this Opinion and Order. Rightfully or wrongfully, Applicant has received substantial criticism for its financial performance and judgments in the recent past. Much of this criticism has been related both to the Palisades Nuclear Plant and the Marysville Gas Refinement Plant, which the Commission is presently investigating.

The Commission expects that Applicant will use the increased revenues in such a manner as to provide adequate electric service to its customers at the lowest possible cost. In the event that it does not, or that the Commission finds any of Applicant's decisions objectionable, the Commission shall not hesitate to let this fact be known to the citizenry and bring Applicant to task for its shortcomings.

X.

REVENUE DEFICIENCY.

The following table shows the revenue deficiency in Applicant's electric operations based upon the foregoing determination of the Commission in this Opinion and Order:

Rate Base	\$ 1,746,713,000
Rate of Return	8.06%
Required Net Operating Income	\$ 140,785,068
Adjusted Net Operating Income	\$ 113,423,000
Net Operating Income Deficiency	\$ 27,362,068
Tax Factor	2.086
Revenue Deficiency before Earnings Erosion Allowance	\$ 57,077,274
Earnings Erosion Allowance	\$ 10,000,000
Required Increase in Annual Revenues	\$ 67,077,274

XI.

RATE STRUCTURE

In the instant case, the matter of rate design is a highly controverted subject. The rate structures proposed by the various parties include, not only the more traditional approaches to electric rate design, but also innovative approaches such as "graduated" or inverted rates and rates based on time of day. Also controverted is the manner of applying cost to the rate structure. In addition to the concept of basing rates on average or historical cost, as has been traditionally used in the electric industry, the methodology of marginal cost pricing, or prices based on the increased cost of adding an additional kilowatt of energy to the system, has been presented and recommended for adoption. Adoption of inverted rates, time of day pricing or marginal cost pricing by this Commission would apparently be a first in this country.

Before discussing the specific recommendations made by the various parties, an indication of their overall positions is in order. First, Applicant proposes to remain within the overall structure approved by this Commission in Case No. U-4332. This

structure basically involves flat rates for residential customers and declining block rates for commercial and industrial customers, both of which are based on average cost methodology.

The Staff, on the other hand, recommends adoption of inverted rates for residential customers and time-of-day pricing for Applicant's primary industrial and commercial customers. The Public Interest Research Group in Michigan (PIRGIM) also advocated inverted rates for residential customers but more steeply graduated than proposed by Staff.

Intervenors' Environmental Defense Fund, Inc., and the West Michigan Environmental Council (hereinafter jointly referred to as EDF) recommended that the Commission adopt the theory of marginal cost pricing and also advocated rates based on time of day.

Intervenor General Motors, like Applicant, recommended retention of the average cost approach for setting rates as well as retention of declining block rates for commercial and industrial customers. General Motors also recommended reallocating any rate increases between Applicant's various classes of customers on the basis of equalized rates of return. Furthermore, General Motors supported the principal entitled "Zero Fuel" whereby only fixed costs would be assigned among the various rates; thus, removing the cost of fuel from rate design consideration.

Residential Rates

Applicant proposed residential rates that include a service charge and a flat energy charge. Applicant requests that the residential service charge be calculated in a manner consistent with the methodology adopted by the Commission in Case No. U-4332 so that costs of metering, service drop and customer billing would be covered in the service charge. Applicant claims that its proposed service charge covers these costs but the service charge proposed by Staff does not.

On the other hand, the Staff proposes "graduated" or inverted rates plus a service charge for the residential class of service. Specifically, the Staff proposes

graduation of the residential rates into three usage blocks: 0 to 500 kilowatt hours per month, 501 to 1000 kilowatt hours per month and over 1000 kilowatt hours per month. Under these rates residential users would pay more per kilowatt hour if usage is in the higher blocks than lower. Staff justifies its residential proposal upon a concept of revenue optimization by which Applicant may recoup its long-run costs.

Applicant challenges Staff's proposed rates as not consistent with cost of service methodology, that their customer impact is severe, that the rates may have adverse effects on certain of Applicant's lower income customers, that Staff's economic justification for graduated rates is incorrect and that the revenue impact of graduated rates is unclear in view of the current decrease in sales to Applicant's higher use residential customers.

Intervenor EDF, although it recommends marginal cost pricing, opposes Staff's proposed graduated rates. EDF claims that marginal cost pricing is not based on the amount of power consumed, but rather upon the time of its consumption. EDF also claimed that Staff's proposed residential rates would offer no incentive for rate-payers to shift consumption from on-peak to off-peak.

EDF, although it did not propose specific rates for residential customers, recommends an immediate study of the implementation of time-of-day rates for residential customers. It further recommends that optional time-of-day tariffs be made available to residential and other customers who are willing to bear the additional metering costs. Finally, it recommends usage of seasonal rates for Applicant's customers since Applicant and The Detroit Edison Company both economically dispatch their generating systems, and since the systems so dispatched have a summer peak.

The Commission concludes that Applicant's flat residential rates should be retained. The Commission's rejection of the concept of inverted rates proposed by

Staff and PIRGIM comes only after serious consideration. The Commission commends Staff and PIRGIM for providing this innovative approach for structuring rates but, at least, at the present time the Commission concludes that inverted rates are not advisable.

Although the studies conducted by Staff witness, Dr. Hasso Bhatia, indicated that during a five-year period the larger use blocks of Applicant's residential customers have been growing at a faster rate than the smaller usage blocks, projection of this into the future is questionable. During the past year anticipated growth in residential sales has not materialized. According to Applicant's study, it is the new and smaller user who contributed to growth during this period. Also, even during the five-year period of Dr. Bhatia's study the volume in customer growth came from the larger use blocks.

In addition, it is unknown whether inverted rates would effect an elasticity of consumption in the higher use blocks. If the higher use customers actually decrease their usage of electricity, as Mr. Climer's study indicates that they have already done, Staff's proposed inverted rates would not result in revenue optimization and might indeed have the opposite effect.

In addition to the question of revenue optimization, the Commission questions whether Staff's proposed blocks for its inverted rates are equitable. Although Staff has not proposed its graduated rates on the basis of income of its customers, some interesting comparisons may be made. Ratepayers owning second or seasonal homes could receive comparatively lower electric bills since each of their homes are separately metered. On the other hand, as was evidenced by the cross-examination of the Intervenor Mrs. Myrtle Roby, certain of Applicant's low income customers could receive comparatively high rates because of their relatively large usage of electricity. Furthermore, farmers, since they are high users of electricity and are under Applicant's residential rates, could have their bills substantially increased under Staff's

verted rates.

The Commission also seriously questions Staff's claim that its inverted rates would be a form of marginal pricing. EDF's witnesses, Drs. Cicchetti and Turvey, who strongly advocate the marginal price theory, soundly criticize use of inverted rates. Neither of these witnesses consider inverted rates as consistent with the marginal price theory. According to these witnesses marginal cost pricing is related to time-of-day pricing. Since electric plant must be built for the volume of electric consumption during peak usage, marginal pricing is not related to the growth of usage of a particular customer category.

In summary, the Commission rejects inverted rates for residential customers at this time since it is not convinced that revenue optimization will result from such rates. The Commission is not convinced that such rates are consistent with the concept of marginal cost pricing as is claimed by Staff and, finally, the Commission is concerned with the equity of Staff's proposed inverted rates.

Turning now to Applicant's request that the service charge be sufficient at least to include cost of metering, service drops and the customer service charge, the Commission does not deem it appropriate to increase the service charge to the level requested by Applicant. The Commission does find merit in Staff witness Mr. Abramson's comment that kilowatt hour sales have grown more rapidly than number of customers so that placing emphasis of a rate increase on the service charge is non-optimal in terms of future revenues.

Commercial and Industrial Rates

Applicant's proposal for commercial and industrial rates basically amounts to maintaining the existing rate schedule relationships and increasing the prices.

There are exceptions to this proposition, however. First, Applicant proposes to increase the rates of commercial and industrial space heating Rate GII and commercial and industrial water heating Rate H and simultaneously close these rates to new

iness. Second, Applicant proposes to eliminate commercial and industrial seasonal Rate G and place the customers currently taking that service into other appropriate commercial and industrial rates. Since there was no opposition expressed as to this latter proposal, the Commission approves it.

Staff, in comparison to Applicant, proposes substantial revision of Applicant's commercial and industrial rate structure. First, Staff proposes to apply flat rates to Applicant's commercial and industrial General Service Rate B. This proposal is based on a lack of showing as to any cost of service differentials between small volume and larger volume customers in that rate schedule. No participants in this case took exception with this proposal so the Commission therefore adopts it. Staff also proposes elimination of two blocks of Applicant's commercial and industrial Rate C. This proposal was based on the principle that this rate should be streamlined and only cost justified differentials should be maintained. No participants in the case took exceptions to this proposal so the Commission also approved it.

The major and most controversial rate proposals of Staff relate to Applicant's primary voltage commercial and industrial rates. Staff proposes that commercial and industrial Rates D, F and J be placed on time-of-day pricing and that revenues from these rates be diverted from energy charges to demand charges. Also, Staff recommends incorporating existing Rate F into its new proposed Rate D. In its time-of-day pricing system, Staff recommends that a four mill per kilowatt hour differential should exist between on-peak and off-peak energy charges. Staff also indicated that the demand charges on Applicant's existing primary and industrial and commercial rates are inadequate cost wise in comparison with the energy charges. Staff, therefore, has proposed to divert revenues from these energy charges to demand charges. As a result of that proposal, Staff claimed that Rate D was now appropriate cost wise for all types of customers in the primary service class, and therefore, the rationale for separate Rate F no longer existed. Accordingly, customers currently taking service

under Rate F should be incorporated into Staff's new proposed Rate D.

Staff takes exception with Applicant's proposal to sharply increase and simultaneously close to new business its commercial and industrial space heating and water heating Rates GH and H, since Staff claims that these rate classifications are potential users of a remote control service.

Although both Applicant and General Motors Corporation agreed with the theoretical concept of time-of-day pricing, both parties expressed objection to its adoption at this time. On the other hand, intervenor EDF expressed the opinion that time-of-day pricing for large commercial and industrial customers should be immediately implemented but claimed that Staff proposal was incorrect since it placed substantial portions of Applicant's revenues in demand rather than energy charges. The EDF took the position that virtually all of Applicant's revenues from such industrial customers should be received through a two-tiered pricing system which would provide for a single peak charge and off-peak charge.

Intervenor General Motors Corporation takes exception to the abovementioned EDF position and submits that elimination of demand charges would be counter-productive since customers would be given no incentive to control their level of maximum demands during the on-peak periods, thus worsening the system load factor and resulting in increased rather than decreased costs. Both Applicant and Staff agreed with General Motors Corporation in this regard.

Hooker Chemicals and Plastics Corporation, the Upjohn Company, Burdiox, Inc., and the Dow Chemical Company, which all made unsworn presentations under Commission Rule 16, take issue with Staff's position to eliminate existing Rate F. These corporations, all of whom receive electric power under Applicant's Rate F, claim that they, because of their uniform level of use would be unable to take advantage of a time-of-day pricing provision. These corporations also claimed that electric energy costs amount to a substantial portion of their total costs and that substantial price

Increases resulting from implementation of Staff's proposal to eliminate Rate F would discourage similar industry from locating in Michigan, as well as discouraging existing Rate F customers from staying in Michigan.

Another time-of-day disputed consideration concerns the appropriate selection of on-peak and off-peak hours. Staff urges the adoption of time-of-day pricing of a winter on-peak period of 5:00 p.m. to 9:00 p.m. and a summer on-peak period of 11:00 a.m. to 7:00 p.m. Staff also proposes that the same on-peak and off-peak periods be applicable to both demand and energy charges. The summer periods proposed by Staff include the months of March through September and the winter periods cover the period of October through February.

Applicant claims that Staff's proposed on-peak and off-peak hours are incorrect. Applicant claims that, in the event that the Commission implements time-of-day pricing, the on-peak period for energy charges should be broader than the on-peak period for demand charges. According to Applicant, the on-peak periods for energy charges should be 8:00 a.m. through 10:00 p.m. Monday through Saturday during the summer and winter period and the on-peak periods for demand charges should be 5:00 p.m. through 8:00 p.m. for the months of October through February, 10:00 a.m. through 5:00 p.m. for the months of May through August, and for the months of March, April and September the periods should be 10:00 a.m. through 3:00 p.m. and 5:00 p.m. through 8:00 p.m. These on-peak demand charges would be applicable to all weekdays and exclude Saturdays, Sundays and holidays.

Staff disputes Applicant's proposed separate on-peak demand and energy charges on the basis that on-peak demand and energy charges ought to pivot off the same time frame so as to not simultaneously provide incentives and disincentives with respect to customer demands and customer energy consumption.

The Commission concludes that time-of-day pricing, as basically proposed by Staff, should be instituted for Applicant's primary commercial and industrial customers.

This pricing concept, which will affect Rates D, F and J, is justifiable since no additional metering costs are necessary to establish such rates and since the cost of providing electricity is unquestionably related to the time of its usage. Time-of-day pricing offers the advantage of giving an incentive to customers to use their demands during more hours so as to improve their load factors. The use of different charges based on the time of day is not only advantageous to Applicant's customers by enabling them to reduce their bill by off-peak usage, but is also advantageous to Applicant since shifts in demand or energy from peak periods will be able to reduce Applicant's costs as well.

Although the Commission approves the time-of-day pricing concept, it rejects the proposal of EDF that fixed costs be rolled into the energy charge. The Commission likewise rejects the EDF proposal that the on-peak charge be set at the systems long-run marginal cost and the off-peak charge be set at the cost of providing energy during off-peak period. Although the Commission recognizes the marginal cost theory proposed by EDF, it also recognizes the need for moderation in instituting such an innovative pricing scheme as time-of-day pricing. Such a pricing system the Commission concludes, could have serious effect on the economic climate in Michigan. First, the EDF pricing scheme provides for a marked differentiation between on-peak and off-peak rates. Since most businesses operate at least in part during on-peak hours, drastic revision in working schedules would be necessary to take advantage of off-peak hours. Also, setting on-peak rates at long-run marginal costs would make such rates tremendously expensive since this would place on on-peak users almost the entire burden of bringing on line the tremendously expensive new generating units. Furthermore, the Commission rejects the concept of rolling energy and demand charge into one since this could have a serious effect on Applicant's system load factor.

The Commission rejects Applicant's proposal to have separate on-peak and off-peak hours for demand charges and energy charges based on time-of-day. It is the Commission's conclusion that this proposal would needlessly complicate rates and

would mitigate against customers taking advantage of such rates.

In view of Applicant's legitimate criticism of Staff's proposed hours for time-of-day rates, the Commission adopts those hours proposed by Applicant for demand charges.

The significant opposition to Staff's proposal to eliminate Rate F has convinced the Commission that Rate F should be retained. Rate F customers are to a large degree ideal for Applicant's system because of their high load characteristics. Because of these characteristics they utilize considerable electric power during Applicant's off-peak periods. It is also recognized that Rate F customers are by and large energy intensive and, therefore, electric energy constitutes a high proportion of their total costs. The Commission believes that Staff's proposal to eliminate Rate F, therefore, would increase their costs substantially to the possible detriment not only of these companies but to the state of Michigan.

However, in spite of the above conclusions, the Commission concludes that, for reasons already stated, Rate F customers should be placed on time-of-day pricing since the Commission concludes that even high load customers may have some ability to take advantage of Applicant's proposed off-peak hours. The Commission also concurs with Staff that these customers have not had their rates increased to a justifiable degree in recent past rate cases. Therefore, the Commission does approve a proportionally higher increase to Rate F than was recommended by Applicant.

The Commission does not concur with Applicant's proposal to close Applicant's commercial and industrial water heating Rates GII and G to new customers. These customers are potential candidates for remote control water heating and, therefore, a closing of this class would affect that possibility. In accordance with Staff's request, the Commission directs Applicant to present to the Commission, within 120 days after issuance of this order, a proposed method of performing an economic evaluation of the market feasibility of establishing remote control water heating.

Allocation of Rate Increases to Classes of Service

Intervenor General Motors Corporation takes exception to Applicant's and Staff's proposed allocations of the rate increases between the various customer classes. It is the position of this Intervenor that such an allocation as proposed by Applicant and Staff causes a further deviation from cost of service than which exists under the present tariffs.

Applicant claims that rate increases to the various classes of customers be based not only on cost of service, but also on value of service and rate history. Staff submitted an exhibit comparing current costs with new costs and submitted that as a result of that analysis weight should be given in the allocation of rate increase, not only to cost of service, but also to the consideration that new costs of power supply are roughly applicable on a per unit basis.

General Motors Corporation claims that the "zero fuel" concept should be considered allocating the proposed rate increase to the various customers. The "zero fuel" method would allocate revenues among the various rate classes on the basis of fixed costs alone. Fuel costs would be recovered entirely through a fuel adjustment charge.

The Commission rejects General Motors Corporation's request for a reallocation of cost simply on the basis of cost of service. The Commission concludes that historic cost of service is not the sole basis for allocating costs. In particular the cost of bringing new equipment on line is a major factor to be considered. Furthermore, since electric power is of universal importance to all of Applicant's customers, a reallocation which in effect would markedly increase Applicant's residential rates would be inequitable.

Turning next to the General Motors Corporation's proposal for "zero fuel" method of allocating revenues, the Commission rejects the same on the same basis primarily that it rejects General Motors' proposed reallocations of cost. That a "zero fuel" method would be beneficial to General Motors is readily seen. According to General

Motors, 27% of Applicant's revenues are related to fossil fuel costs. Furthermore, while only 21% of residential and secondary customers' usage is based on fuel cost, most 40% of the primary classes revenues are so related. Therefore, the "zero fuel" method would obviously inure to the benefit of the primary classes rather than the residential or secondary classes of customers.

Fuel Costs Adjustments

Applicant proposes to "zero out" the fuel cost adjustment clause in these rate proceedings based on fuel costs considered in Applicant's test year. This procedure results in no change in Applicant's revenues since it merely incorporates the fuel cost adjustment charges into the stated rates and resets the base price for future adjustments at the test year level. Since no party took issue to that position, the Commission, therefore, approves zeroing out the fuel adjustment clause.

Applicant also proposed that the fuel adjustment clause should be instituted on its street and traffic light rates. Staff took exception to this proposal. The Commission rejects Applicant's proposal to incorporate a fuel adjustment clause in its street and traffic light rates. Although in general fuel adjustment clauses are advisable for Applicant's customers, the Commission concludes that they are not justifiable for Applicant's street and traffic light rates. The fuel adjustment clause, because of its averaging characteristics, charges all customers for the same fuel cost change regardless of whether they consume electricity on-or off-peak. As was earlier indicated in this Opinion and Order, fuel costs are greater on-peak than off-peak. Since street lighting customers predominantly use electric energy off-peak, inclusion of a fuel adjustment clause in these rates would result in these customers paying a higher price for fuel than costs justify.

Time-of-Day Pricing for Applicant's Customers

EDF recommends that not only should time-of-day pricing should be made effective

for Applicant's primary rate customers but, in addition, an on-line experiment should be implemented to gauge customer reaction and marketability of time-of-day applicability to Applicant's customer classes. As the Commission has earlier indicated, time-of-day pricing does have the definite advantage of equating rates with costs. However, the economic cost of instituting meters capable of registering electric usage by time-of-day would be a major drawback to implementing time-of-day pricing for other than the primary rates.

The Commission concludes that an on-line experiment concerning the feasibility of establishing time-of-day rates for other customer classifications would be advantageous and, therefore, directs Applicant to submit a plan for such an experiment to the Commission within 120 days of this order. Opportunity shall thereafter be given to interested parties to submit comments thereon.

Prompt Payment Discount

Staff has proposed that the existing prompt payment discount be excluded from Applicant's rates in view of the Commission's new billing practice rules. Therefore, the Commission finds that the prompt payment discount should be discontinued.

Appliance Repair Service

Applicant requests that it be authorized to set the level of appliance repair charges. No party has expressed any opposition to this proposed request. In view of the Commission's action in Case No. U-4257 granting The Detroit Edison Company the same authority requested by Applicant, the Commission deems that similar authority should be granted Applicant.

Therefore, the Commission hereby authorized Applicant to set the level of appliance repair charges; provided, however, that such charges shall be reasonably related to the actual expense of providing that service in order to achieve a basic break-even operation. Subsequent audits by Staff shall detail the revenue and expenses in this area so that the Commission may maintain continuous surveillance of this

shows excessive revenues or expenses in this area.

The Commission FINDS that:

- a. Jurisdiction is pursuant to 1909 PA 106, as amended, MCLA 460.551 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, have been complied with in that an Examiner's Proposal for Decision has been issued and the parties have been given opportunity to submit exceptions to this Proposal for Decision.
- c. A rate base for Applicant's electric operations of \$1,746,713,000 is just and reasonable.
- d. An overall rate of return of 8.06%, including a return on common equity of 12.12%, is just and reasonable.
- e. The adjusted net operating income for the test year in this case should be \$113,423,000.
- f. The revenue deficiency before earnings erosion allowance is \$57,077,274.
- g. The earnings erosion allowance should be \$10,000,000.
- h. Applicant is experiencing an annual revenue deficiency of \$67,077,274 and an increase in Applicant's electric revenues in that amount is reasonable and in accordance with other findings and conclusions contained in this order.
- i. The Order Granting Partial and Immediate Rate Relief issued by the Commission on September 16, 1974, approving electric rates on an interim basis pending the issuance of this order, was designed to produce additional annual electric revenues in the amount of approximately \$27,624,000. The collections of revenues by Applicant under these interim electric rates during the period from September 17, 1974 to the date of this order is hereby confirmed and Applicant's bond filed with the Commission to assure

refund is hereby cancelled.

j. An increase in Applicant's annual revenues in the amount of \$39,453,274 over and above the revenues increase granted to Applicant in the Order Granting Partial and Immediate Rate Relief is just and reasonable and in accordance with the findings and conclusions contained in this Opinion and Order.

k. The electric rate schedules attached hereto as Exhibit A will increase Applicant's annual electric operating revenues as authorized by this Opinion and Order and will result in just and reasonable rates and charges for the sale of electric energy and should be made effective for service rendered on and after

l. Applicant should be directed within 120 days of the issuance of this order to submit a plan for study of the feasibility of installing remote control water heating.

m. Applicant should be directed within 120 days to submit a plan for an on-line study of the feasibility of establishing time-of-day rates for all of its rate classes other than those rate classes which have time-of-day rate provisions.

n. All contentions of the parties not herein specifically determined should be rejected, the Commission having given full consideration to all evidence of record and arguments made in arriving at the findings and conclusions set forth in this Opinion and Order.

THEREFORE, IT IS ORDERED that:

A. Consumers Power is hereby authorized to revise its rates for electric service so as to provide an increase in annual electric revenues in the amount of \$39,453,274 over and above the electric rates approved by the Commission in its Order Granting Partial and Immediate Rate Relief dated September 16, 1974.

B. The rate schedules of the Consumer Power Company, attached hereto as Exhibit A, are hereby approved for electric service rendered on and after

C. In conformance with Commission Order No. D-3096, Filing Procedures, Consumers

Power Company shall promptly file with the Commission rate schedules substantially the same as those attached hereto as Exhibit A.

D. Consumers Power Company shall within 120 days of the issuance of this order submit a plan for studying the feasibility of installing remote control water heating.

E. Consumers Power Company shall within 120 days of issuance of this order submit a plan for conducting an on-line study of the feasibility of establishing time-of-day rates for all of its rates classes other than those rate classes which have been placed on time-of-day pricing by this Opinion and Order.

F. All contentions of the parties not herein specifically determined are hereby rejected, the Commission having given full consideration to all evidence of record and arguments made in arriving at the findings and conclusions set forth in this Opinion and Order.

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 require.

MICHIGAN PUBLIC SERVICE COMMISSION

Chairman

Commissioner

Commissioner

By the Commission and pursuant
to its action of

Its Secretary

STANDARD RULES AND REGULATIONS

(Continued from Sheet No. 5.04)

12. Application of Rates (Continued)

(f) Special Minimum Charges:

General Secondary Service Rate "B", General Primary Service Rate "B-1" and Secondary Resale Rate "R-1."

Where the customer is billed on open order Rate "B", open order Rate "B-1" or Secondary Resale Rate "R-1," and the use of service is seasonal or occasional, or where equipment which creates high demands of momentary duration is used, and the Company continuously maintains distribution facilities (including transformers for Rate "B" or Rate "R-1" customers) primarily for the customer's individual use, the sum of the net monthly bills, excluding the service charge included in the rate, shall not be less than the following minimum charge for each contract year or any part thereof.

For General Secondary Service Rate "B" or General Secondary Resale Rate "R-1":

\$7.00 per kva for the first 10 kva or less of required transformer capacity, plus
\$2.00 per kva for all over 10 kva of required transformer capacity.

For General Primary Service Rate "B-1":

\$3.50 per kva for the first 10 kva or less of customer-provided transformer capacity, plus
\$1.00 per kva for all over 10 kva of customer-provided transformer capacity.

When in any contract year, the customer's net monthly bills total less than the annual minimum charge, the difference will be billed and paid for at the end of such contract year. Customers subject to the above Special Minimum Charges shall sign a contract providing for such minimum charges for a term of at least one year.

(Continued on Sheet No. 5.05)

3045

SCHEDULE OF OFF-PEAK HOURS

Provisions governing the application of off-peak hour operation for the several rate schedules are as follows:

General Secondary Service Rate "C"

Demands created in the following periods shall be disregarded provided the billing demand shall not be less than 50% of the greatest demand whenever created in such periods, and in no case less than 100 kW:

- (1) Calendar months of November, December and January:
 - (a) Between 8:00 PM and 7:00 AM.
- (2) Calendar months of February to October, inclusive:
 - (a) Between 3:00 PM and 7:00 AM.
- (3) All calendar months of the year:
 - (a) Saturdays, Sundays and holidays designated by the Company.

Commercial and Industrial Primary Service Rate "D", High Load Factor Service Rate F, Primary Electric Furnace Service Rate "J", Primary Resale Service Rate "R-3"

Calendar Months of October through February:

- (1) The hours between 5:00 P.M. and 8:00 P.M. shall constitute the on-peak periods.
- (2) Demands created in the following periods shall be disregarded provided the billing demand shall not be less than 33-1/3% of the greatest demand whenever created:
 - (a) Between 8:00 P.M. and 5:00 P.M.
 - (b) Saturdays, Sundays and holidays.

Calendar months of May through August, inclusive:

- (1) The hours between 10 AM and 5 PM shall constitute the on-peak period.
- (2) Demands created in the following periods shall be disregarded provided the billing demands shall not be less than 33-1/3% of the greatest demand whenever created:
 - (a) Between 5:00 P.M. and 10:00 A.M.
 - (b) Saturdays, Sundays and holidays.

Calendar months of March, April and September:

- (1) The hours between 10:00 A.M. and 3:00 P.M. and 5:00 P.M. and 8:00 P.M. shall constitute the on-peak period.
- (2) Demands created in the following periods shall be disregarded, provided the billing demands shall not be less than 33 1/3% of the greatest demand whenever created.
 - (a) Between 3 P.M. and 5 P.M. and between 8 P.M. and 10 A.M.
 - (b) Saturdays, Sundays and holidays.

SCHEDULE OF OFF-PEAK HOURS

(Continued from Sheet No. 7.00)

Existing Facilities

Customers who, under the Company's rate schedules, are permitted to take advantage of the above off-peak hour provisions do so on condition that the Company will not be obligated thereby to increase the capacity of its existing facilities.

Holidays Designated by the Company

Holidays designated by the Company shall be those days observed as the following:

New Year's Day	Independence Day	Thanksgiving Day
Memorial Day	Labor Day	Christmas Day

and all Monday Holidays Observed by the Company

RESIDENTIAL SERVICE
(OPEN ORDER RATE "A")

Availability:

Open to any customer desiring service for domestic and farm uses, which include only those purposes which are usual in individual private family dwellings, or separately metered apartments, and in the usual appurtenant buildings served through the residential meter. This rate is not available for commercial or industrial service, or for resale purposes.

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

Nature of Service:

Alternating current, 60 hertz, single phase, 120/240 nominal volts.

Monthly Rate:

Service Charge: \$2.35 per customer per month plus,

Energy Charge: 2.90¢ per Kwh for all Kwh.

Water Heating Service:

When service is supplied to a Company approved water heater with a tank capacity of 30 gallons or greater, the rate of 2.40¢ per kWh shall apply to 400 kWh, but not to the first 250 kWh per month. This provision for water heating service is not applicable to the use of electricity as an occasional or seasonal substitute for another method of water heating.

Fuel Cost Adjustment:

The fuel clause adjustment shall consist of an increase or decrease of .0109 mill per kWh for each full .01 mill increase or decrease in the average delivered cost of fossil fuel burned monthly above or below 8.38 mills per kWh adjusted by the ratio of the monthly fossil fuel generation to the monthly net generation.

The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned.

(Continued on Sheet No. 8.01)

RATE "A"
(Continued from Sheet No. 3.00)

Monthly Rate: (Contd)

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 electric energy, 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 generation or sale of electrical energy.

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.

Service for single phase motors may be included under this rate, provided the individual capacity of such motors does not exceed 5 hp, nor the total capacity of 10 hp, without the specific consent of the Company.

RESIDENTIAL ELECTRIC HEATING SERVICE
(OPEN ORDER RATE "A-1")

Availability:

Open to any customer desiring service for domestic and farm uses, which include only those purposes which are usual in individual private family dwellings, or separately metered apartments, and in the usual appurtenant buildings served through the residential meter, provided the customer has permanently installed and uses electric heating equipment as the primary source of space heating in such dwelling or apartment. This rate is not available for commercial or industrial service or for resale purposes.

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

Nature of Service:

Alternating current, 60 hertz, single phase, 120/240 nominal volts.

Monthly Rate:

Service Charge: \$2.35 per customer per month plus,

Energy Charge: 2.90¢ per Kwh for the first 600 Kwh plus,
2.75¢ per Kwh for all over 600 Kwh during the months of
November through May,
2.90¢ per Kwh for all over 600 Kwh during the months of
June through October.

Water Heating Service:

When service is supplied to a Company approved water heater with a tank capacity of 30 gallons or greater, the rate of 2.40¢ shall apply to 400 kWh, but not to the first 250 kWh per month. This provision for water heating service is not applicable to the use of electricity as an occasional or seasonal substitute for another method of water heating.

Fuel Cost Adjustment:

The fuel clause adjustment shall consist of an increase or decrease of .0109 mill per kWh for each full .01 mill increase or decrease in the average delivered cost of fossil fuel burned monthly above or below 8.38 mills per kWh adjusted by the ratio of the monthly fossil fuel generation to the monthly net generation.

The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned.

(Continued on Sheet No. 8.03)

RATE "A-1"
(Continued from Sheet No. 8.02)

Monthly Rate: (Contd)

Tax Adjustment:

- (a) Bills shall be increased within the limits of political subdivisions which levy special taxes, license fees or rental against the Company's property, or its operation, or the production and/or sale of electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

The service charge included in the rate.

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.

Service for single phase motors may be included under this rate, provided the individual capacity of such motors does not exceed 7.5 hp, nor the total capacity of 15 hp, without the specific consent of the Company.

GENERAL SECONDARY SERVICE (OPEN ORDER RATE "E")

Availability:

Open to any customer desiring secondary voltage service. This rate is also available for service to any customer where the Company elects to provide one transformation from the available primary distribution voltage to another primary voltage desired by the customer. This rate is not available for auxiliary or standby service, for streetlighting service or for resale purposes.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Service Charge: \$3.25 per customer per month plus,

Energy Charge: 4.60¢ per Kwh for all Kwh.

Fuel Cost Adjustment:

The fuel clause adjustment shall consist of an increase or decrease of .0109 mill per kWh for each full .01 mill increase or decrease in the average delivered cost of fossil fuel burned monthly above or below 8.38 mills per kWh adjusted by the ratio of the monthly fossil fuel generation to the monthly net generation.

The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned.

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 electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

accordance with Rule 12(f).

Special Minimum Charges shall be billed in

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.

(Continued on Sheet No. 9.01)

GENERAL PRIMARY SERVICE
(OPEN ORDER RATE "B-1")

Availability:

Open to any customer desiring primary voltage service. This rate is not available for auxiliary or standby service, for streetlighting service or for resale purposes.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Service Charge: \$3.25 per customer per month plus,

Energy Charge: 4.00¢ per Kwh for all Kwh

Fuel Cost Adjustment:

The fuel clause adjustment shall consist of an increase or decrease of .0109 mill per kWh for each full .01 mill increase or decrease in the average delivered cost of fossil fuel burned monthly above or below 8.38 mills per kWh adjusted by the ratio of the monthly fossil fuel generation to the monthly net generation.

The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned.

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 electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

accordance with Rule 12(f).

Special Minimum Charges shall be billed in

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.

(Continued on Sheet No. 10.01)

**GENERAL SECONDARY SERVICE
(OPTIONAL RATE "C")**

Availability:

Open to any customer desiring secondary voltage service where the billing demand is 5 kW or more. This rate is also available for service to any customer where the Company elects to provide one transformation from the available primary distribution voltage to another primary voltage desired by the customer. This rate is not available for streetlighting service or for resale purposes.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Capacity Charge: \$31.00 per customer per month, which shall include the first 5 KW of billing demand, \$5.00 per KW for all over 5KW of billing demand.

Energy Charge: 1.90¢ per Kwh for the first 200 KWh per KW of billing demand,
1.5¢ per Kwh for the excess.

Fuel Cost Adjustment:

The fuel clause adjustment shall consist of an increase or decrease of .0109 mill per kWh for each full .01 mill increase or decrease in the average delivered cost of fossil fuel burned monthly above or below 8.38 mills per kWh adjusted by the ratio of the monthly fossil fuel generation to the monthly net generation.

The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned.

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 electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

The capacity charge included in the rate.

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.

(Continued on Sheet No. 11.01)

**COMMERCIAL AND INDUSTRIAL
PRIMARY SERVICE
(CONTRACT RATE "D")**

Availability:

Open to any customer desiring primary voltage service for commercial or industrial use where the billing demand is 25 kW or more. This rate is not available for streetlighting service or for resale purposes.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Capacity Charge: \$5.55 per KW for the 1st 2,000 KW of billing demand,
\$4.60 per KW for the next 18,000 KW of billing demand,
\$3.85 per KW for all over 20,000 KW of billing demand.

Energy Charge: 1.40¢ per Kwh for all Kwh used during the on-peak period,
1.00¢ per Kwh for all Kwh used during the off-peak period.

(The on-peak and off-peak periods are set forth on the "Schedule of off-peak hours" Sheet 7.00)

Fuel Cost Adjustment:

The fuel clause adjustment shall consist of an increase or decrease of .0109 mill per kWh for each full .01 mill increase or decrease in the average delivered cost of fossil fuel burned monthly above or below 8.38 mills per kWh adjusted by the ratio of the monthly fossil fuel generation to the monthly net generation.

The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned.

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 electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

The capacity charge included in the rate.

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.

(Continued on Sheet No. 14.01)

RATE "D"
(Continued from Sheet No. 14.00)

Billing Demands

1. The billing demand shall be the kilowatts (kW) supplied during the 15-minute period of maximum use in the billing month adjusted for off-peak hour operation as specified below, but not less than 60% of the highest billing demand of the preceding 11 months, nor less than 25 kW.

Adjustment for Off-Peak Hour Operation:

Demands created during off-peak hours designated by the Company in the Company's current "Schedule of Off-Peak Hours" (Sheet 7.00) shall be disregarded provided the billing demand shall not be less than 33 1/3 % of the greatest demand created in such off-peak hours

Adjustment for Power Factor:

This rate requires a determination of the average power factor maintained by the customer during the billing period. Such average power factor will be determined through metering of lagging kilovarhours and kilowatthours during the billing period. The calculated ratio of lagging kilovarhours to kilowatthours will then be converted to the average power factor for the billing period by using the appropriate conversion factor. Whenever the average power factor during the billing period is above .899 or below .800, the capacity charge will be adjusted as follows:

- (a) If the average power factor during the billing period is .900 or higher, the capacity charge will be reduced by 2%. This credit shall not in any case be used to reduce the prescribed minimum charge or the capacity charge when based upon 60% of the highest billing demand of the preceding 11 months.
- (b) If the average power factor during the billing period is less than .800, the capacity charge will be increased by the ratio that .800 bears to the customer's average power factor during the billing period.

Term and Form of Contract:

Minimum term of one year on written contract.

(Continued on Sheet No. 14.02)

COMMERCIAL AND INDUSTRIAL
PRIMARY HIGH LOAD FACTOR SERVICE
(OPTIONAL CONTRACT RATE "F")

Availability:

Open to any customer desiring primary voltage service for commercial or industrial use where the billing demand is 100 kW or more. This rate is not available for streetlighting service or for resale purposes.

Nature of Service:

Alternating current, 60 hertz, single phase, or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Capacity Charge: \$6.00 per KW for the first 2,000 KW of billing demand,
\$5.10 per KW for the next 18,000 KW of billing demand,
\$4.35 per KW for all over 20,000 KW of billing demand.

Energy Charge: 1.30¢ per kWh for all kWh used during the on-peak period,
.9¢ per kWh for all kWh used during the off-peak period.

Fuel Cost Adjustment:

The fuel clause adjustment shall consist of an increase or decrease of .0109 mill per kWh for each full .01 mill increase or decrease in the average delivered cost of fossil fuel burned monthly above or below 8.38 mills per kWh adjusted by the ratio of the monthly fossil fuel generation to the monthly net generation.

The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned.

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 electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

The capacity charge included in the rate.

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.

(Continued on Sheet No. 16.01)

RATE "F"

(Continued from Sheet No. 16.00)

Billing Demands

1. The billing demand shall be the kilowatts (kW) supplied during the 15-minute period of maximum use in the billing month adjusted for off-peak hour operation as specified below, but not less than 60% of the highest billing demand of the preceding 11 months, nor less than 100 kW.

Adjustment for Off-Peak Hour Operations

Demands created during off-peak hours designated by the Company in the Company's current "Schedule of Off-Peak Hours" (Sheet No. 7.00) shall be disregarded provided the billing demand shall not be less than 33 1/2 % of the greatest demand created in such off-peak hours nor less than 100 kW.

Adjustment for Power Factors

This rate requires a determination of the average power factor maintained by the customer during the billing period. Such average power factor will be determined through metering of lagging kilovarhours and kilowatthours during the billing period. The calculated ratio of lagging kilovarhours to kilowatthours will then be converted to the average power factor for the billing period by using the appropriate conversion factor. Whenever the average power factor during the billing period is above .899 or below .800, the capacity charge will be adjusted as follows:

- (a) If the average power factor during the billing period is .900 or higher, the capacity charge will be reduced by 2%. This credit shall not in any case be used to reduce the prescribed minimum charge or the capacity charge when based upon 60% of the highest billing demand of the preceding 11 months.
- (b) If the average power factor during the billing period is less than .800, the capacity charge will be increased by the ratio that .800 bears to the customer's average power factor during the billing period.

Term and Form of Contracts

Minimum term of one year on written contract.

(Continued on Sheet No. 16.02)

SEASONAL SERVICE
(CONTRACT RATE "G")

This rate is cancelled.

(Continued on Sheet 17.01)

RATE "G"

(Continued from Sheet No. 17.00)

This rate is cancelled.

COMMERCIAL AND INDUSTRIAL ELECTRIC HEATING SERVICE
(OPEN ORDER RATE "GH")

Availability:

Open to any commercial or industrial customer desiring service for electric space heating furnished through a separate meter to which no other device, except electric air-conditioning equipment or electric water heater(s) which complies with the Company's standards for commercial and industrial electric water heaters, may be connected and provided the customer has permanently installed and uses electric heating equipment as the primary source of space heating. Electric space heating will be considered to include heating by light systems when the lighting equipment provides a major portion of the heating requirements in accordance with the Company's specifications. This rate is not available for heating water for industrial processing or for resale purposes.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Service Charge: \$3.25 per customer per month plus,

Energy Charge: 2.90¢ per Kwh for all energy used.

Fuel Cost Adjustment:

The fuel clause adjustment shall consist of an increase or decrease of .0109 mill per kWh for each full .01 mil increase or decrease in the average delivered cost of fossil fuel burned monthly above or below 8.38 mills per kWh adjusted by the ratio of the monthly fossil fuel generation to the monthly net generation.

The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned.

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 electric energy, 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 generation or sale of electrical energy.

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.

(Continued on Sheet No. 17.03)

COMMERCIAL AND INDUSTRIAL WATER HEATING SERVICE (OPEN ORDER RATE "H")

Availability:

Open to any customer desiring uncontrolled commercial and/or industrial service for electric water heater(s) served through a separate meter to which no other device shall be connected. Such water heaters shall comply with the Company's standards for commercial and industrial electric water heaters. This rate is not applicable to the use of electricity for space heating service or as an occasional or seasonal substitute for another method of heating water. This rate is not available for heating water for industrial processing or for resale purposes.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the secondary distribution voltage in each case to be determined by the Company.

Monthly Rate:

Service Charge: \$3.25 per customer per month plus,

Energy Charge: 2.50¢ per Kwh for all energy used.

The fuel clause adjustment shall consist of an increase or decrease of .0109 mill per kWh for each full .01 mill increase or decrease in the average delivered cost of fossil fuel burned monthly above or below 8.38 mills per kWh adjusted by the ratio of the monthly fossil fuel generation to the monthly net generation.

The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned.

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 electric energy, 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 generation or sale of electrical energy.

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.

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.

PRIMARY ELECTRIC FURNACE SERVICE (CONTRACT RATE "J")

Availability:

Open to any customer desiring service for operation of electric furnaces for metal melting or the reduction of metallic ores, where the billing demand is 500 kW or more. This rate is applicable only to electric furnace use and the customer must provide a special circuit or circuits in order that the Company may install separate metering equipment for such furnace loads. This rate is not available for resale purposes.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Capacity Charge: \$3.00 per KW for the 1st 20,000 KW of billing demand,
\$2.55 per KW for all over 20,000 KW of billing demand.

Energy Charge: 1.40¢ per Kwh for all Kwh used during the on-peak period,
1.00¢ per Kwh for all Kwh used during the off-peak period.

(The off-peak and on-peak periods are set forth on the "Schedule of off-peak hours" Sheet 7.00)
Fuel Cost Adjustment.

The fuel clause adjustment shall consist of an increase or decrease of .0109 mill per kWh for each full .01 mill increase or decrease in the average delivered cost of fossil fuel burned monthly above or below 8.38 mills per kWh adjusted by the ratio of the monthly fossil fuel generation to the monthly net generation.

The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned.

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 electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

The capacity charge included in the rate.

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.

(Continued on Sheet No. 18.02)

RATE "J"

(Continued from Sheet No. 18.01)

Billing Demand:

1. The billing demand shall be the kilowatts (kW) supplied during the 15-minute period of maximum use in the billing month adjusted for off-peak hour operation as specified below, but not less than 60% of the highest billing demand of the preceding 11 months, nor less than 500 kW.

Adjustment for Off-Peak Hour Operation:

Demands created during off-peak hours designated by the Company in the Company's current "Schedule of Off-Peak Hours" (Sheet No. 7.00) shall be disregarded provided the billing demand shall not be less than 33 1/3 % of the greatest demand created in such off-peak hours,

Adjustment for Power Factor:

This rate requires a determination of the average power factor maintained by the customer during the billing period. Such average power factor will be determined through metering of lagging kilovarhours and kilowatthours during the billing period. The calculated ratio of lagging kilovarhours to kilowatthours will then be converted to the average power factor for the billing period by using the appropriate conversion factor. Whenever the average power factor during the billing period is above .899 or below .800, the capacity charge will be adjusted as follows:

- (a) If the average power factor during the billing period is .900 or higher, the capacity charge will be reduced by 2%. This credit shall not in any case be used to reduce the prescribed minimum charge or the capacity charge when based upon 60% of the highest billing demand of the preceding 11 months.
- (b) If the average power factor during the billing period is less than .800, the capacity charge will be increased by the ratio that .800 bears to the customer's average power factor during the billing period.

Term and Form of Contract:

Minimum term of one year on written contract.

(Continued on Sheet No. 18.03)

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

Availability:

Open only to customers desiring secondary voltage service for resale purposes in accordance with Rule 12(e) of the Company's Standard Rules and Regulations. This rate is not available for resale for streetlighting service.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Service Charge: \$3.25 per customer per month plus,

Energy Charge: 4.60¢ per Kwh for all Kwh used.

Fuel Cost Adjustment:

The fuel clause adjustment shall consist of an increase or decrease of .0109 mill per KWh for each full .01 mill increase or decrease in the average delivered cost of fossil fuel burned monthly above or below 8.38 mills per Kwh adjusted by the ratio of the monthly fossil fuel generation to the monthly net generation.

The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned.

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 electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

accordance with Rule 12(f).

Special Minimum Charges shall be billed in

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.

(Continued on Sheet No. 18.05)

SECONDARY RESALE SERVICE (OPTIONAL CONTRACT RATE "R-2")

Availability:

Open only to customers desiring secondary voltage service for resale purposes in accordance with Rule 12(e) of the Company's Standard Rules and Regulations. This rate is not available for resale for streetlighting service.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Capacity Charge: \$31.00 per customer per month, which shall include the 1st 5 KW of billing demand,
\$5.00 per Kwh for all over 5 KW of billing demand.

Energy Charge: 1.90¢ per Kwh for the 1st 200 Kwh per KW of billing demand,
1.50¢ per Kwh for the excess.

Fuel Cost Adjustment:

The fuel clause adjustment shall consist of an increase or decrease of .0109 mill per kwh for each full .01 mill increase or decrease in the average delivered cost of fossil fuel burned monthly above or below 8.38 mills per kwh adjusted by the ratio of the monthly fossil fuel generation to the monthly net generation.

The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned.

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 electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

The capacity charge included in the rate.

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.

(Continued on Sheet No. 18.07)

**PRIMARY RESALE SERVICE
(CONTRACT RATE "R-3")**

Availability:

Open only to customers desiring primary voltage service for resale purposes in accordance with Rule 12(e) of the Company's Standard Rules and Regulations. This rate is not available for resale for streetlighting service.

Nature of Service:

Alternating current, 60 hertz, single phase or three phase, the particular nature of the voltage in each case to be determined by the Company.

Monthly Rate:

Capacity Charge: \$5.55 per KW for the 1st 2,000 KW of billing demand,
\$4.60 per KW for the next 18,000 KW of billing demand,
\$3.85 per KW for all over 20,000 KW of billing demand.

Energy Charge: 1.40¢ per Kwh for all Kwh used during the on-peak period,
1.00¢ per Kwh for all kwh used during the off-peak period.

(The on-peak and off-peak periods are set forth on the "Schedule of off-peak hour operation Sheet 7.00)

Fuel Cost Adjustment:

The fuel clause adjustment shall consist of an increase or decrease of .0109 mill per kWh for each full .01 mill increase or decrease in the average delivered cost of fossil fuel burned monthly above or below 8.38 mills per kWh adjusted by the ratio of the monthly fossil fuel generation to the monthly net generation.

The adjustment shall apply to the second billing month following the calendar month in which the fuel is burned.

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 electric energy, 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 generation or sale of electrical energy.

Minimum Charge:

The capacity charge included in the rate.

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.

(Continued on Sheet No. 18.09)

RATE "R-3"

(Continued from Sheet No. 18.08)

Billing Demands

1. The billing demand shall be the kilowatts (kW) supplied during the 15-minute period of maximum use in the billing month adjusted for off-peak hour operation as specified below, but not less than 60% of the highest billing demand of the preceding 11 months, nor less than 25 kW.

Adjustment for Off-Peak Hour Operations: Refer to Rate Instruction Bulletin 7-2

Demands created during off-peak hours designated by the Company in the Company's current "Schedule of Off-Peak Hours" (Sheet 7.00) shall be disregarded provided the billing demand shall not be less than 33 1/3 % of the greatest demand created in such off-peak hours.

Adjustment for Power Factors

This rate requires a determination of the average power factor maintained by the customer during the billing period. Such average power factor will be determined through metering of lagging kilovarhours and kilowatthours during the billing period. The calculated ratio of lagging kilovarhours to kilowatthours will then be converted to the average power factor for the billing period by using the appropriate conversion factor. *Whenever the average power factor during the billing period is above .899 or below .800, the capacity charge will be adjusted as follows:*

- (a) If the average power factor during the billing period is .900 or higher, the capacity charge will be reduced by 2%. This credit shall not in any case be used to reduce the prescribed minimum charge or the capacity charge when based upon 60% of the highest billing demand of the preceding 11 months.
- (b) If the average power factor during the billing period is less than .800, the capacity charge will be increased by the ratio that .800 bears to the customer's average power factor during the billing period.

Term and Form of Contract:

Minimum term of one year on written contract.

(Continued on Sheet No. 18.10)

INCANDESCENT STREETLIGHTING SERVICE
(COMPANY-OWNED SYSTEM CONTRACT RATE "SL-1")

Availability:

Open to the State of Michigan or any political subdivision or agency thereof having jurisdiction over public streets or roadways, for streetlighting service for any system consisting of five or more luminaires where the Company has an existing distribution system with secondary voltage available. Luminaires installed as a part of the original streetlighting system shall be spaced at intervals not exceeding an average (for all such luminaires) of 600 linear feet if luminaires rated at 6,000 lumens or 10,000 lumens are used, and at intervals not exceeding an average (for all such luminaires) of 350 linear feet if luminaires rated at 2,500 lumens are used. Luminaires which are subsequently added to the original streetlighting system shall also be spaced at intervals not exceeding an average (for all such additional luminaires) of 600 linear feet if luminaires rated at 6,000 lumens or 10,000 lumens are used, and at intervals not exceeding an average (for all such additional luminaires) of 350 linear feet if luminaires rated at 2,500 lumens are used. Where an overhead line extension is required to serve an original streetlighting system or to serve luminaires subsequently added to such system, the Company will furnish, as a part of the facilities to be provided by it under this rate, an average of 350 linear feet of line extension per luminaire to be served from such extension. If more than an average of 350 linear feet of line extension per luminaire is required, the furnishing of the excess shall require special arrangements and be the subject of special agreement.

Nature of Service:

The Company will furnish, install and own all equipment comprising the streetlighting system. The Company will supply the energy, and renew and maintain the entire equipment. In areas where the Company has installed an underground electric distribution system pursuant to the Company's residential underground electric distribution policy as set forth in its Standard Rules and Regulations, the streetlighting system will be served from said underground electric distribution system. In all other areas, the streetlighting system will normally be served from overhead lines or from underground cables installed at customer's request pursuant to special streetlighting provisions contained in Yearly Rate clause herein. The Company reserves the right to furnish such service from either a series or multiple system or both.

Yearly Rate:

The charge per luminaire per year (when mounted on standard wood poles and served from overhead lines), payable in equal monthly installments, shall be:

<u>Nominal Rating of Lamps</u>	<u>Rate per Luminaire</u>
<u>Lumens</u>	
2,500	\$56.00
6,000	64.00
10,000	75.00

Note: The above rates apply to existing luminaires only and are not open to new business except where the Company elects, at the customer's request, to install additional luminaires within an area already served by an incandescent streetlighting system.

(Continued on Sheet No. 19.01)

RATE "SL-1"
(Continued from Sheet No. 19.00)

Yearly Rate: (Contd)

At the customer's request and subject to charges in addition to the annual charges per luminaire set forth above, the Company will install special streetlighting facilities in lieu of its standard overhead streetlighting facilities under the following conditions:

- (a) If special streetlighting poles are requested, the customer shall contribute to the Company the difference between the Company's estimated installed costs of such special poles and the Company's estimated installed costs of standard wood poles.
- (b) If underground streetlighting cable is requested, except that requested in conjunction with the Company's residential underground electric distribution policy, the customer shall contribute to the Company the difference between the Company's estimated installed costs of the underground streetlighting cable and the Company's estimated installed costs of standard overhead streetlighting conductors.

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill which is not paid within thirty days after its issuance.

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 electric energy, 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 generation or sale of electrical energy.

(Continued on Sheet No. 19.02)

RATE "SL-1"
(Continued from Sheet No. 19.01)

Contract:

Standard Streetlighting Contract, Form 548, initial term of contract five years, or more, and year to year thereafter until terminated by mutual consent or upon twelve months' written notice given by either party. In case of new or added installation requiring a substantial investment, the Company may require a contract for a reasonable period not exceeding ten years.

Special Terms and Conditions:

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

Customers requiring streetlighting service during seasonal periods only, shall pay 80% of the above annual rates for lamps which are in service six months or less; if in service more than six months per annum, annual rates shall apply.

Hours of Lighting:

Streetlights shall be burning at all times when the natural general level of illumination is lower than about 3/4 footcandle, and under normal conditions this is approximately one-half hour after sunset until approximately one-half hour before sunrise.

INCANDESCENT STREETLIGHTING SERVICE
(CUSTOMER-OWNED SYSTEM CONTRACT RATE "SL-2")

Availability:

Open to the State of Michigan or any political subdivision or agency thereof having jurisdiction over public streets or roadways, for streetlighting service where the Company has existing distribution lines available for supplying energy for such service.

Nature of Service:

Except for control equipment which will be furnished, installed and owned by the Company, the customer will furnish, install and own all equipment comprising the streetlighting system including, but not limited to, the overhead wires or underground cables between the luminaires and the supply circuits extending to the point of attachment with the Company's lines. All of the customer's equipment will be subject to the Company's approval. The Company will connect the customer's equipment to the Company's lines, supply the energy, control the burning hours of the lamps, provide normal replacement of luminaire glassware and lamps and paint metal parts as needed; all other maintenance and replacement of the customer's equipment shall be paid for by the customer. The Company reserves the right to furnish such service from either a series or multiple system or both.

Yearly Rate:

The charge per luminaire per year, payable in equal monthly installments, shall be:

<u>Nominal Rating of Lamps</u>	<u>Rate per Luminaire</u>
<u>Lumens</u>	
1,000	\$42.00
2,500	44.00
4,000	47.00
6,000	52.00
10,000	63.00

Note: The above rates apply to existing luminaires only, and are not open to new business except where the Company elects, at the customer's request to install additional luminaires within an area already served by an incandescent streetlighting system.

(Continued on Sheet No. 20.01)

RATE "SL-S"
(Continued from Sheet No. 20.00)

Yearly Rate: (Continued)

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill which is not paid within thirty days after its issuance.

Tax Adjustments:

- (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 electric energy, 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 generation or sale of electrical energy.

Contracts:

Standard Street Lighting Contract, Form 548; initial term of contract *five years*, or more, and year to year thereafter until terminated by mutual consent or upon twelve months' written notice given by either party. In case of new or added installation requiring a substantial investment, the Company may require a contract for a reasonable period not exceeding ten years.

Special Terms and Conditions:

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

Hours of Lighting:

Street lights shall be burning at all times when the natural general level of illumination is lower than about $\frac{3}{4}$ foot-candle, and under normal conditions this is approximately one-half hour after sunset until approximately one-half hour before sunrise.

FLUORESCENT STREETLIGHTING SERVICE
(COMPANY-OWNED SYSTEM CONTRACT RATE "SL-4")

Availability:

Open to the State of Michigan or any political subdivision or agency thereof having jurisdiction over public streets or roadways, for streetlighting service for any system consisting of one or more luminaires where the Company has an existing distribution system with secondary voltage available. Luminaires may be installed with no limitations as to spacing between luminaires. Where an overhead line extension is required to serve one or more luminaires, the Company will furnish, as a part of the facilities to be provided by it under this rate, an average of 350 linear feet of line extension per luminaire to be served from such extension. If more than an average of 350 linear feet of line extension per luminaire is required, the furnishing of the excess shall require special arrangements and be the subject of special agreement.

Nature of Service:

The Company will furnish, install and own all equipment comprising the streetlighting system. The Company will supply the energy, and renew and maintain the entire equipment. In areas where the Company has installed an underground electric distribution system pursuant to the Company's residential underground electric distribution policy as set forth in its Standard Rules and Regulations, the streetlighting system will be served from said underground electric distribution system. In all other areas, the streetlighting system will normally be served from overhead lines or from underground cables installed at customer's request pursuant to special streetlighting provisions contained in Yearly Rate clause herein. The Company reserves the right to furnish such service from either a series or multiple system or both.

Yearly Rate:

The charge per luminaire per year (when mounted on standard wood poles and served from overhead lines), payable in equal monthly installments, shall be:

<u>Nominal Rating of Lamps</u> <u>(All Lamps in One Luminaire)</u>		<u>Rate per Luminaire</u>
<u>Watts</u>	<u>Lumens</u>	
190	10,000	\$ 82.00
380	20,000	120.00

Note: The above rates apply to existing luminaires only and are not open to new business except where the Company elects, at the customer's request, to install additional luminaires within an area already served by a fluorescent streetlighting system.

(Continued on Sheet No. 22.01)

RATE "SL-4"
(Continued from Sheet No. 22.00)

Yearly Rate: (Contd)

At the customer's request and subject to charges in addition to the annual charges per luminaire set forth above, the Company will install special streetlighting facilities in lieu of its standard overhead streetlighting facilities under the following conditions.

- (a) If special streetlighting poles are requested, the customer shall contribute to the Company the differences between the Company's estimated installed costs of such special poles and the Company's estimated installed costs of standard wood poles.
- (b) If underground streetlighting cable is requested, except that requested in conjunction with the Company's residential underground electrical distribution policy, the customer shall contribute to the Company the difference between the Company's estimated installed costs of the underground streetlighting cable and the Company's estimated installed costs of standard overhead streetlighting conductors.

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill which is not paid within 30 days after its issuance.

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 electric energy, 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 generation or sale of electrical energy.

(Continued on Sheet No. 22.02)

RATE "SL-4"
(Continued from Sheet No. 22.01)

Contract:

Standard Streetlighting Contract, Form 548, initial term of contract five years, or more, and year to year thereafter until terminated by mutual consent or upon twelve months' written notice given by either party. In case of new or added installation requiring a substantial investment, the Company may require a contract for a reasonable period not exceeding ten years.

Special Terms and Conditions:

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

Hours of Lighting:

Streetlights shall be burning at all times when the natural general level of illumination is lower than about 3/4 footcandle, and under normal conditions this is approximately one-half hour after sunset until approximately one-half hour before sunrise.

FLUORESCENT STREETLIGHTING SERVICE
(CUSTOMER-OWNED SYSTEM CONTRACT RATE "SL-5")

Availability:

Open to the State of Michigan or any political subdivision or agency thereof having jurisdiction over public streets or roadways, for streetlighting service where the Company has existing distribution lines available for supplying energy for such service.

Nature of Service:

Except for control equipment which will be furnished, installed and owned by the Company, the customer will furnish, install and own all equipment comprising the streetlighting system including, but not limited to, the overhead wires or underground cables between the luminaires and the supply circuits extending to the point of attachment with the Company's lines. All of the customer's equipment will be subject to the Company's approval. The Company will connect the customer's equipment to the Company's lines, supply the energy, control the burning hours of the lamps, provide normal replacement of luminaire glassware, ballasts and lamps, and paint metal parts as needed; all other maintenance and replacement of the customer's equipment shall be paid for by the customer. The Company reserves the right to furnish such service from either a series or multiple system or both.

Yearly Rate:

The charge per luminaire per year, payable in equal monthly installments, shall be:

Nominal Rating of Lamps (All Lamps in One Luminaire)		Rate per Luminaire
Watts	Lumens	
120	6,500	\$50.00
190	10,000	\$58.00
380	20,000	\$75.00
640	35,000	100.00

Note: The above rates apply to existing luminaires only and are not open to new business except where the Company elects, at the customer's request, to install additional luminaires within an area already served by a fluorescent streetlighting system.

RATE "SL-5"
(Continued from Sheet No. 23.00)

Yearly Rate: (Contd)

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill not paid within 30 days of its issuance.

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 electric energy, 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 generation or sale of electrical energy.

Contract:

Standard Street Lighting Contract, Form 548; initial term of contract *five years*, or more, and year to year thereafter, until terminated by mutual consent or upon twelve months' written notice given by either party. In case of new or added installation requiring a substantial investment, the Company may require a contract for a reasonable period not exceeding ten years.

Special Terms and Conditions:

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

Hours of Lighting:

Street lights shall be burning at all times when the natural general level of illumination is lower than about $\frac{1}{4}$ foot-candle, and under normal conditions this is approximately one-half hour after sunset until approximately one-half hour before sunrise.

MERCURY VAPOR STREETLIGHTING SERVICE
(COMPANY-OWNED SYSTEM CONTRACT RATE "SL-6")

Availability:

Open to the State of Michigan or any political subdivision or agency thereof having jurisdiction over public streets or roadways, for streetlighting service for any system consisting of one or more luminaires where the Company has an existing distribution system with secondary voltage available. Luminaires may be installed with no limitations as to spacing between luminaires. Where an overhead line extension is required to serve one or more luminaires, the Company will furnish, as a part of the facilities to be provided by it under this rate, an average of 350 linear feet of line extension per luminaire to be served from such extension. If more than an average of 350 linear feet of line extension per luminaire is required, the furnishing of the excess shall require special arrangements and be the subject of special agreement.

Nature of Service:

The Company will furnish, install and own all equipment comprising the streetlighting system. The Company will supply the energy, and renew and maintain the entire equipment. In areas where the Company has installed an underground electric distribution system pursuant to the Company's residential underground electric distribution policy as set forth in its Standard Rules and Regulations, the streetlighting system will be served from said underground electric distribution system. In all other areas, the streetlighting system will normally be served from overhead lines or from underground cables installed at customer's request pursuant to special streetlighting provisions contained in Yearly Rate clause herein. The Company reserves the right to furnish such service from either series or multiple system or both.

Yearly Rate:

The charge per luminaire per year (when mounted on standard wood poles and served from overhead lines), payable in equal monthly installments, shall be:

<u>Nominal Rating of Lamps</u> <u>(One Lamp per Luminaire)</u>		<u>Rate per Luminaire</u>
<u>Watts</u>	<u>Lumens</u>	
100	3,200	\$ 56.00
175	6,500	64.00
250	10,000	75.00
400	20,000	104.00
700	35,000	142.00
1,000	50,000	172.00

RATE "SL-6"
(Continued from Sheet No. 24.00)

Yearly Rate: (Contd)

At the customer's request and subject to charges in addition to the annual charges per luminaire set forth above, the Company will install special streetlighting facilities in lieu of its standard overhead streetlighting facilities under the following conditions:

- (a) If special streetlighting poles are requested, the customer shall contribute to the Company the difference between the Company's estimated installed costs of such special poles and the Company's estimated installed costs of standard wood poles.
- (b) If underground streetlighting cable is requested, except that requested in conjunction with the Company's residential underground electric distribution policy, the customer shall contribute to the Company the difference between the Company's estimated installed costs of the underground streetlighting cable and the Company's estimated installed costs of standard overhead streetlighting conductors.

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill not paid within 30 days after its issuance.

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 electric energy, 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 generation or sale of electrical energy.

Contract:

Standard Streetlighting Contract, Form 548; initial term of contract five years, or more, and year to year thereafter until terminated by mutual consent or upon twelve months' written notice given by either party. In case of new or added installations, requiring a substantial investment, the Company may require a contract for a reasonable period not exceeding ten years.

Special Terms and Conditions:

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

Hours of Lighting:

Streetlights shall be burning at all times when the natural general level of illumination is lower than about 3/4 footcandle, and under normal conditions this is approximately one-half hour after sunset until approximately one-half hour before sunrise.

MERCURY VAPOR STREETLIGHTING SERVICE
(CUSTOMER-OWNED SYSTEM CONTRACT RATE "SL-7")

Availability:

Open to the State of Michigan or any political subdivision or agency thereof having jurisdiction over public streets or roadways, for streetlighting service where the Company has existing distribution lines available for supplying energy for such service.

Nature of Service:

Except for control equipment which will be furnished, installed and owned by the Company, the customer will furnish, install and own all equipment comprising the streetlighting system including, but not limited to, the overhead wires or underground cables between the luminaires and the supply circuits extending to the point of attachment with the Company's lines. All of the customer's equipment will be subject to the Company's approval. The Company will connect the customer's equipment to the Company's lines, supply the energy, control the burning hours of the lamps, provide normal replacement of luminaire glassware and lamps, and paint metal parts as needed; all other maintenance and replacement of the customer's equipment shall be paid for by the customer. The Company reserves the right to furnish such service from either a series or multiple system or both.

Yearly Rate:

For normal service the charge per luminaire per year, payable in equal monthly installments, shall be:

<u>Nominal Rating of Lamps</u> <u>(One Lamp per Luminaire)</u>		<u>Rate per Luminaire</u>
<u>Watts</u>	<u>Lumens</u>	
100	3,200	\$ 38.00
175	6,500	\$ 43.00
250	10,000	\$ 50.00
400	20,000	\$ 70.00
700	35,000	\$100.00
1,000	50,000	\$128.00

For 24-hour service the charge per luminaire per year, payable in monthly installments, shall be 125 percent of the foregoing rates.

(Continued on Sheet No. 25.01)

RATE "SL-7"

(Continued from Sheet No. 25.00)

Yearly Rate:

Delayed Payment Charge:

A delayed payment charge of 2% of the net bill shall be added to any bill not paid within 30 days after its issuance.

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 electric energy, 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 generation or sale of electrical energy.

Contract:

Standard Street Lighting Contract, Form 548; initial term of contract five years, or more, and year to year thereafter, until terminated by mutual consent or upon twelve months' written notice given by either party. In case of new or added installations requiring a substantial investment, the Company may require a contract for a reasonable period not exceeding ten years.

Special Terms and Conditions:

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

Hours of Lighting:

For normal service street lights shall be burning at all times when the natural general level of illumination is lower than about $\frac{1}{4}$ foot-candle, and under normal conditions this is approximately one-half hour after sunset until approximately one-half hour before sunrise. For 24-hour service, street lights shall be burning 24 hours per day.

HIGH-PRESSURE SODIUM STREETLIGHTING SERVICE

(Company-Owned System Contract Rate SL-9)

Availability:

Open to the State of Michigan or any political subdivision or agency thereof having jurisdiction over public streets or roadways, for streetlighting service for any system consisting of one or more luminaires where the Company has an existing distribution system with secondary voltage available. Luminaires may be installed with no limitations as to spacing between luminaires. Where an overhead line extension is required to serve one or more luminaires, the Company will furnish, as a part of the facilities to be provided by it under this rate, an average of 350 linear feet of line extension per luminaire to be served from such extension. If more than an average of 350 linear feet of line extension per luminaire is required, the furnishing of the excess shall require special arrangements and be the subject of special agreement.

Nature of Service:

The Company will furnish, install and own all equipment comprising the streetlighting system. The Company will supply the energy, and renew and maintain the entire equipment. In areas where the Company has installed an underground electric distribution system pursuant to the Company's residential underground electric distribution policy as set forth in its Standard Rules and Regulations, the streetlighting system will be served from said underground electric distribution system. In all other areas, the streetlighting system will normally be served from overhead lines or from underground cables installed at customer's request pursuant to special streetlighting provisions contained in Yearly Rate clause herein. The Company reserves the right to furnish such service from either series or multiple system or both.

Yearly Rates:

The charge per luminaire per year (when mounted on standard wood poles and served from overhead lines), payable in equal monthly installments, shall be:

Nominal Rating of Lamps (One Lamp per Luminaire)		Rate per Luminaire
Watts	Lumens	
250	24,000	\$150.00
400	45,000	\$183.00

At the customer's request and subject to charges in addition to the annual charges per luminaire set forth above, the Company will install special streetlighting facilities in lieu of its standard overhead streetlighting facilities under the following conditions:

- (a) If special streetlighting poles are requested, the customer shall contribute to the Company the difference between the Company's estimated installed costs of such special poles and the Company's estimated installed costs of standard wood poles.
- (b) If underground streetlighting cable is requested, except that requested in conjunction with the Company's residential underground electric distribution policy, the customer shall contribute to the Company the difference between the Company's estimated installed costs of the underground streetlighting cable and the Company's estimated installed costs of standard overhead streetlighting conductors.

(Continued on Sheet No. 25.05)

RATE "SL-9"

(Continued from Sheet No. 25.04)

Yearly Rate: (Contd)

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill not paid within 30 days after its issuance.

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 electric energy, 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 generation or sale of electrical energy.

Contract:

Standard Streetlighting Contract, Form 548; initial term of contract five years, or more, and year to year thereafter until terminated by mutual consent, or upon twelve months' written notice given by either party. In case of new or added installations, requiring a substantial investment, the Company may require a contract for a reasonable period not exceeding ten years.

Special Terms and Conditions:

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

Hours of Lighting:

Streetlights shall be burning at all times when the natural general level of illumination is lower than about 3/4 footcandle, and under normal conditions this is approximately one-half hour after sunset until approximately one-half hour before sunrise.

HIGH-PRESSURE SODIUM STREETLIGHTING SERVICE
(CUSTOMER-OWNED SYSTEM CONTRACT RATE "SL-10")

Availability:

Open to the State of Michigan or any political subdivision or agency thereof having jurisdiction over public streets or roadways, for streetlighting service where the Company has existing distribution lines available for supplying energy for such service.

Nature of Service:

Except for control equipment which will be furnished, installed and owned by the Company, the customer will furnish, install and own all equipment comprising the streetlighting system including, but not limited to, the overhead wires or underground cables between the luminaires and the supply circuits extending to the point of attachment with the Company's lines. All of the customer's equipment will be subject to the Company's approval. The Company will connect the customer's equipment to the Company's lines, supply the energy, control the burning hours of the lamps, provide normal replacement of luminaire glassware and lamps, and paint metal parts as needed; all other maintenance and replacement of the customer's equipment shall be paid for by the customer. The Company reserves the right to furnish such service from either a series or multiple system or both.

Yearly Rate:

The charge per luminaire per year, payable in equal monthly installments, shall be:

<u>Nominal Rating of Lamps</u> <u>(One Lamp per Luminaire)</u>		<u>Rate per Luminaire</u>
<u>Watts</u>	<u>Lumens</u>	
250	24,000	\$75.00
400	45,000	\$90.00

(Continued on Sheet No. 25.07)

RATE "SL-10"
(Continued from Sheet No. 25.06)

Yearly Rate: (Contd)

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill not paid within 30 days after its issuance.

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 electric energy, 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 generation or sale of electrical energy.

Contract:

Standard Street Lighting Contract, Form 548; initial term of contract five years, or more, and year to year thereafter, until terminated by mutual consent or upon twelve months' written notice given by either party. In case of new or added installations requiring a substantial investment, the Company may require a contract for a reasonable period not exceeding ten years.

Special Terms and Conditions:

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

Hours of Lighting:

Streetlights shall be burning at all times when the natural general level of illumination is lower than about $\frac{3}{4}$ foot-candle, and under normal conditions this is approximately one-half hour after sunset until approximately one-half hour before sunrise.

TRAFFIC LIGHT SERVICE (RATE "TL")

Availability:

Open to the State of Michigan, or any political subdivision thereof, for filament and/or gaseous discharge lamp installations maintained for traffic regulation or guidance, as distinguished from street illumination and police signal systems. Where the Company's investment to serve an individual traffic light exceeds three times the annual revenue to be derived from such traffic light, a contribution to the Company shall be required of such excess.

Nature of Service:

Customer furnishes and installs all fixtures, lamps, ballasts, controls and other equipment, including wiring to point of connection with Company's overhead or underground system, as directed by the Company. Company furnishes and installs, where required for center suspended overhead signals, messenger cable and supporting wood poles and also makes final connections to its lines. If, in the Company's opinion, the installation of wood poles is not practical, the customer shall furnish, install and maintain suitable supports other than wood poles. Customer maintains equipment, including lamp renewals, and Company supplies energy for its operation.

Monthly Rate

2.75¢ per Kwh for all Kwh

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill not paid within 30 days after its issuance.

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 electric energy, 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 generation or sale of electrical energy.

Determination of KWh:

Monthly KWh shall be determined by multiplying the total connected load in kW (including the lamps, ballasts, transformers, and control devices) times 730 hours. The KWh for cyclical devices shall be 50% of the total KWh so calculated. The KWh for continuous, nonintermittent devices shall be 100% of the total KWh so calculated.

No reduction in KWh will be made for devices not operated 24 hours per day, or not operated every day; except that the KWh of devices used for the control of school traffic, and operated not more than 6 hours per day during the school year only, shall be 10% of the total KWh so calculated.

Contract:

Service may be supplied on informal request but, under special circumstances, the Company may require a term contract of reasonable duration.

Special Terms and Conditions:

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

CONSUMERS POWER COMPANY

NET PROJECTED INCREMENTAL EFFECT OF ELECTRIC RATE INCREASE AND PALISADES OPERATION

(1975 By Month)

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Estimate of the Incremental Impact of MPSC Rate Orders
of Sept 16, 1974 and January 23, 1975 on Rate Revenues
and the Associated Indenture Coverage

Estimate of the Incremental Impact of Palisades Operation

Month	Net Earnings (Before Taxes)	Net Income (After Taxes)	Pro Forma Indenture Coverage ¹	Net Earnings (Before Taxes)	Net Income (After Taxes)	Pro Forma Indenture Coverage ¹
Jan	\$ 2.3 MM	\$ 1.1 MM	.09	\$ 0 MM	\$ 0 MM	-
Feb	3.5	1.7	.13			-
Mar	5.4	2.6	.18			-
Apr	5.3	2.5	.24	9.5	4.6	.10
May	5.2	2.5	.30	3.6	1.7	.12
June	5.3	2.6	.33	1.7	.8	.15
July	5.4	2.6	.35	4.6	2.2	.18
Aug	5.5	2.6	.40	6.3	3.0	.24
Sept	5.7	2.7	.46	(4.5) ²	(2.2)	.20
Oct	5.6	2.7	.54	(3.0) ²	(1.5)	.17
Nov	5.8	2.8	.57	16.3	7.8	.32
Dec	5.9	2.8	.57	14.9	7.2	.46
Total	\$60.9 MM	\$29.2 MM		\$49.4 MM	\$23.6 MM	

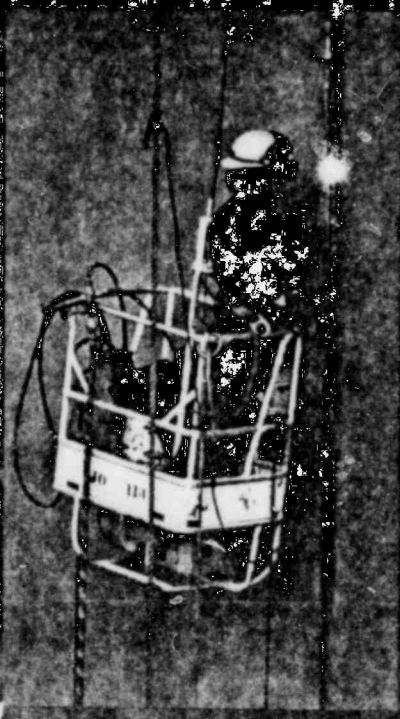
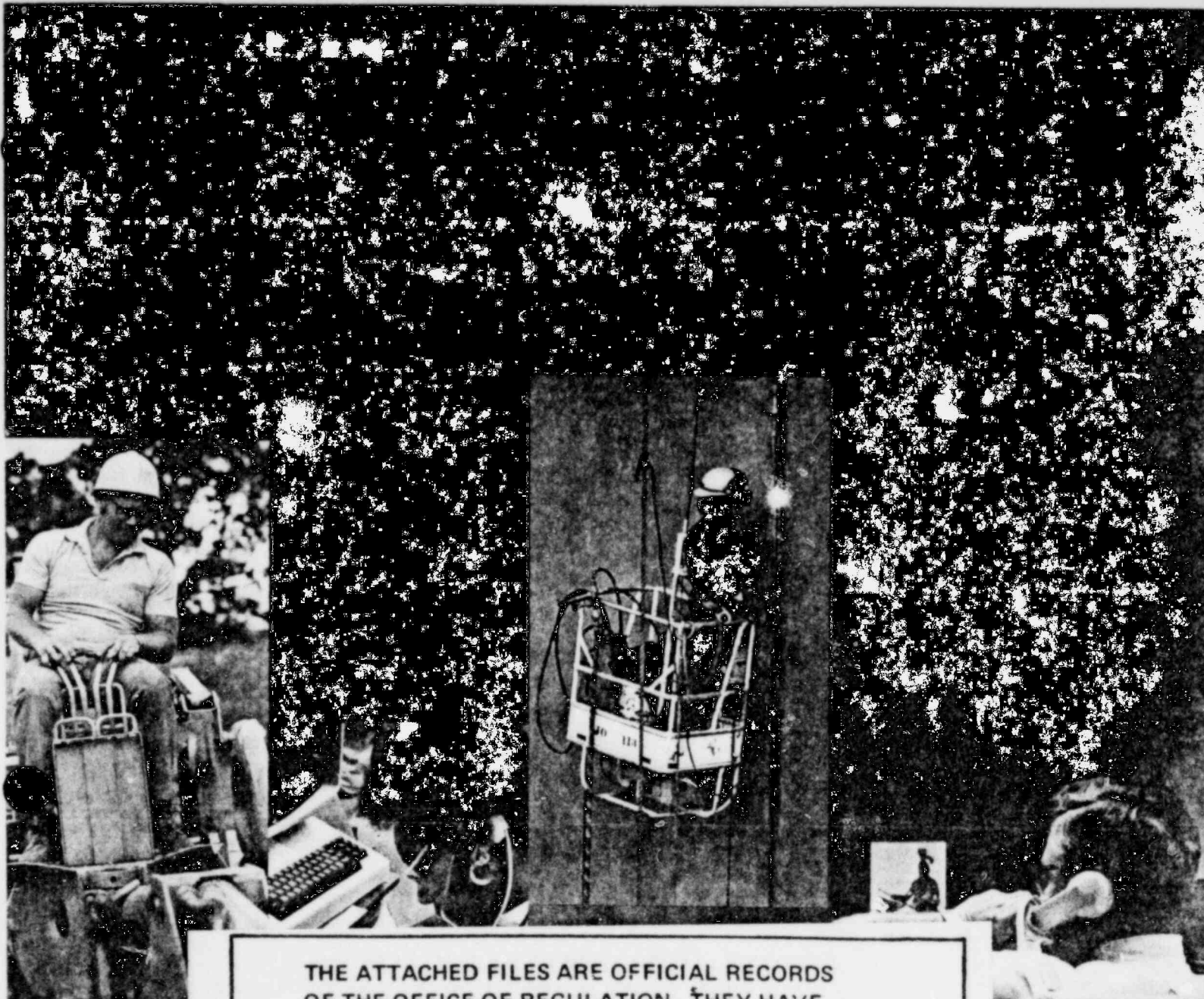
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¹ Assumes financing outlined in response to Question 3. Data is cumulative since indenture coverage is based on twelve months ended earnings.

² Assumes outage for Palisades refueling.

3045



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Revised - 3-2-76

3-2-76

50-329/330

NOTICE

MARY JINKS, CHIEF
CENTRAL RECORDS STATION

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Consumers Power Company Annual Report 1975
212 West Michigan Avenue, Jackson, Michigan 49201 (517) 788-0550

The Company

Consumers Power Company was incorporated in Michigan in 1968 and is the successor to a corporation of the same name which was organized in Maine in 1910 and which did business in Michigan from 1915 to 1968.

The Company is a public utility engaged in the generation, purchase, distribution and sale of electricity, and in the purchase, production, manufacture, storage, distribution and sale of gas, in the Lower Peninsula of the State of Michigan. The Company also supplies steam service in one community. The population of the territory served by the Company is estimated to exceed 5,200,000. The Company's utility operating revenues in 1975 were derived approximately 57% from electric service and 43% from gas service.

The industries in the territory served by the Company include automobile and automobile equipment, primary metals, chemicals, fabricated metal products, pharmaceuticals, machinery, oil refining, paper and paper products, food products and a diversified list of other industries.

The Company has two major wholly-owned subsidiaries. Northern Michigan Exploration Company is engaged in exploration and development, purchase and sale of oil and natural gas in the northern part of the Lower Peninsula of Michigan and onshore and offshore Louisiana. Michigan Gas Storage Company is engaged in the purchase, transmission, storage and sale to the Company of gas from interstate pipeline suppliers. In addition, the Company owns a small subsidiary, Michigan Utility Collection Service Co. Inc., which is engaged in a special collection service from some past customers for utility services rendered by the Company.

To Our Fellow Shareholders:

***Earnings Increased
Steadily, but Additional
Revenues are Necessary***

***Construction Will
Cost \$406 Million
in 1976***

***Requests For
Rate Increases
Pending***

Last year this letter ended on the thought that we, as shareholders in Consumers Power, had reason to look forward to substantial improvement in the Company's business in 1975. We are pleased to report that that optimism was justified.

After reaching a low of \$1.30 for the 12 months ended January 31, 1975, earnings per share increased steadily during the next 11 months to \$2.65 for the year.

A number of developments contributed to the earnings recovery and general upswing in Consumers Power's affairs.

The Company's severe revenue deficiencies of 1974 were partly offset by badly needed rate increases authorized in 1975. An electric rate order permitting an increase of \$66.2 million annually, including an interim increase of \$27.6 million annually granted in September 1974, was issued by the Michigan Public Service Commission in January 1975. In addition, an interim gas rate increase of \$29.2 million annually was granted last June. However, further rate increases are needed, as is noted later in this letter.

During 1975 inflation moderated to some extent and the depressed automotive industry, a major economic force in the Company's service area, made gains in the final quarter. Further improvement in the auto business and the general economy is anticipated in 1976.

Our large nuclear plant at Palisades, which was out of service during 1974, came back on line in April 1975 and performed well. It was shut down for scheduled inspection, maintenance and refueling in late December. The availability of Palisades, plus added generating capacity supplied by the new Unit 3 at the Dan E. Karn plant, substantially reduced the need for relatively high cost purchased power to meet customers' demands.

The management continued to hold a tight lid on expenses and to implement cost reductions. One measure of the effectiveness of such actions is the average number of customers served per Company employee. This number was 203 at the end of 1975, an improvement of 28 percent over 1970 when the number was 159. Over the same period the work force has been reduced from 12,000 to 10,700, while customers served increased from 1,082,400 electric and 854,100 gas to 1,217,700 electric and 971,900 gas.

With the economic and financial outlook improved, the Company plans to restore the construction program to a level closer to that needed to meet its service area's future energy requirements. Construction expenditures for 1976 are budgeted at \$406 million. A realistic program, geared to moderate growth projections, it assumes that Consumers Power Company's need for broadened understanding on the regulatory front will be realized and met. If the Michigan Public Service Commission acts promptly and fairly to allow needed increases in revenues, the Company will be on the way to regaining the investor confidence required to issue securities needed for expansion at reasonable costs.

As this annual report went to press, two major rate applications were pending before the Commission. The request for additional gas revenues totaling \$57.8 million annually filed in November 1974, and a request for \$106.7 million in additional electric revenues filed in May 1975, were both awaiting Commission action. On the gas filing, interim relief of \$29.2 million was granted in June 1975 and final action was expected momentarily. The electric rate application, on which interim relief was turned down in February 1976, is expected to be decided in April.

The time required for the Public Service Commission to decide rate requests in these inflationary times, together with the use of historical test years, has added to the Company's financial burden by making it impossible for rates to accurately reflect costs of serving customers at the time the higher rates become effective. Although under a statutory mandate to complete utility rate cases within nine months, the Commission has been unable to achieve that goal.

Delays in obtaining just and prompt regulatory decisions continue to threaten the Company's future ability to serve its customers. Severe construction cutbacks

in 1974 and 1975 resulted from the Company's depressed earnings and inability to raise money to build.

We believe that the past year or two has witnessed a broader public acceptance of the fact that there really is an energy problem which will continue to manifest itself in shortages and higher prices. The public also must understand that while energy conservation and a slack economy have slowed the rates of growth, expanded energy resources must be developed if Michigan is to provide for moderate growth and avoid economic stagnation. A narrowing of the "understanding gap" is essential, so that public support and regulatory action will permit the utility construction required to meet tomorrow's energy needs.

**Regulatory Understanding
is Essential**

The Marysville gas reforming plant is a product of past long-range planning which in 1975 clearly proved its importance to Michigan's economy. The plant, which converts liquid hydrocarbons into synthetic natural gas, was conceived in the earliest shadows of the natural gas shortage. The plant operated throughout 1975 at or above design capacity, enabling the Company to add 22,700 new residential customers while serving all of its industrial and commercial customers even though pipeline deliveries were curtailed severely. Without the Marysville plant, severe reductions of industrial and commercial service would have been required, and expansion of residential service would not have been possible.

**Crude Oil Supply
is Uncertain**

An area which has become somewhat clouded in recent months is the availability of Canadian crude oil to fuel the Karn and Weadock generating plants, and of Canadian natural gas liquid feedstocks for the Marysville reforming plant. On January 1, 1976, the Canadian Government sharply reduced crude oil and natural gas liquid exports to the U.S., resulting in a reduction in deliveries of crude oil for electric generation. Such reductions will be substantially offset in the first quarter of 1976 by deliveries of a special blend of partially refined oil products from Canada. The reduced exports from Canada will be subject to an allocation program being developed by the U.S. Federal Energy Administration. The Company is uncertain as to the future availability of these supplies from Canada but is making a determined effort to ensure adequate fuel and feedstock supplies at the lowest practical cost.

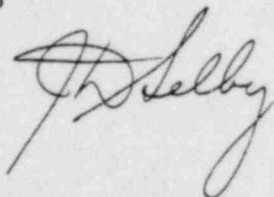
Another problem is natural gas supply from traditional pipeline sources. We believe that unless an enlightened national energy policy is adopted without further delay, the prospect of easing the natural gas shortage is dim.

**Management Staff
Strengthened**

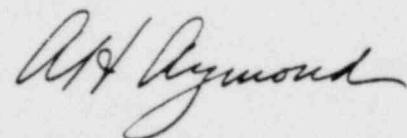
During 1975, the top management structure was strengthened through realignment and key personnel additions. The Company welcomed a new president and a new personnel vice president, and appointed an executive vice president for finance, a senior vice president for accounting and rate matters, and a new controller. Successors also were named upon the retirements of the Company's general counsel and its vice presidents for bulk power operations and public relations. The year ended with the management staff at full strength and prepared to direct continuing improvements in electric, gas and corporate operations.

In concluding this review of a year which ended on an upbeat, albeit with problems ahead, we want to express our appreciation to all members of the Consumers Power family for their continued support during difficult times and for the communications and suggestions we have received. The management is mindful of its responsibilities to the Company's customers, shareholders and employees, and will continue to work to satisfy their needs.

Sincerely,



J. D. Selby, President



A. H. Aymond, Chairman of the Board

February 16, 1976

Corporate Review

The Company's Position Improved in 1975, but Adequate Rates Are Still To Be Obtained.

The financial picture improved substantially for the Company in 1975. The new oil-fired Unit 3 of the Dan E. Karn generating plant went into commercial operation and the Palisades nuclear plant was returned to service for an extended period. The production of those two plants significantly reduced the need for high cost purchased and interchanged power.

An electric rate increase granted in January 1975 and an interim gas rate increase made effective in June were also important factors in the financial improvement.

As a result, from February forward, earnings steadily improved, enabling the Company to issue the securities required to help finance a restricted construction program. However, total new plant expenditures of \$220 million in 1975 were still \$200 million less than the amount that should have been spent to meet future customer requirements, if the money could have been raised.

The market price of the Company's common stock improved in 1975 although early in 1976 it was still selling at substantially less than its underlying book value. The Company's credit rating, in the wake of its poor earnings in 1974, continues to be depressed. As a result, the costs to the Company for the use of funds for construction remain high. To restore the Company's credit ratings to previous levels will require continued improvement. Investors must be convinced that regulation will be reasonable and fair.

Even with the heartening upturn in earnings, there is much still to be accomplished if the Company is to finance needed construction to meet the demands of its customers in the future. Approximately \$406 million is budgeted in 1976 to restore the construction schedule to an appropriate level. To finance this program and to refund \$60 million of 8¾ % first mortgage bonds maturing in 1976, over \$300 million must be raised through sales of securities. Timely and fair regulatory action is needed so that the Company can attract the required amounts of additional new capital.

Earnings Increased Steadily

Earnings increased each month from the low point of \$1.30 per average share of common stock outstanding reported for the 12 months ended January 31, 1975, to \$2.65 for the 12 months ended December 31, 1975. The 1975 year-end figure compares to \$1.34 for the year 1974 (before the cumulative effect of an accounting method change which increased per share earnings in 1974 by \$.95). Earnings per common share are based on the average number of shares of common stock outstanding during the 12-month periods ended December 31, 1974 and December 31, 1975. Earnings per share of common stock, assuming full dilution by conversion of the Company's \$6.00 and \$5.50 preference stock, were \$2.27 for 1974 (after the cumulative effect of the accounting change) and \$2.52 for 1975.

Total operating revenues rose to \$1,341,100,000 for the 12 months ended December 31, 1975, a 21.3 percent increase over the \$1,105,383,000 reported for 1974.

In November 1974, the Company applied to the Michigan Public Service Commission for approval to increase its gas rates by \$54.2 million, later amended to \$57.8 million. In June 1975, the Commission granted interim relief in the amount of \$29.2 million annually. As of the date of printing this report no final order had been issued.

Gas and Electric Rate Cases Pending

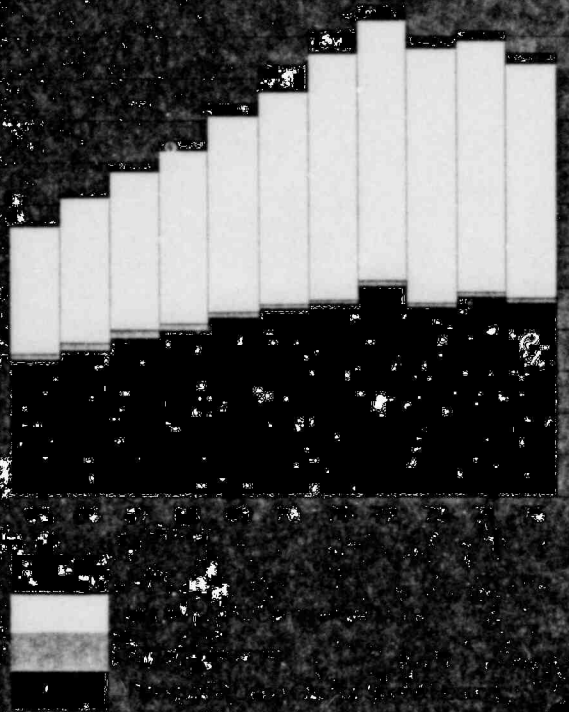
In May 1975 the Company applied to the Michigan Public Service Commission for permission to increase its electric rates by at least \$118 million annually, including \$73,500,000 in interim relief. This request was amended in November to \$106,663,000 and \$66,769,000 in interim relief, to reflect the impact of the new Michigan Single Business Tax, which became effective on January 1, 1976 replacing eight previously existing business taxes. The Commission on February 9, 1976 denied the Company's request for interim relief, and indicated that a final order would be issued in approximately two months.

Also pending in conjunction with the electric rate case is a request that the Michigan Public Service Commission amend the fuel adjustment clause to reflect the cost of purchased and interchanged power in electric rates. This request was originally filed in 1974 and has been consolidated with the Company's electric rate case.

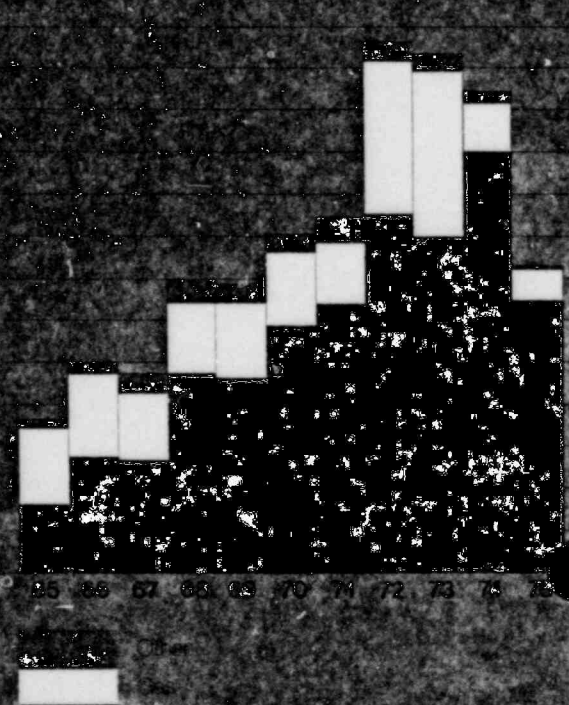
In September the Federal Power Commission authorized the Company to



Case and Death Statistics, 1965-1974



Case and Death Statistics, 1965-1974



increase its wholesale electric rates by \$5.1 million annually, subject to refund following Commission review. The increase, which became effective September 30, 1975, affects 16 smaller systems that buy power from the Company.

A settlement agreement in a pending wholesale rate proceeding The Detroit Edison Company has been submitted to the Federal Power Commission for approval. The agreement would increase by \$2,746,000 annually the cost of wholesale electricity which the Company purchases for resale in the City of Pontiac, Michigan. The increase would become effective April 1, 1976.

New Securities Issued

In 1975, the Company secured external funds to meet its requirements in a number of ways, including the issuance of new securities as follows:

Preference Stock

June

\$50 million gross proceeds from sale of 1,000,000 shares, cumulative, \$1 par value, at \$50 per share, each share convertible into approximately 3.225 shares of common stock, annual dividend rate, \$5.50	Cost after underwriting commissions: 11.579%
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First Mortgage Bonds

July

\$75 million, 9¾ % Series due 1980	Effective interest cost to the Company: 9.982%
\$75 million, 11½ % Series due 2000	Effective interest cost to the Company: 11.674%

In June the Company sold and leased back two of its principal general office buildings and related land in Jackson, Michigan, to the Trustees of the General Electric Pension Trust. The sale and lease-back arrangement provided the Company with \$26 million of long-term funds for financing construction at a favorable cost in comparison to other sources.

In November the Company arranged for the sale of two series of tax exempt pollution control revenue bonds issued by the Charter Township of Hampton, Michigan and the Township of Port Sheldon, Michigan, totaling \$31 million. Proceeds from these bonds are being used to finance air and water pollution control equipment at the Company's Karn-Weadock and Campbell electric generating plants. Interest costs on the bonds ranged between 6.75 and 9 percent depending on the bond maturity dates.

At a special meeting of shareholders on September 24, 1975 a resolution was adopted amending the Company's Articles of Incorporation to increase the authorized number of shares of common stock from 32,500,000 to 42,500,000. The amendment was adopted by a favorable vote of 64 percent of the voting shares outstanding.

In January 1976 the Company negotiated the sale of 2,500,000 shares of common stock. The stock was sold to the public at \$21.125 per share. Proceeds from the sale, after deduction of underwriting discounts and commissions, totaled \$50.9 million, and are being used to help finance the Company's construction program and to repay short-term borrowings made for that purpose.

Pending Litigation

In February 1975 the Michigan Supreme Court denied the Company's request for leave to appeal a decision of the State Court of Appeals affirming a lower court decision requiring the Company to refund \$24.5 million to its electric and gas customers. The Company has requested that the Court reconsider its action. The refund decision was issued in litigation brought by the Company challenging the legality of a 1969 Michigan Public Service Commission order which required the Company to reduce its rates if the Federal income tax surcharge, then in effect, was later reduced or eliminated. The surcharge was first reduced and then eliminated in 1970. The Company believes there should be no refund because increases in other costs during the period covered by the refund exceeded the tax savings resulting from the changes in the surcharge.

There is a suit pending which was filed by the Company in 1974 in U.S. District Court seeking not less than \$300 million in past and future damages, together with equitable relief, from suppliers of components and design work for the Palisades nuclear plant. The suit contends that five major contractors failed to

adequately design and build the plant, resulting among other things in the 1 and costly outage for repairs from August 1973 until April 1975 which hurt earnings during that period.

In July 1975 an Atomic Safety and Licensing Board of the U.S. Nuclear Regulatory Commission issued an initial decision in an antitrust review in the Midland nuclear plant licensing proceeding. In the decision the ASLB ruled the activities of Consumers Power Company were not inconsistent with antitrust laws and authorized the NRC Licensing Board to continue the permits for construction of the Midland plant without any antitrust restrictions.

The Justice Department had recommended a hearing, charging that activity under the Midland plant licenses would maintain a situation inconsistent with antitrust laws. In September the Justice Department, the NRC staff and certain municipal and cooperative intervenors filed exceptions to the initial decision of the ASLB. The case is now pending before an Atomic Safety and Licensing Appeal Board of the NRC.

Environmental Costs in 1975 Exceeded \$40 Million

The Company continued to invest in facilities for environmental protection. Total expenditures in 1975 exceeded \$40 million. To date, total capital investments required by environmental regulations have exceeded \$165 million. Of that total, \$68 million went for air pollution control, over \$40 million for water pollution control and more than \$42 million for nuclear radiation control. Other expenditures involved solid waste disposal, noise abatement, aesthetics and land use.

In 1975 the Company incurred over \$18 million in additional costs related to operation of environmental protection equipment and the use of low-sulfur fuels to meet emission control requirements.

It is estimated that in the five-year period 1976-80 the Company may be required to invest in excess of \$300 million to comply with environmental requirements. In addition another \$120 million may be required to maintain and operate this equipment, including incremental costs for low-sulfur fuel.

Environmental protection systems and equipment are nonrevenue producing and add significantly to the costs of providing electric service. The Company continues to conduct environmental impact studies and make presentations to regulatory agencies in an attempt to obtain deferral or elimination of certain environmental requirements that the Company believes are not justified on a cost-benefit basis. A significant portion of anticipated future expenditures falls into this category.

However, the problem is a difficult one. In late 1975 the Michigan Air Pollution Control Commission denied the Company's request for a variance from the enforcement of particulate emission limits at the James H. Campbell plant. As a consequence, the Company signed a multimillion dollar contract to install additional particulate control equipment at the plant. The existing precipitator operates with a particulate removal efficiency of about 95 percent. Increasing removal efficiency approximately 4 percent, to about 99 percent, required to assure compliance with the Commission emission limit, will cost the Company at least \$25 million.

These costs, of course, are ultimately borne by the Company's customers through higher rates. The Company has taken the position before regulatory bodies that in many instances the benefits to those living in its service area, and by and large the Company's customers, are not commensurate with the costs.

Shareholders and Dividends

At year end 1975 there were 123,548 common shareholders and 29,610 preferred and preference shareholders. Shareholders of preference stock have converted 148,130 shares of the \$5.50 preference stock issued in 1975 and 212,474 shares of the \$6.00 preference stock issued in 1974 into a total of 1,327,636 shares of common stock by year-end.

The Company paid \$53,271,000 or \$2.00 per share in dividends to common shareholders and dividends on preferred and preference stock amounted to \$30,086,000 during the year. Owners of the Company's stock are residents of 50 states, the District of Columbia and 27 foreign countries. Approximately 66 percent of all shareholders are Michigan residents.

The 1975 Annual Meeting of Shareholders was held Tuesday, April 8, 1975.

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However, the problem is a difficult one. In late 1975 the Michigan Air Pollution Control Commission denied the Company's request for a variance from the enforcement of particulate emission limits at the James H. Campbell plant Unit 2. As a consequence, the Company signed a multimillion dollar contract to install additional particulate control equipment at the plant. The existing precipitator operates with a particulate removal efficiency of about 95 percent. Increasing the removal efficiency approximately 4 percent, to about 99 percent, required to assure compliance with the Commission emission limit, will cost the Company at least \$25 million.

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The 1975 Annual Meeting of Shareholders was held Tuesday, April 8, 1975 in

Jackson. A total of 21,419,144 shares, or 70.6 percent of all shares outstanding, was represented at the meeting either in person or by proxy.

The 1976 Annual Meeting of Shareholders will be held Tuesday, April 13, 1976 at the Company's Parnall Office Building, 1945 W. Parnall Road in Jackson, Michigan at 2:00 PM, Jackson time. Regional shareholder meetings will then be held evenings at various locations in Michigan according to the following schedule:

April 14	Jackson	April 22	Flint
April 15	Kalamazoo	April 27	Saginaw
April 20	Grand Rapids	April 28	Pontiac
April 21	Lansing		

Further details will be released prior to these meetings.

Changes in Management

John D. Selby, a nuclear and electronics engineer, became a Company director and president and chief operating officer effective April 1, 1975. A. H. Aymond had served as both chairman of the board and president since the death of James H. Campbell, then president, in 1972. Mr. Selby came to Consumers Power after 28 years of service with the General Electric Company, where his final post was deputy division general manager, nuclear energy products division.

At its March meeting the Board of Directors of the Company named the following officers to new positions: Walter R. Boris, previously vice president for finance, to member of the Board of Directors and executive vice president for finance; Harold P. Graves, previously vice president and general counsel, to senior vice president and general counsel; and John W. Kluberg, previously vice president and controller, to senior vice president for accounting and rate matters. James B. Falahee, formerly general attorney, was named vice president and general attorney, and Samuel N. Spring, previously assistant controller, was named controller. The Board of Directors also accepted the resignation, effective March 31, 1975, of James A. McDivitt, executive vice president for corporate affairs and a member of the Board.

Subsequently, Mr. Graves, who had been general counsel since 1958, elected early retirement effective September 30, 1975. He was succeeded by Mr. Falahee who, continuing as vice president, also became general counsel and chief legal officer of the Company on October 1, 1975.

In July Jack W. Reynolds, former corporate director of industrial relations for the B. F. Goodrich Company, Akron, Ohio, became vice president for personnel. Mr. Reynolds filled the vacancy created by the death of Birum G. Campbell in 1974.

Roland A. Lamley retired at year-end from his position as vice president for bulk power operations. He had been with the Company 40 years. He was succeeded by Charles R. Bilby, previously executive manager of bulk power operations, who was elected vice president effective January 1, 1976. Mr. Bilby joined Consumers Power in 1949.

Romney Wheeler, vice president for public relations, elected disability retirement on December 31, 1975 as a result of a heart attack. He was succeeded by Robert J. Fitzpatrick, who became vice president for public relations effective January 1, 1976. Mr. Fitzpatrick joined the Company in March 1975 as assistant vice president for public relations. He formerly served in the U.S. Postal Service as assistant postmaster general and with the Federal Energy Administration as deputy director of public affairs. Earlier he was director of public relations of Texas Eastern Transmission Corporation, a major energy company.

In January 1976 W. Jack Mosley was appointed vice president in charge of energy planning with responsibility for all of the Company's energy and business planning activities. Mr. Mosley had been vice president in charge of electric planning since 1972.

The Company was deeply saddened by the death of Director Daniel M. Fitz-Gerald on July 24, 1975. Mr. Fitz-Gerald was Chairman of the Executive Committee of The Wickes Corporation. He had served well and faithfully on the Consumers Power Board since 1967.

Meeting The Need For Electric Power

More and More, It Is Clear That the Need To Build Must Be Communicated by Electric Utilities So That Public Approval Will Support Regulatory Endorsement of Adequate Rates.

One of the best signs of what 1976 may have in store for Michigan occurred on December 23, 1975 when the Company announced at a major press conference that it was resuming a construction program realistically geared to the state's future needs. Due to depressed earnings, the Company's expenditures for expansion and improvement of facilities had to be reduced sharply in 1974, and drastically in 1975.

The Company's decision to budget \$406 million for 1976 construction — \$369 million of it electric — heralded a return to a "normal" construction program. It meant that improved conditions, together with the expectation of reasonable regulatory treatment, had made it possible for the Company to keep trying to do its job — serving 1.8 million customers reliably and well, now and in the future.

For Consumers Power Company and most electric utilities, carrying on adequate construction programs will require further improvement in earnings and improved credit ratings. But there's a problem.

In 1975 the Edison Electric Institute, the principal association of investor-owned electric companies, made a survey of public attitudes to follow up on studies made in 1971 and 1973. The survey painfully revealed that public disenchantment with all energy companies has intensified sharply since the 1973 oil embargo which sent fuel prices skyrocketing.

That disenchantment must be met and counteracted. Electric utility companies must dedicate themselves to communicating to their customers the need to build to meet the increasing demands that inevitably lie ahead, taking carefully reasoned growth rates, conservation and environmental needs into full account.

Consumers Power Company plans to do just that, and to enlist the continuing support of its shareholders and employees in the effort. With firmly based public understanding and support, the Company hopes to obtain regulatory decisions which will allow it to continue doing today what is essential to assure adequate energy resources for Michigan tomorrow.

Electric Construction Program a Challenge

Over the next 10 years the Company is forecasting average yearly electric sales growth rates of four and one-half percent for residential use, six percent for commercial use and six percent for industrial use. To meet anticipated growth, it is estimated that the Company will have to spend approximately \$6 billion for new construction over the next 10 years, the majority of it for electric projects. The Company has budgeted \$369 million for new electric construction in 1976. Of that, about \$200 million will be spent on the Midland nuclear plant to move the twin-unit plant toward its completion dates of 1981 and 1982. Approximately \$34 million is budgeted for the Dan E. Karn generating plant



Unit 4, which is scheduled for operation in early 1977.

The Company plans to spend \$18 million on Unit 3 of the James H. Campbell plant in 1976. Campbell Unit 3 is scheduled for operation in 1980. Also budgeted in 1976 are approximately \$53 million for improvements at other generating plants. The budget includes substantial costs for environmental protection: \$21 million for existing plants and \$40 million for plants under construction. The Company also plans an expenditure of \$66 million in 1976 for general improvements, replacement of equipment, and other work to keep the electric system operating properly.

Palisades Plant

The Palisades nuclear plant, which had been out of operation in 1974 for repairs, went back into service in April 1975. Pursuant to the terms of its operating license, the plant was shut down in December for steam generator tube inspection. Also during the outage uranium fuel will be replaced and necessary maintenance will be performed. In addition, the Company has begun constructing a \$22 million water purification system for the plant to provide for better control of feedwater and steam system chemistry to minimize further corrosion problems. The Company expects the plant to be back in operation in April 1976.

During its eight months of 1975 operation the Palisades plant, the Company's largest generating unit, produced over 2.4 billion kilowatthours of electricity at a unit fuel cost half that of energy produced by the Company's fossil-fueled generating units.

Karn Unit 3 in Commercial Operation

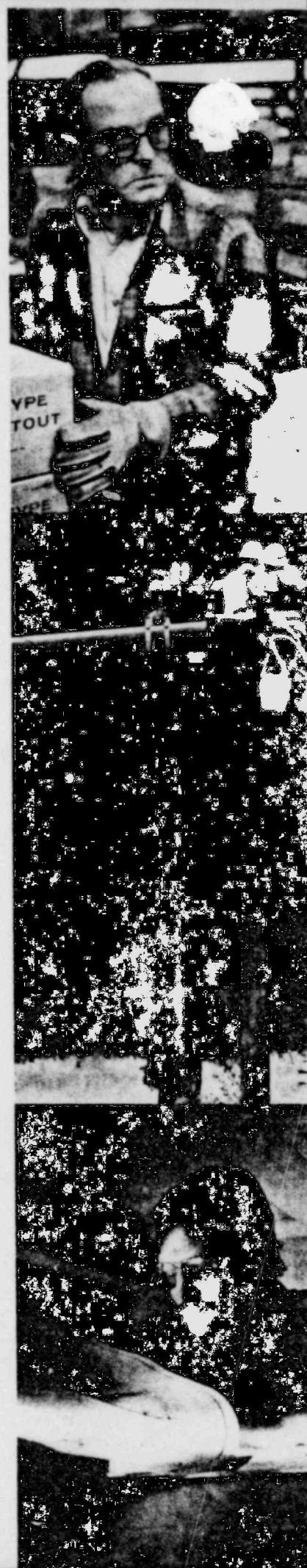
In April 1975 the Company's new oil-fired Unit 3 of the Dan E. Karn generating plant went into commercial operation. In July Karn 3 was taken out of service for repairs to a boiler reheater. The plant went back into production after repairs were completed in October and presently has a net rating of 500,000 kilowatts. Certain boiler modifications must be made before Karn 3 can be operated at its projected net capability of 644,000 kilowatts. Those modifications are expected to be completed in 1977.

Midland Plant Construction

Early in 1975, budget constraints forced a severe cutback in construction activity at the Midland nuclear plant. Approximately \$69 million were spent on Midland in 1975. Cost estimates for the twin-unit generating plant were revised from \$940 million to \$1.4 billion due to a planned two-year delay in commercial operation of the units and further refinement of the estimate covering the scope of the work. To date, construction at the Midland plant site is about 12 percent complete and engineering about 50 percent complete. When completed, the plant will have a capability of approximately 1.3 million kilowatts, equal to almost one-fourth of the Company's present generating capability, and also will provide process steam to The Dow Chemical Company.

Emergency Procedures Approved

In May 1975 the Michigan Public Service Commission issued an order approving emergency procedures to be implemented in the event of short- and long-term electric generating capacity shortages. Those procedures include internal load reduction, voltage reduction, automatic and



manual load shedding, interruption of selected distribution circuits on a rotating basis and curtailment of up to 30 percent of the electric demand and energy usage of commercial and industrial customers having an electric demand of 500 kilowatts or higher.

Crude Oil Supply Uncertain

On January 1, 1976 the Canadian Government reduced exports of crude oil to the United States to a level of 510,000 barrels per day and is expected to further reduce exports to 385,000 barrels per day in late 1976. The cutback resulted in the National Energy Board of Canada reducing the amount of Canadian crude oil licensed for export to Consumers Power Company from the contracted level of 20,000 barrels per day to approximately 4,500 barrels per day in January 1976. This cutback, and similar announced cutbacks for February and March 1976, will be substantially offset through Company purchases of a special blend of partially refined oil products from Canada. The U.S. Federal Energy Administration has inaugurated an allocation program for Canadian crude oil and the Company is uncertain what the final impact of such a program will be on the operation of its oil-fired generating plants.

Canadian crude oil is burned in Karn 3 and six units of the John C. Weadock plant and is also planned as fuel for Karn 4. The average cost of oil burned in 1975 was \$12.95 per barrel, a 20 percent increase over the average cost per barrel of \$10.76 in 1974. The Karn and Weadock units used approximately 5,568,100 barrels of oil to generate electricity in 1975.

The Company's coal-fired generating plants burned 5,933,000 tons of coal at an average cost of \$21.60 per ton compared to \$16.92 per ton in 1974. The total cost of fuel used in electric generation and purchased and interchanged power amounted to \$340,447,000, a net 7.9 percent increase compared to 1974.

At year-end 1975 the Company was serving 1,217,720 electric customers located in 61 lower Michigan counties. These included 7,710 industrial, 119,603 commercial and 1,089,577 residential customers. A total of 22.9 billion kilowatthours was sold by the Company, down slightly from 1974.



Finding and Bringing Natural Gas to Customers

Maintaining Service to 971,900 Customers Was a Satisfaction in 1975, But There Were Frustrations in Supply Regulation.

Despite increasing curtailments from major pipeline suppliers, the Company was able to meet all the requirements of its firm gas customers during 1975. It also continued accepting new residential customers and added, through the end of April, a limited number of new small industrial and commercial customers.

Actually, all expansion would have stopped and sharp reductions in industrial service would have been necessary had it not been for the successful operation of the Marysville gas reforming plant and the Company's vigorous participation in exploration and development of new gas supplies in Michigan.

The Company, through its wholly-owned subsidiary, Northern Michigan Exploration Company (NOMECO), also has been aggressive and successful in gas exploration and development in Louisiana and the Gulf of Mexico. However, so far it has been unable to obtain the regulatory approvals necessary to bring the Gulf Coast gas to Michigan.

Sharp curtailments, amounting to 115 billion cubic feet of gas, were experienced from the Company's two major pipeline suppliers in 1975. Such curtailments are expected to reach 143 billion cubic feet, or about 40 percent of contract levels, in 1976. In 1975 synthetic gas from the Marysville plant contributed an average of 183 million cubic feet per day or about 20 percent of the Company's requirements, and gas received from newly developed producing areas in Michigan amounted to an average of 90 million cubic feet per day, or about 10 percent of the Company's total requirements.

Due to the national gas shortage, the Company has implemented a gas allocation program authorized by the Michigan Public Service Commission to protect service to existing customers. Under the program the Company is presently issuing gas permits for residential use only.

Marysville Sets Production Record

Through August 1975 the Marysville gas reforming plant produced a cumulative volume of 100 billion cubic feet of synthetic natural gas (SNG), setting a record for production of SNG in the United States. Marysville, one of the largest plants of its kind in the world, converts liquid hydrocarbon feedstocks imported by pipeline from Alberta, Canada into pipeline quality gas, which is fed into the Company's integrated gas system.

The first unit at Marysville went into service in the fall of 1973 and the second unit became operational in the spring of 1974. During the plant's first complete year of full operation in 1975 it produced more than 66 billion cubic feet of gas. Marysville has achieved a demonstrated maximum daily output of 250 million cubic feet of synthetic gas, which is 25 percent greater than its design rating. By itself, Marysville offset more than 57 percent of the curtailments in pipeline deliveries in 1975.

In April 1975 the Michigan Public Service Commission



released the final results of a study on Marysville conducted by the Stanford Research Institute. The report substantiates the value of the plant to Michigan in providing a much-needed supply of natural gas, offsetting in part the effect of severe supplier curtailments. The report affirms that the Company made the right decision for Michigan and its economy in building the plant, despite the relatively high cost of gas produced at Marysville. The report also points out that the increased costs of gas from Marysville are substantially attributable to sharply increased Canadian taxes on exported feedstocks. As a result of U.S. and Canadian government fees, duties, taxes and other increased costs, the price of natural gas liquid feedstocks for Marysville increased from \$4.00 per barrel in 1973 to more than \$13.00 per barrel in 1975.

Canadian Feedstock Under FEA Regulation

Although the Company's contract for Canadian feedstock provides for delivery to Marysville of up to 50,000 barrels per day, the amount of liquid feedstock which may be used at Marysville is controlled by allocation regulations administered by the U.S. Federal Energy Administration (FEA). Under these regulations, the Company has requested allocations sufficient to cover the volumes of Canadian feedstock contracted for Marysville. In December 1975 the FEA issued an order allocating such natural gas liquids for Marysville for 1976, but inserted in the order several conditions relating to service to customers and pricing of the gas produced by the plant which could adversely affect the 1977 allocation of feedstocks for Marysville. The Company has appealed the order.

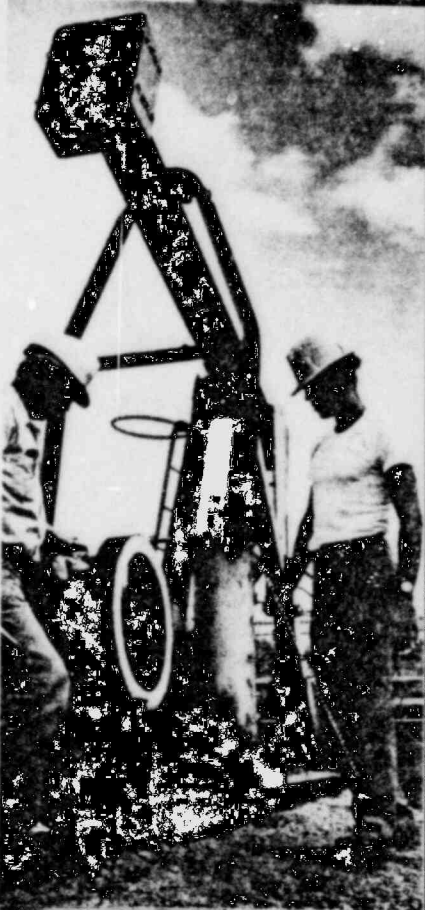
With governmental actions uncertain, the effect of future FEA allocations of feedstock or cutbacks of Canadian exports of feedstock upon Consumers Power's ability to serve its natural gas customers is unclear.

Company Continues Search for New Gas

Anticipating the natural gas shortage and the need to take determined steps to protect Michigan gas consumers, Northern Michigan Exploration Company (NOMECO) has participated since 1967 in oil and gas exploration in Michigan's Lower Peninsula. NOMECO presently holds interests in undeveloped leases on oil and gas produced on lands covering 477,000 Michigan acres.

NOMECO is also involved in the exploration and development of 59,000 acres offshore Western Louisiana, with a net ownership of 5,500 acres. There, marked success has been achieved in finding new reserves. However, a request filed with the Federal Power Commission in June 1974 for permission to transport NOMECO's share of this development, approximately 40 million cubic feet per day, to Michigan through existing pipelines is still pending. In the meantime, the gas is being sold to Trunkline Gas Company, a major gas supplier to the Company, thereby reducing the level of curtailments on the Trunkline system.

Despite regulatory uncertainties, NOMECO is continuing its exploration activities in other parts of the country in 1976. Since 1970, the Company and NOMECO have invested \$235 million in exploration and development to increase gas supplies for Michigan.



Home Insulation Program Gains

Insulation was added to more than 24,000 homes in the Company's service area in 1975 as a result of the Company's home insulation program. Since December 1973, when the program was initiated in cooperation with the Michigan Public Service Commission, more than 59,000 gas customers have made use of the service. The plan encourages customers to obtain information and assistance in conserving natural gas and making the most efficient use of it. The program emphasizes adequate insulation and helpful practices that will enable the customer to get the most from his gas service.

\$34 Million Budgeted for Gas Construction

A total of \$34 million is budgeted for gas distribution and storage construction projects during 1976. Of that total, approximately \$2.5 million is budgeted for the conversion of a depleted gas field in St. Clair county into a gas storage field. The new field will store 11 billion cubic feet of gas and will be able to deliver 50 to 100 million cubic feet of gas per day during periods of high use. More than \$25 million is budgeted for transmission and distribution system expansion and improvements throughout the system.

Gas Sales Down 4.6 Percent

At year end the Company was serving 971,913 gas customers in 40 lower Michigan counties including 6,459 industrial, 66,787 commercial and 898,667 residential customers. Of all residential customers, 835,833 use natural gas to heat their homes. Gas customers used a total of 318.2 billion cubic feet of natural gas in 1975, down 4.6 percent from 333.6 billion in 1974. The decrease reflects the effects of the economic downturn and warmer weather in 1975 than in 1974.

The average cost of gas per thousand cubic feet sold by the Company increased from 86.34 cents in 1974 to 116.08 cents in 1975. The increase is attributable to higher prices put into effect by suppliers, as well as increased costs of liquid hydrocarbon feedstock for Marysville.



"Miss Dig" Began at Consumers



In November 1970 the Company's South Oakland division pioneered a safety program to reduce damage to underground facilities. The program has since spread through 10 companies to all 83 counties of Michigan and has received recognition nationally as a model utility damage prevention program.

It's called Miss Dig and its most popular spokesperson is an attractive Michigan Bell employee, Holly Burris, a real-life Miss Dig who has traveled throughout the state promoting the program.

Here's how it works.

A contractor or other person planning to dig calls a toll-free number, 800-482-7171, giving Miss Dig his name, the work location, extent of work planned, company name, address and phone number and other de-

tails. The information is fed into a computer and the participating utilities and governmental units are notified by teletype. Those which have underground facilities at the work location dispatch personnel to identify their facilities with color-coded markers at no cost to the contractor. If participating members have no underground lines in the work area, the contractor is notified.

Miss Dig is designed to help cut down on service interruptions as a result of damage to underground facilities. It also saves contractors time and money and makes construction sites safer places to work.

More than a quarter of a million calls have been received since the program was begun. Estimates are that Miss Dig has reduced accidents by 50 percent, despite increased excavating.

Company Directors

A. H. AYMOND
Chairman of the Board of the Company
Jackson, Michigan

WALTER R. BORIS
Executive Vice President of the Company
Jackson, Michigan

ROBERT P. BRIGGS*
Former Michigan Commissioner of Financial Institutions
Elk Rapids, Michigan

EDWARD N. COLE
Chairman of the Board of International Husky, Inc.,
an air freight company
Bloomfield Hills, Michigan

E. NEWTON CUTLER, JR.
Chairman of the Board of Horizon Bancorp.,
a bank holding company
Morristown, New Jersey

L. D. FERDEN*
Farmer
Chesaning, Michigan

DANIEL M. FITZ-GERALD**
Chairman of the Executive Committee of The Wickes Corporation,
a diversified corporation
San Diego, California

RICHARD M. GILLET
Chairman of the Board and Chief Executive Officer of Old Kent
Financial Corporation, a bank holding company
Grand Rapids, Michigan

MARTHA W. GRIFFITHS
Attorney, Griffiths and Griffiths
Farmington Hills, Michigan

JOHN W. HANNON, JR.
President of Bankers Trust Company and Bankers Trust
New York Corporation
New York, New York

JAMES A. McDIVITT***
Executive Vice President of the Company
Jackson, Michigan

DON T. McKONE
President and Chief Operating Officer of Libbey-Owens-Ford
Company, a diversified corporation
Toledo, Ohio

C. S. HARDING MOTT
Chairman and Trustee of the Charles Stewart Mott Foundation,
a philanthropic foundation
Flint, Michigan

L. C. ROLL
Vice Chairman of the Board of Kellogg Company,
cereal manufacturer
Battle Creek, Michigan

JOHN D. SELBY
President of the Company
Jackson, Michigan

JOHN B. SIMPSON
Executive Vice President of the Company
Jackson, Michigan

JOHN C. SUERTH
Chairman of the Board and Chief Executive Officer of Gerber
Products Company, producer of baby needs
Fremont, Michigan

DR. E. GIFFORD UPJOHN
Director of The Upjohn Company, pharmaceutical manufacturer
Kalamazoo, Michigan

RUSSELL C. YOUNGDAHL
Executive Vice President of the Company
Jackson, Michigan

*Mr. Briggs and Mr. Ferden retired from the Board in April 1975.

**Mr. Fitz-Gerald served on the Board from April 1967 until his death on July 24, 1975.

***Mr. McDivitt resigned from the Board effective March 31, 1975.

Company Officers

A. H. AYMOND
Chairman of the Board, Chief Executive Officer

JOHN D. SELBY
President, Chief Operating Officer

JOHN B. SIMPSON
Executive Vice President, Divisions, Customer Service, Energy Consulting
Services, Gas Groups and General Services

RUSSELL C. YOUNGDAHL
Executive Vice President, Electric Groups

WALTER R. BORIS
Executive Vice President, Finance

JOHN W. KLUBERG
Senior Vice President, Accounting and Rates

HAROLD P. GRAVES*
Senior Vice President and General Counsel

W. ANSON HEDGE COCK
Vice President, Customer Service and Energy Consulting Services

W. JACK MOSLEY
Vice President, Energy Planning

ROMNEY WHEELER**
Vice President, Public Relations

ROLAND A. LAMLEY**
Vice President, Bulk Power Operations

EUGENE B. HEDGES
Vice President, Gas Operations

STEPHEN H. HOWELL
Vice President, Electric Plant Projects

LOWELL L. SHEPARD
Vice President, Division Operations

RAYNARD C. LINCOLN, JR.
Vice President, General Services

JAMES B. FALAHEE*
Vice President and General Counsel

JACK W. REYNOLDS
Vice President, Personnel

CHARLES R. BILBY
Vice President, Bulk Power Operations***

ROBERT J. FITZPATRICK
Vice President, Public Relations***

PAUL A. PERRY
Secretary

RICHARD M. GRISWOLD
Treasurer

SAMUEL N. SPRING
Controller

*Mr. Graves retired early effective September 30, 1975. Mr. Falahee was appointed General Counsel effective October 1, 1975.

**Retired December 31, 1975.

***Effective January 1, 1976.

Divisions and Managers

(Headquarters cities in parentheses)

Battle Creek Division (Battle Creek) GORDON W. HOWARD

Bay City Division (Alma) EUGENE A. WAGGENER

Flint Division (Flint) J. LAURENCE GILLIE

Grand Rapids Division (Grand Rapids) JOHN G. GOENSE

Jackson Division (Jackson) A. FRANK BREWER

Kalamazoo Division (Kalamazoo) WILLIAM A. HOLTGREIVE

Lansing Division (Lansing) CHARLES F. BROWN

Macomb Division (East Detroit) GEORGE L. MAYHEW

Muskegon Division (Muskegon) W. JOSEPH McCORMICK

Northeast Division (Bay City) RALPH HAHN

Northwest Division (Traverse City) BOB D. HILTY

Pontiac Division (Pontiac) K. EUGENE McGRAW

Saginaw Division (Saginaw) STANLEY M. JURRENS

South Oakland Division (Royal Oak) WILFRED L. WHITFIELD

West Wayne Division (Livonia) JAMES P. THOMAS

Mr. Aymond, right, and Mr. Selby addressed reporters at a construction budget press conference in December 1975.



Senior Management

During late 1974 and 1975 the Company took a number of steps to restructure, strengthen and add depth to the management team. The goal was — and continues to be — to further refine the Company's top management and organizational structure to achieve maximum operational and administrative effectiveness.

The complete list of officers responsible for the conduct of the Company's business, including the individual responsibilities of each, can be found on page 15 of this Annual Report. The Company maintains biographical data on its executive officers and is pleased to furnish copies to shareholders, members of the financial community or others interested in further information on the management staff. Requests should be directed to Mr. P. A. Perry, Secretary, Consumers Power Company, 212 West Michigan Avenue, Jackson, Michigan 49201.

As a matter of general interest to shareholders, brief biographies of the six senior executive officers of the Company are included on these pages.

A. H. Aymond

A. H. Aymond, 61, has been chairman of the board and the Company's chief executive officer since 1960. He joined Consumers Power Company in 1947 as an attorney. He was elected vice president and general counsel in 1955 and became executive vice president and a director in 1957.

Mr. Aymond assumed the additional responsibility of president in February 1972 following the death of James H. Campbell. Upon the election of John D. Selby as president effective April 1975, Mr. Aymond continued as chairman and chief executive officer.

John D. Selby

In April 1975 John D. Selby, 54, became president and chief operating officer and a member of the board of directors of the Company. He came to Consumers Power from the General Electric Company where he held the post of deputy division general manager, nuclear energy products division, in San Jose, California. Mr. Selby, a nuclear and electronics engineer, served in a series of executive capacities with General Electric for 28 years after joining that company as a test engineer in 1946.



John B. Simpson

John B. Simpson, 57, is executive vice president for gas groups, customer service, energy consulting services, division operations and general services. He is also a member of the board of directors. Mr. Simpson began his career with Consumers Power in 1946 as a junior engineer in the gas department and became general supervisor of gas operations in 1952.

He was elected vice president in charge of gas operations in 1958 and in 1968 was named senior vice president. He assumed his present post in 1974.



Russell C. Youngdahl

Russell C. Youngdahl, 51, executive vice president in charge of electric groups and a director of the Company, has been with Consumers Power since 1946. He joined the Company as a distribution technician and served in electric operations, engineering and construction executive posts before being elected vice president in 1967. He became senior vice president in 1970, assumed responsibility for all electric operations in 1972, and was named to his present position in 1974.



Walter R. Boris

In March 1975 Walter R. Boris, 54, was named executive vice president and a member of the Company's board of directors. He is the Company's chief financial officer, with responsibility for financial, corporate and governmental affairs of the Company and economic and financial planning and shareholder relations. Mr. Boris joined the Company as a title examiner in 1950, later serving as an attorney and an executive staff assistant. He was named secretary of the Company in 1956 and was elected vice president for finance in 1968.



John W. Kluberg

John W. Kluberg, 62, is senior vice president for accounting and rate matters for Consumers Power Company. Mr. Kluberg joined the Company in 1951 as controller and was elected vice president and controller in 1964. In March 1975 he was named to his present responsibilities.

Statement of Income

Consumers Power Company

	YEAR ENDED DECEMBER 31	
	1975	1974
	Thousands of Dollars	
OPERATING REVENUE (Notes 1 and 2):		
Electric	\$ 757,741	\$ 619,958
Gas	581,294	483,832
Steam	2,065	1,593
Total operating revenue	<u>\$1,341,100</u>	<u>\$1,105,383</u>
OPERATING EXPENSES AND TAXES:		
Operation—		
Purchased and interchanged power	\$ 90,891	\$ 143,394
Fuel consumed in electric generation	249,556	172,050
Cost of gas sold	375,495	293,190
Other	179,029	153,619
Total operation	<u>\$ 894,971</u>	<u>\$ 762,253</u>
Maintenance	57,607	55,140
Depreciation and amortization	93,635	82,944
General taxes	67,678	63,058
Income taxes (Note 12)	58,331	20,781
Total operating expenses and taxes	<u>\$1,172,222</u>	<u>\$ 984,176</u>
Net operating income	<u>\$ 168,878</u>	<u>\$ 121,207</u>
OTHER INCOME:		
Allowance for funds used during construction (Notes 1 and 13)	\$ 24,825	\$ 21,875
Income of subsidiaries (Notes 1 and 14)	11,432	7,371
Gain on reacquisition of long-term debt	2,958	2,833
Other, net	1,438	862
Net other income	<u>\$ 40,653</u>	<u>\$ 32,941</u>
INTEREST CHARGES:		
Interest on long-term debt	\$ 101,340	\$ 84,948
Other interest charges	7,464	8,367
Total interest charges	<u>\$ 108,804</u>	<u>\$ 93,315</u>
Income before cumulative effect of change in method of recording revenue (Note 2)	<u>\$ 100,727</u>	<u>\$ 60,833</u>
Cumulative effect on years prior to 1974 of accruing estimated unbilled revenue after deduction for related income taxes (Note 2)	—	24,864
Net income	<u>\$ 100,727</u>	<u>\$ 85,697</u>
DIVIDENDS ON PREFERRED AND PREFERENCE STOCK		
	30,086	25,540
Net income after dividends on preferred and preference stock	<u>\$ 70,641</u>	<u>\$ 60,157</u>
EARNINGS PER SHARE OF COMMON STOCK ASSUMING NO DILUTION		
BASED ON AVERAGE SHARES OUTSTANDING (Note 3):		
Before cumulative effect of change in method of recording revenue (Note 2)	\$2.65	\$1.34
Cumulative effect on years prior to 1974 of accruing estimated unbilled revenue	—	.95
Total	<u>\$2.65</u>	<u>\$2.29</u>
EARNINGS PER SHARE OF COMMON STOCK ASSUMING FULL DILUTION		
BASED ON AVERAGE SHARES OUTSTANDING (Note 3):		
Before cumulative effect of change in method of recording revenue (Note 2)	\$2.52	\$1.34
Cumulative effect on years prior to 1974 of accruing estimated unbilled revenue	—	.92
Total	<u>\$2.52</u>	<u>\$2.27</u>

The accompanying notes are an integral part of this statement.

Statement of Source of Funds for Gross Property Additions

Consumers Power Company

		YEAR ENDED DECEMBER 31	
		1975	1974
		Thousands of Dollars	
SOURCE OF FUNDS FOR GROSS PROPERTY ADDITIONS:			
Funds generated from operations:	Net income after dividends on preferred and preference stock	\$ 70,641	\$ 60,157*
	Principal noncash items—		
	Depreciation and amortization		
	Per statement of income	93,635	82,944
	Charged to other accounts	5,164	4,420
	Deferred income taxes, net	31,318	26,191
	Investment tax credit, net	24,431	(5,118)
	Allowance for funds used during construction	(24,825)	(21,875)
	Undistributed earnings of subsidiaries (Note 1)	(9,512)	(5,688)
		<u>\$190,852</u>	<u>\$141,031</u>
	Less—		
	Dividends declared on common stock	53,271	52,467
	Retirement of long-term debt and preferred stock	14,788	13,688
		<u>\$122,793</u>	<u>\$ 74,876</u>
Funds obtained from new financing:	Issuance of preference stock	\$ 50,000	\$ 30,000
	Issuance of first mortgage bonds	150,000	110,000
	Issuance of long-term note	—	50,000
	Net proceeds from installment sales contracts payable	14,153	36,385
	(Decrease) in other long-term debt	(115)	(174)
	Increase (decrease) in notes payable	(80,000)	73,700
	Less refunded first mortgage bonds	(86,324)	—
		<u>\$ 47,714</u>	<u>\$299,911</u>
Other sources (uses) of funds:	Changes in net current assets and current liabilities (excluding obligations expected to be refinanced)—		
	Accounts receivable	\$ 4,395	\$ (29,509)
	Accrued revenues (Note 2)	(13,443)	(70,666)
	Refundable income taxes (Note 12)	17,651	(17,651)
	Materials and supplies—fuel stock	(972)	(38,685)
	Gas in underground storage	(37,336)	(26,601)
	Banker's acceptance drafts	5,000	—
	Accounts payable	8,714	26,866
	Accrued taxes	4,400	46,317
	Other	9,960	11,936
		<u>\$ (1,631)</u>	<u>\$ (97,993)</u>
	Property sold under leaseback arrangements (Note 9)	29,426	32,094
	Other, net	(2,696)	11,997
		<u>\$ 25,099</u>	<u>\$ (53,902)</u>
Total funds for construction from above sources		<u>\$195,606</u>	<u>\$320,885</u>
Allowance for funds used during construction		24,825	21,875
Gross property additions		<u>\$220,431</u>	<u>\$342,760</u>

*Includes cumulative effect on years prior to 1974 of change in method of recording revenue amounting to \$24,864,000, net of related income taxes.

() Denotes deduction.

The accompanying notes are an integral part of this statement.

Balance Sheet

Assets

		DECEMBER 31	
		1975	1974
		Thousands of Dollars	
UTILITY PLANT:	At original cost—		
	Plant in service and held for future use—		
	Electric	\$2,179,313	\$1,986,889
	Gas	995,114	974,169
	Steam	3,306	3,304
	Common to all departments	43,200	72,422
		<u>\$3,220,933</u>	<u>\$3,036,784</u>
	Less—Provision for accrued depreciation	777,395	700,347
		<u>\$2,443,538</u>	<u>\$2,336,437</u>
	Construction work in progress (Notes 4 and 5)	423,102	439,954
		<u>\$2,866,640</u>	<u>\$2,776,391</u>
OTHER PHYSICAL PROPERTY:	At cost or less—less provision for accrued depreciation of \$270,000 in 1975 and \$166,000 in 1974	\$ 2,876	\$ 2,507
INVESTMENTS:	Wholly-owned subsidiaries (Note 1)—		
	Michigan Gas Storage Company	\$ 21,265	\$ 20,530
	Northern Michigan Exploration Company (Note 14)	30,676	21,899
	Other, at cost or less	1,071	1,044
		<u>\$ 53,012</u>	<u>\$ 43,473</u>
CURRENT ASSETS:	Cash (Note 5)	\$ 19,666	\$ 15,970
	Accounts receivable, less reserves of \$1,337,000 in 1975 and \$712,000 in 1974	92,409	96,804
	Accrued revenues (Note 2)	84,109	70,666
	Refundable income taxes (Note 12)	—	17,651
	Materials and supplies, at average cost—		
	Fuel stock	64,436	63,464
	Other	34,389	31,945
	Gas in underground storage, at average cost	95,868	58,532
	Property taxes—future period, net	30,492	29,102
	Prepayments and other	2,033	1,455
	Total current assets	<u>\$ 423,402</u>	<u>\$ 385,589</u>
OTHER:	Preliminary construction costs of cancelled project being amortized (Note 4)	\$ 5,540	\$ 5,535
	Other deferred debits	9,663	13,939
		<u>\$ 15,203</u>	<u>\$ 19,524</u>
		<u>\$3,361,133</u>	<u>\$3,227,484</u>

The accompanying notes are an integral part of this statement.

Stockholders' Investment and Liabilities

		DECEMBER 31	
		1975	1974
		Thousands of Dollars	
CAPITALIZATION:	Common stockholders' equity—		
	Common stock, \$10 par value, authorized 42,500,000 and 32,500,000 shares, respectively; outstanding 27,561,474 and 26,233,838 shares, respectively (Notes 5, 6 and 7)	\$ 275,615	\$ 262,338
	Capital in excess of par value	252,203	247,231
	Retained earnings (Note 6)	257,496	240,126
		<u>\$ 785,314</u>	<u>\$ 749,695</u>
	Less—Capital stock expense	11,502	8,841
	Total common stockholders' equity	<u>\$ 773,812</u>	<u>\$ 740,854</u>
	Preferred and preference stock—		
	Preferred stock, cumulative, \$100 par value, authorized 5,000,000 shares (Notes 5 and 7)	\$ 346,734	\$ 347,134
	Preference stock, cumulative, convertible \$1 par value, authorized 5,000,000 shares, outstanding 1,239,396 and 600,000 shares, respectively (Note 7)	1,239	600
	Capital in excess of par value of preference stock	60,730	29,400
	Total preferred and preference stock	<u>\$ 408,703</u>	<u>\$ 377,134</u>
	Total stockholders' investment	<u>\$1,182,515</u>	<u>\$1,117,988</u>
	Long-term debt (Notes 5 and 8)	<u>1,403,188</u>	<u>1,316,343</u>
	Total capitalization	<u>\$2,585,703</u>	<u>\$2,434,331</u>
CURRENT LIABILITIES:	Current obligations expected to be refinanced (Note 5)—		
	First Mortgage Bonds, 8¾% Series due 1976 and 27½% Series due 1975, respectively	\$ 60,000	\$ 86,324
	Notes payable to banks (average interest rate of 7.25% and 10.32%, respectively)	34,500	118,500
	Notes payable to subsidiaries (average interest rate of 7.25%)	4,000	—
		<u>\$ 98,500</u>	<u>\$ 204,824</u>
	Other current liabilities—		
	Banker's acceptance drafts (average interest rate of 7.45%) (Note 5)	\$ 5,000	\$ —
	Current maturities and sinking fund on long-term debt (Note 8)	15,490	14,624
	Accounts payable	135,891	127,177
	Accrued taxes	108,548	104,148
	Accrued interest	34,417	29,224
	Other	50,632	38,623
		<u>\$ 349,978</u>	<u>\$ 313,796</u>
	Total current liabilities	<u>\$ 448,478</u>	<u>\$ 518,620</u>
DEFERRED CREDITS AND RESERVES:	Deferred income taxes (Note 12)	\$ 231,125	\$ 199,807
	Investment tax credit (Note 12)	67,251	42,820
	Other (Note 10)	28,576	31,906
		<u>\$ 326,952</u>	<u>\$ 274,533</u>
		<u>\$3,361,133</u>	<u>\$3,227,484</u>

The accompanying notes are an integral part of this statement.

Statement of Retained Earnings

	YEAR ENDED DECEMBER 31	
	1975	1974
	Thousands of Dollars	
BALANCE—Beginning of year	\$240,126	\$232,436
ADD—Net income after dividends on preferred and preference stock	70,641	60,157
	<u>\$310,767</u>	<u>\$292,593</u>
DEDUCT—Cash dividends on common stock of \$2.00 per share	53,271	52,467
BALANCE—End of year (Note 6)	<u>\$257,496</u>	<u>\$240,126</u>

Statement of Capital in Excess of Par Value

	YEAR ENDED DECEMBER 31	
	1975	1974
	Thousands of Dollars	
COMMON STOCK		
BALANCE—Beginning of year	\$247,231	\$247,070
Net gain on reacquisition of preferred stock	220	161
Excess over par value of common stock issued upon conversion of preference stock	4,752	—
BALANCE—End of year	<u>\$252,203</u>	<u>\$247,231</u>
PREFERENCE STOCK		
BALANCE—Beginning of year	\$ 29,400	\$ 29,400
Excess over par value of preference stock sold	49,000	29,400
Excess over par value of preference stock converted to common stock	(17,670)	—
BALANCE—End of year	<u>\$ 60,730</u>	<u>\$ 29,400</u>

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

1 SIGNIFICANT ACCOUNTING POLICIES

The Company follows the equity method of accounting for the investment in its wholly-owned subsidiaries, Michigan Gas Storage Company and Northern Michigan Exploration Company. 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 2.85% in 1975 and 2.80% in 1974 for electric property and 3.67% in 1975 and 3.56% in 1974 for gas property.

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 11)

Allowance for funds used during construction, a non-cash item 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 13)

Reference is made to Note 12 for information regarding income taxes.

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 the accelerating increase 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. This change had the effect of increasing net income and earnings per share of common stock in 1974 by \$9,016,000 and \$.34, respectively, before the cumulative effect for periods prior to 1974.

The cumulative effect of the change on years prior to 1974 of \$51,860,000 less income taxes of \$26,996,000 (a net effect of \$.95 per share) has been reflected in the financial statements for 1974.

3 EARNINGS PER SHARE

Earnings per share of common stock assuming no dilution are computed based on the average number of shares outstanding during the period, which were 26,676,554 and 26,233,838 in 1975 and 1974, respectively.

Earnings per share of common stock assuming full dilution are computed as if all outstanding shares of the preference stock were converted to common stock as of the dates of issuance of the preference stock, after elimination of the related dividends on the preference stock. The average number of outstanding shares of common stock under this assumption was 30,436,741 and 27,156,915 in 1975 and 1974, respectively.

4 NUCLEAR GENERATING PLANTS

The Palisades Nuclear Plant was shut down for essentially all of a period commencing in August 1973 and extending to early April 1975 to make repairs to certain of the Plant's reactor vessel internal components, steam generators, main condenser and other equipment. In April 1975, the Plant was returned to operation subject to a requirement to shut down for steam generator tube inspection after a limited period of operation. In December 1975, the Plant was shut down for such purpose and for refueling and maintenance. Under the current schedule the minimum shut down period is expected to continue to April 1976. The Company's application for a full-term, 40-year operating license is pending before the Nuclear Regulatory Commission (NRC). In August 1974, the Company filed suit in a U.S. District Court seeking not less than \$300 million in past and future damages, together with equitable relief, from suppliers of components and design work for the Plant. The suit is pending.

Construction work in progress includes \$273,812,000 at December 31, 1975, and \$205,299,000 at December 31, 1974, related to the Midland Nuclear Plant which is estimated to be completed in 1981-1982 at an estimated total cost of \$1.4 billion. The issuance of construction permits by the Atomic Energy Commission (AEC), now NRC, in December 1972 was upheld by an Appeal Board of the AEC in May 1973 but has been appealed to the U.S. 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 of the Company's compliance and reasonable assurance of continuing compliance with the AEC's quality assurance regulations. Following hearings, an Atomic Safety and Licensing Board (ASLB) of the AEC on September 25, 1974 determined the issues favorably to the Company's position. Certain intervenors appealed the decision. The appeal was dismissed in May 1975 but an Atomic Safety and Licensing Appeal Board retained jurisdiction to review the decision on its own motion and affirmed the ASLB decision on July 30, 1975 while reversing the ASLB on a point of legal procedure, as to which the Company has requested reconsideration. The matter is pending and subject to further review by the NRC.

In 1974, the Company cancelled plans to construct a two-unit, 2,300 megawatt nuclear power plant near Quinacasee, Michigan which was scheduled for commercial operation in 1983 and 1985. The decision to cancel the \$1.4 billion project was based upon the then 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 Quinacasee Plant (see Note 5). The Company has been authorized by the MPSC to amortize preliminary construction costs of \$12,600,000, net of related income taxes, to operations over a period of ten years.

5 CONSTRUCTION PROGRAM AND FINANCING RESTRICTIONS

Capital expenditures in 1976 are currently estimated to total \$406 million and total construction expenditures through 1980 are presently estimated to approximate \$2.6 billion. Substantial commitments have been made with respect to the construction program in future years.

In order to finance this construction program and to meet debt maturities of \$163,810,000 through 1980 it will be necessary for the Company to sell substantial additional securities, 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. The Company's Articles of Incorporation require, 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.

Reductions in the Company's planned construction program in 1974 and 1975 resulted in the cancellation of the Quinacasee Nuclear Plant as discussed in Note 4 and the curtailment of construction activity at other electric generating plants which postponed their planned completion dates from one to three years. If adequate funds cannot be obtained from outside financing and internal sources, the Company will further curtail its construction program to the extent feasible, although this may adversely affect the reliability of service for future customer requirements.

The Company presently has arrangements with banks providing for short-term borrowings of up to \$190,000,000 (including acceptance draft commitments up to \$20,000,000) which are subject to periodic review. In connection with 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. The banker's acceptance drafts are secured by a lien on certain of the Company's fuel inventories.

During 1975 and 1974, average short-term borrowings outstanding amounted to \$72,500,000 and \$72,000,000, respectively, and the weighted average interest rate (calculated daily) was 8.33% per annum and 10.98% per annum, respectively, excluding the effect of compensating balances. The maximum amount outstanding at any one time was \$152,200,000 during 1975 and \$118,500,000 during 1974.

6 SUBSEQUENT COMMON STOCK ISSUE AND LIMITATION ON DIVIDENDS

In February 1976, the Company issued 2,500,000 shares of Common Stock for \$50,938,000. At December 31, 1975, after giving effect to the issue and allowing for related expenses, retained earnings in the amount of \$70,089,000 are not available for 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.

7 PREFERRED STOCK AND PREFERENCE STOCK

Preferred Stock is represented by:

\$4.50—547,788 Shares Outstanding	\$110.00	\$ 54,779	\$ 54,779
4.52—119,550 Shares Outstanding	104.725	11,955	12,355
4.16—100,000 Shares Outstanding	103.25	10,000	10,000
7.45—700,000 Shares Outstanding	108.00	70,000	70,000
7.72—700,000 Shares Outstanding	108.00	70,000	70,000
7.76—750,000 Shares Outstanding	109.19	75,000	75,000
7.68—550,000 Shares Outstanding	108.00	55,000	55,000
Total Preferred Stock		<u>\$346,734</u>	<u>\$347,134</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 4,600 shares of the \$4.52 Preferred Stock at a price per share not to exceed \$102.725 plus accrued dividends.

In August 1974, the Company sold 600,000 shares of \$6.00 Preference Stock, convertible into Common Stock at four shares of Common Stock for each share of Preference Stock. During 1975, 212,474 shares of \$6.00 Preference Stock were converted into 849,896 shares of Common Stock. At December 31, 1975, 1,550,104 shares of Common Stock are reserved for issuance upon conversion of the \$6.00 Preference Stock. Beginning in 1979, the Company is required to purchase or redeem annually 37,500 shares of the \$6.00 Preference Stock at a price per share of \$50 plus accrued dividends.

In June 1975, the Company sold 1,000,000 shares of \$5.50 Preference Stock convertible into Common Stock at a conversion price of \$15.50 per share (equal to approximately 3.225 shares of Common Stock for each share of Preference Stock). During 1975, 148,130 shares of \$5.50 Preference Stock were converted into 477,740 shares of Common Stock. At December 31, 1975, there are 2,747,967 shares of Common Stock reserved for issuance upon conversion of the \$5.50 Preference Stock. Beginning in 1980, the Company is required to purchase or redeem annually 50,000 shares of the \$5.50 Preference Stock at a price per share of \$50 plus accrued dividends. The Company has the option to receive credit for any shares converted.

The \$6.00 and \$5.50 Preference Stock of the Company is redeemable in whole or in part, at the option of the Company, after August 1, 1979 and July 1, 1980, respectively, at a price per share of \$52.50 plus accrued dividends and at decreasing prices after August 1, 1984 and July 1, 1985, respectively.

8 LONG-TERM DEBT

Long-term debt is represented by:

	DECEMBER 31	
	1975	1974
Thousands of Dollars		
First Mortgage Bonds, secured by a mortgage and lien on substantially all property—		
2 $\frac{7}{8}$ % Series due 1975	\$ —	\$ 86,324
8 $\frac{3}{4}$ % Series due 1976	60,000	60,000
2 $\frac{7}{8}$ % Series due 1977	24,010	24,010
9 $\frac{3}{4}$ % Series due 1980	75,000	—
3 $\frac{1}{2}$ % Series due 1981	38,992	39,000
11 $\frac{1}{4}$ % Series due 1982	50,000	50,000
3%-4 $\frac{3}{4}$ % Series due 1984-1991	211,997	224,269
11 $\frac{3}{8}$ % Series due 1994	60,000	60,000
5 $\frac{7}{8}$ %-6 $\frac{7}{8}$ % Series due 1996-1998	246,042	247,550
7 $\frac{7}{8}$ %-8 $\frac{3}{8}$ % Series due 1999-2000	155,000	155,000
11 $\frac{1}{2}$ % Series due 2000	75,000	—
7 $\frac{1}{2}$ %-8 $\frac{5}{8}$ % Series due 2001-2003	315,000	315,000
Total First Mortgage Bonds	<u>\$1,311,041</u>	<u>\$1,261,153</u>
Installment Sales Contracts Payable, average interest rates of 6.57% and 5.71%, respectively (net of \$22,418,000 and \$5,571,000, respectively, held by Trustee pending completion of construction)	82,282	68,129
Sinking Fund Debentures, 4 $\frac{5}{8}$ %, due 1994	36,400	37,000
Term Bank Loan, due 1981 at 115% of Bank's prime rate	50,000	50,000
Other	42	351
Unamortized Net Debt Premium (Discount)	(1,087)	658
	<u>\$1,478,678</u>	<u>\$1,417,291</u>
Deduct—Current maturities and sinking fund—		
First Mortgage Bonds	\$ 14,848	\$ 13,788
Sinking Fund Debentures	600	600
First Mortgage Bonds, 8 $\frac{3}{4}$ % Series due 1976 and 2 $\frac{7}{8}$ % Series due 1975, respectively	60,000	86,324
Other	42	236
	<u>\$ 75,490</u>	<u>\$ 100,948</u>
Total long-term debt	<u>\$1,403,188</u>	<u>\$1,316,343</u>

In December 1975, the Company executed \$31,000,000 principal amount of installment sales contracts, for which the Company has pledged a like amount of first mortgage bonds as security for its obligations under such contracts.

Notes (continued)

9 LEASE OBLIGATIONS AND RENTALS

The Company executed a nuclear fuel lease, dated as of November 19, 1974, whereby the lessor acquired a 100% undivided interest in nuclear fuel for the Palisades Nuclear Plant. The lessor's remaining investment in the nuclear cores at December 31, 1975 was approximately \$27,176,000. 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.

On June 25, 1975 the Company entered into sale-and-leaseback transactions aggregating \$26,000,000 with respect to two of the Company's general office buildings. The leases have an initial term of 28 years with two five-year renewal options subject to escalation clauses and a third five-year renewal option at the then fair market retail value with the option to purchase at the expiration of the basic term or any renewal term at the then fair market sales value. Annual rentals under the leases are subject to quadrennial escalation and currently approximate \$2,816,000. Taxes, insurance and other operating costs relating to the buildings are required to be paid by the Company.

Rentals, including those charged to clearing and other accounts, amounted to \$18,681,000 in 1975 and \$5,427,000 in 1974. Rentals contingent upon usage were \$3,555,000 in 1975. The minimum rental commitments for leases presently in effect will amount to approximately \$8,100,000 in 1976, \$8,000,000 in 1977, \$8,000,000 in 1978, \$7,400,000 in 1979, \$4,900,000 in 1980, \$19,100,000 for the period 1981-1985, \$14,300,000 for the period 1986-1990, \$14,100,000 for the period 1991-1995 and \$21,100,000 for remaining years.

If all noncapitalized financing leases were capitalized, the effect on income would not be material.

10 RATE MATTERS

On January 23, 1975, the Michigan Public Service Commission (MPSC) authorized an increase in the Company's electric rates of \$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-GAP appealed the order of the MPSC authorizing the increase in rates to the Ingham County Circuit Court (the "Circuit Court") and requested the Circuit Court to restrain and enjoin the increase in electric rates during the pendency of the litigation. No action has been taken by the Circuit Court with respect to such request.

On June 2, 1975, the MPSC approved an interim gas rate increase of \$29,194,000 on an annual basis. An industrial intervenor appealed the interim order to the Circuit Court and requested it to re-establish the rates in effect prior to June 2, 1975, and to disallow refund of any increases in gas rates collected by the Company from the intervenor after June 2, 1975. No action has been taken by the Circuit Court with respect to such request. The Administrative Law Judge in the rate proceeding has issued a Proposal for Decision recommending a final rate increase of \$43,566,000, including the previously authorized interim increase, with a portion of the final rate increase subject to refund pending resolution of all disputes between the Company and the engineer-constructor of the Marysville Gas Reforming Plant. The Proposal for Decision also recommends that there be excluded from the Company's gas rate base a portion of the total expenditures and obligations incurred by the Company in respect to the Marysville Gas Reforming Plant. The MPSC's decision on final relief is expected later in 1976.

On August 21, 1975, the Attorney General filed a complaint and motion in the Circuit Court in connection with the fuel adjustment clause which included request for refund to customers of at least \$12,789,000. The suit is pending.

Litigation with respect to electric and gas rate increases which became effective in 1969 resulted in court orders requiring the Company to refund \$24,543,000, together with interest thereon, to its electric and gas customers relating to the reduction and elimination of the Federal income tax surcharge. The Company's request for leave to appeal the court orders was denied by the Michigan Supreme Court on February 11, 1976. The Company has requested that the Court reconsider its action. The Company has established a reserve, net of estimated income taxes, to cover the refund obligation, exclusive of interest charges which would accrue for the period from early 1970 to date of payment and which, if applicable, are presently estimated to be approximately \$7,200,000 as of December 31, 1975, based on the statutory interest rate of 6%. The pending litigation in the Circuit Court also includes, among other things, a claim for refunds to customers amounting to approximately \$7,762,000, plus interest charges, for which no reserve has been provided. This claim is based on the circumstances that the electric rates were placed in effect by the Circuit Court's order in October 1969 but the MPSC did not issue an order approving such rates until April 1970.

11 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 \$16,033,000 in 1975 and \$15,387,000 in 1974. Of these amounts \$12,761,000 in 1975 and \$11,817,000 in 1974 were 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 \$132,900,000 at January 1, 1975 and \$172,500,000 at December 31, 1975. If the market value of the assets of the plan remains below the vested benefits, the actuarial method used in determining 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 at least the minimum requirements of the Act.

12 INCOME TAX EXPENSE

Income tax expense is made up of the following components:

	YEAR ENDED DECEMBER 31	
	1975	1974
	Thousands of Dollars	
Federal income taxes	\$ 1,636	\$ 1,997
State income taxes	3,909	(508)
Deferred Federal income taxes, net	26,431	22,091
Deferred State income taxes, net	4,887	4,100
Charge equivalent to investment tax credit, net	24,431	(5,118)
Total	<u>\$61,294</u>	<u>\$22,562</u>
Charged to utility operations (See Statement of Income)	\$58,331	\$20,781
Charged to nonutility operations	2,963	1,781
Total	<u>\$61,294</u>	<u>\$22,562</u>

Current Federal and State income taxes for 1974, as shown above, reflect a credit of \$17,651,000 attributable to the carryback of 1974's net operating loss to prior years, offset by provisions for income taxes of \$9,790,000 related to the 1974 increment in unbilled revenues; \$5,904,000 related to the cancellation of the Quanicassee Nuclear Plant; and \$3,446,000 related to other timing differences.

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 these timing differences reverse, 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.

The total income tax expense as set forth above produces an effective income tax rate of 37.8% in 1975 and 27.1% in 1974. The following schedule reconciles the statutory Federal income tax rate of 48% to such effective income tax rates.

	YEAR ENDED DECEMBER 31			
	1975		1974	
	AMOUNT	RATE	AMOUNT	RATE
	Thousands of Dollars		Thousands of Dollars	
Income tax expense at Federal statutory tax rate	\$77,770	48.0%	\$40,030	48.0%
Increase (reduction) in taxes resulting from:				
Certain capitalized construction costs, principally interest, deducted currently for income tax purposes for which no deferred taxes are provided in accordance with the requirements of the MPSC	(16,607)	(10.2)	(14,691)	(17.6)
State income taxes, net of Federal income tax benefit	4,574	2.8	1,867	2.2
Amortization of deferred investment tax credit	(2,119)	(1.3)	(1,485)	(1.8)
Equity in earnings of subsidiaries	(5,487)	(3.4)	(3,538)	(4.2)
Other miscellaneous items	3,163	1.9	379	.5
Total income tax expense	<u>\$61,294</u>	<u>37.8%</u>	<u>\$22,562</u>	<u>27.1%</u>

13 ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

The allowance for funds used during construction was capitalized at a rate of 8% in 1975 and 7¾% 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 debt, preference stock and other sources available in each year, the estimated common equity component of the allowance for funds used during construction amounted to 5.6% and 10.6% of net income available for common stock for 1975 and 1974, respectively.

14 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 a total common stock investment in Northern of \$20,000,000.

Northern has applied to the Federal Power Commission for authority to sell gas from offshore Louisiana to Consumers Power Company. The Administrative Law Judge's initial decision authorizing the sale is subject to FPC review. The matter is pending.

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 \$447,000 in 1975 and \$2,300,000 in 1974. Had these interest costs not been capitalized, the Company's net income would have been reduced approximately \$220,000 in 1975 and \$1,200,000 in 1974. Summarized financial information of Northern is shown below.

	1975	1974
Operating revenues	\$25,685,000	\$12,286,000
Net income	8,777,000	5,268,000
Gas and oil properties	62,259,000	54,708,000
Note receivable from parent, at 7¼%	3,875,000	—
Total assets	74,953,000	61,471,000
Stockholder's investment	30,676,000	21,899,000
Production payment	23,500,000	27,500,000

15 CONTINGENT LIABILITIES

The Company is involved in certain legal and administrative proceedings concerning gas liquids allocation, gas curtailment, environmental issues and other matters before various governmental agencies, the outcome of which might require an increase in the Company's construction expenditures and/or operating expenses. The Company is also involved in litigation wherein the City of Livonia is seeking damages and other relief relating to curtailment of gas service resulting from a gas allocation program authorized by the MPSC. In the opinion of the Company's General Counsel the Company's defenses are valid and the contentions of the City of Livonia are without merit.

ARTHUR ANDERSEN & Co.

DETROIT, MICHIGAN

To the Board of Directors,
Consumers Power Company:

We have examined the balance sheet of CONSUMERS POWER COMPANY (a Michigan corporation) as of December 31, 1975, and December 31, 1974, and the related statements of income, retained earnings, capital in excess of par value and source of funds for gross property additions for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements referred to above present fairly the financial position of Consumers Power Company as of December 31, 1975, and December 31, 1974, and the results of its operations and the source of funds for gross property additions for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods subsequent to the change made as of January 1, 1974, (with which we concur) in the method of recording revenue as discussed in Note 2 to the financial statements.

Detroit, Michigan,
February 11, 1976.

Arthur Andersen & Co.

Consumers Power Company

Dividends and Stock Prices

Security	Dividends Paid Per Share							
	Calendar Quarter—1974				Calendar Quarter—1975			
	1	2	3	4	1	2	3	4
Common Stock	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50
Preferred Stock:								
\$4.16	1.04	1.04	1.04	1.04	1.04	1.04	1.04	1.04
4.50	1.125	1.125	1.125	1.125	1.125	1.125	1.125	1.125
4.52	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13
7.45	1.8625	1.8625	1.8625	1.8625	1.8625	1.8625	1.8625	1.8625
7.68	1.024	1.92	1.92	1.92	1.92	1.92	1.92	1.92
7.72	1.93	1.93	1.93	1.93	1.93	1.93	1.93	1.93
7.76	1.94	1.94	1.94	1.94	1.94	1.94	1.94	1.94
\$6.00 Preference Stock	—	—	—	0.917	1.50	1.50	1.50	1.50
\$5.50 Preference Stock	—	—	—	—	—	—	0.306	1.375

Security	High and Low Sales Prices on New York Stock Exchange															
	Calendar Quarter—1974								Calendar Quarter—1975							
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
Common Stock	24 $\frac{3}{8}$	22 $\frac{3}{8}$	23	11	14	10 $\frac{1}{8}$	13 $\frac{3}{8}$	9	15	9 $\frac{7}{8}$	19 $\frac{1}{4}$	13 $\frac{1}{4}$	18 $\frac{3}{8}$	16	19 $\frac{1}{8}$	16 $\frac{3}{4}$
Preferred Stock:																
\$4.16	52 $\frac{1}{2}$	50	48 $\frac{1}{2}$	43 $\frac{3}{4}$	40	35	35	30	39 $\frac{1}{2}$	30	37 $\frac{1}{2}$	35 $\frac{1}{2}$	38 $\frac{1}{4}$	35 $\frac{1}{2}$	38 $\frac{1}{2}$	34
4.50	58	52 $\frac{1}{2}$	54 $\frac{3}{4}$	41 $\frac{3}{8}$	42 $\frac{1}{2}$	34	39 $\frac{1}{2}$	29 $\frac{1}{2}$	41	31 $\frac{1}{2}$	42 $\frac{3}{4}$	36 $\frac{1}{4}$	42 $\frac{3}{4}$	39	42 $\frac{3}{4}$	38
4.52	62	60	59 $\frac{3}{8}$	49 $\frac{1}{2}$	50	41	41	34	46 $\frac{1}{2}$	34 $\frac{1}{2}$	44	40 $\frac{1}{2}$	44 $\frac{1}{2}$	41 $\frac{1}{8}$	43 $\frac{1}{8}$	41 $\frac{1}{2}$
7.45	94 $\frac{1}{2}$	84	85	68	70	52 $\frac{7}{8}$	59 $\frac{1}{2}$	47 $\frac{1}{2}$	65 $\frac{1}{4}$	51 $\frac{1}{4}$	65 $\frac{1}{4}$	58	68	61	67 $\frac{1}{2}$	60 $\frac{1}{2}$
7.68	93	87	87	70	71	60	60	57	64 $\frac{1}{2}$	55	66	56	69 $\frac{1}{2}$	64	67 $\frac{1}{2}$	63
7.72	95 $\frac{1}{2}$	91	91 $\frac{1}{2}$	71 $\frac{1}{2}$	74	58	60	50	66 $\frac{1}{2}$	52	68	60	72	62	68 $\frac{1}{2}$	62 $\frac{1}{2}$
7.76	95	91	91	76 $\frac{1}{2}$	72	72	61	53	67	55	67 $\frac{1}{2}$	59	69 $\frac{1}{8}$	64	68 $\frac{1}{2}$	62 $\frac{1}{2}$
\$6.00 Preference Stock	—	—	—	—	52 $\frac{1}{2}$	52	53	46 $\frac{1}{2}$	59 $\frac{1}{2}$	49	76	55	74	64 $\frac{1}{2}$	76	67 $\frac{1}{2}$
\$5.50 Preference Stock	—	—	—	—	—	—	—	—	—	—	—	—	59 $\frac{1}{2}$	51 $\frac{1}{4}$	61	54

Exchanges on which the Company's Equity Securities Are Listed For Trading:

Common stock is listed on the New York, Midwest and Detroit stock exchanges.

Preferred stock is listed on the New York and Detroit stock exchanges.

Preference stock is listed on the New York Stock Exchange.

Summary of Statement of Income 1975-1971

	1975	1974	1973	1972	1971
	Thousands of Dollars				
Operating Revenue					
Electric	\$757,741	\$619,958	\$495,723	\$416,994	\$364,230
Gas	581,294	483,832	337,906	332,085	286,091
Steam	2,065	1,593	1,325	1,374	1,296
Operating Revenue Deductions, Except Income Taxes					
Fuel Consumed in Electric Generation	249,556	172,050	105,391	91,969	84,206
Purchased and Interchanged Power	90,891	143,394	70,006	56,662	41,860
Cost of Gas Sold	375,485	293,190	175,185	156,238	120,411
Other Operation and Maintenance	236,636	208,759	187,436	180,807	154,022
Depreciation and Amortization	93,635	82,944	73,428	62,937	58,210
General Taxes	67,678	63,058	54,160	48,204	43,873
Net Operating Income Before Income Taxes					
Electric	161,468	78,614	121,196	84,627	75,249
Gas	65,461	63,192	48,083	68,954	64,107
Steam	280	182	69	55	(321)
Income Taxes					
Federal Income Tax	(872)	437	2,718	11,371	14,469
State Income Tax	3,454	(729)	2,786	3,216	3,065
Deferred Income Tax (Net)	31,319	26,191	25,072	18,972	14,300
Investment Tax Credit (Net)	24,430	(5,118)	14,057	5,960	5,751
Net Operating Income					
Electric	119,724	75,476	87,463	69,405	59,844
Gas	48,951	45,585	37,167	44,621	41,683
Steam	203	146	85	91	(77)
Allowance for Funds Used During Construction	24,825	21,875	23,223	25,455	21,862
Other Income (1)	15,828	11,066	6,940	5,416	5,373
Interest Charges	108,804	93,315	73,985	65,258	55,500
Income Before Cumulative Effect of Change in Method of Recording Revenue	100,727	60,833	80,893	79,730	73,107
Cumulative Effect on Years Prior to 1974 of Accruing Estimated Unbilled Revenue After Deduction for Related Income Taxes (3)	—	24,864	—	—	—
Net Income (1)	100,727	85,697	80,893	79,730	73,107
Cash Dividends on Preferred and Preference Stock	30,086	25,540	17,746	11,251	7,108
Net Income After Dividends on Preferred and Preference Stock	70,641	60,157	63,147	68,479	65,999
Cash Dividends on Common Stock	53,271	52,467	52,467	49,168	48,068
Common Stock—Average Shares Outstanding—Assuming No Dilution (Thousands of Shares)	26,677	26,234	26,234	24,584	24,034
Earnings per Share of Common Stock Based on Average Shares Outstanding—Assuming No Dilution (2)					
Before Cumulative Effect of Change in Method of Recording Revenue	\$2.65	\$1.34	\$2.41	\$2.78	\$2.75
Cumulative Effect on Years Prior to 1974 of Accruing Estimated Unbilled Revenue After Deduction for Related Income Taxes	—	.95	—	—	—
Total—Assuming No Dilution (1)	2.65	2.29	2.41	2.78	2.75
Common Stock—Average Shares Outstanding—Assuming Full Dilution (Thousands of Shares)	30,437	27,157	26,234	24,584	24,034
Earnings per Share of Common Stock Based on Average Shares Outstanding—Assuming Full Dilution (3)					
Before Cumulative Effect of Change in Method of Recording Revenue	\$2.52	\$1.35	\$2.41	\$2.78	\$2.75
Cumulative Effect on Years Prior to 1974 of Accruing Estimated Unbilled Revenue After Deduction for Related Income Taxes	—	.92	—	—	—
Total—Assuming Full Dilution (1)	2.52	2.27	2.41	2.78	2.75
Pro Forma Amounts Assuming Change in Method of Recording Revenue Is Applied Retroactively					
Net Income	\$100,727	\$ 60,833	\$83,370	\$83,966	\$73,151
Earnings per Share of Common Stock—Assuming No Dilution	\$2.65	\$1.34	\$2.50	\$2.95	\$2.75
Earnings per Share of Common Stock—Assuming Full Dilution	\$2.52	\$1.35	\$2.50	\$2.95	\$2.75
Cash Dividends Paid per Share	2.00	2.00	2.00	2.00	2.00

Management's Discussion and Analysis of the Statement of Income

Electric revenue increased \$124,235,000 in 1974 and \$137,783,000 in 1975, and gas revenue increased \$145,926,000 in 1974 and \$97,462,000 in 1975. The increased revenues resulted primarily from rate increases and electric fuel cost and cost of gas adjustments, partially offset by the conservation of energy and the downturn in the economy.

Effective January 1, 1974, the Company changed its method of accounting to accrue revenues for services rendered but not billed at month-end to more closely match costs and revenues. Prior to 1974, operating revenue was recognized at the time of monthly billings on a cycle basis.

Fuel for generation costs increased \$66,659,000 in 1974 and \$77,506,000 in 1975. These increases reflect the increased cost of coal and oil and increased use of oil at the steam generating plants. The 1975 increase also reflects a greater amount of internal generation.

Purchased and interchanged power costs increased \$73,388,000 in 1974 and decreased \$52,503,000 in 1975. The decrease for 1975 reflects the reduction in the purchased power requirement due to the placement of Unit No. 3 of the Karn Plant into service in 1975 and the placement of the Palisades Nuclear Plant back into service, partially offset by an increase in the unit cost of purchased and interchanged power. The increase in 1974 reflects the Palisades Nuclear Plant outage and other requirements for purchased power.

Cost of gas sold increased \$118,005,000 in 1974 and \$82,305,000 in 1975. These increases reflect the higher prices put into effect by pipeline suppliers and the increased costs of liquid hydrocarbon feedstock for the production of synthetic natural gas at the Marysville Gas Reforming Plant. The last is due largely to the significant increases in Canadian taxes on the feedstock. The increases in cost are almost totally offset by the cost of gas adjustment clause which permits pass-through to customers.

Other operation and maintenance expenses increased \$21,323,000 in 1974 and \$27,877,000 in 1975. Major increases reflected in these amounts were maintenance at various electric generating plants, particularly the Palisades Nuclear Plant in

1974 and employee wages and benefits charged to operations.

Depreciation and amortization expenses increased \$9,516,000 in 1974 and \$10,691,000 in 1975, resulting from additions to depreciable property. Major additions were the Ludington and Karn No. 3 electric generating plants and the Marysville Gas Reforming Plant.

General taxes increased \$8,898,000 in 1974 and \$4,619,000 in 1975, primarily the result of increased property subject to real and personal property taxes.

In 1974, increased revenues did not fully offset higher costs resulting in a \$27,360,000 decline in net operating income before income taxes. Income taxes decreased \$23,852,000, leaving a decrease in net operating income of \$3,508,000. In 1975, the net result of the increased revenues partially offset by higher costs was a \$85,221,000 growth in net operating income before income taxes. Income taxes increased \$37,550,000, leaving an increase in net operating income of \$47,671,000.

Allowance for funds used during construction decreased \$1,348,000 in 1974 and increased \$2,950,000 in 1975. The increase results primarily from increased construction at the Midland Nuclear Plant, partially offset by the completion of the Marysville Gas Reforming Plant in 1974.

Net other income (exclusive of allowance for funds used during construction) increased \$4,126,000 in 1974 and \$4,762,000 in 1975, primarily reflecting an increase in the earnings of subsidiary companies.

The sale of first mortgage bonds, the issuance of installment sales contracts in connection with pollution control equipment and the issuance of a seven-year promissory note, together with an increase in short-term notes in 1974, partially offset by a decrease in average interest rates in 1975, resulted in increased interest charges of \$19,330,000 in 1974 and \$15,489,000 in 1975.

The issuance of preferred stock during 1973, together with the issuance of preference stock in 1974 and 1975, increased dividends on such stock \$7,794,000 in 1974 and \$4,546,000 in 1975.

(1) Net Income and Earnings per Share have been restated from amounts previously reported in amount of \$1,552,000 (\$.06 per share) and \$1,327,000 (\$.06 per share) for 1972 and 1971, respectively, to reflect the elimination of Deferred Income Taxes provided in prior years applicable to the gain on reacquisition of Long-Term Debt.

(2) After reduction for Cash Dividends on Preferred and Preference Stock.

(3) After reduction for Cash Dividends on Preferred Stock.

Transfer Agents Common, Preference and Preferred Stock

Consumers Power Company
Jackson, Michigan 49201

Bankers Trust Company
New York, New York 10017

Registrars Common Stock

The National Bank of Jackson
Jackson, Michigan 49201

Bankers Trust Company
New York, New York 10017

Registrars Preference and Preferred Stock

City Bank and Trust Company, N.A.
Jackson, Michigan 49201

Bankers Trust Company
New York, New York 10017

Notice of Annual Meeting

The annual meeting of shareholders of Consumers Power Company will take place Tuesday, April 13, 1976 at 2:00 PM Jackson time in the Company's Parnall Office Building, 1945 West Parnall Road, Jackson, Michigan. A notice of meeting, proxy statement and proxy will be mailed to shareholders in March 1976. Prompt signing and return of proxies will be appreciated by the management.

Annual Report on Form 12-K

A copy of Consumers Power Company's annual report, without exhibits, for the fiscal year ended December 31, 1975 on Form 12-K, required to be filed with the Securities and Exchange Commission pursuant to Rule 13a-1 under the Securities Exchange Act of 1934, will be furnished by the Company without charge to any shareholder who so requests upon application made to Mr. P. A. Perry, Secretary, Consumers Power Company, 212 West Michigan Avenue, Jackson, Michigan 49201. Such report will be available to shareholders after May 1, 1976.

Each shareholder request must indicate that, as of February 27, 1976, the record date for the annual meeting of shareholders, the person making such request was a beneficial owner of securities entitled to vote at such meeting.

Financial and Statistical Summary Available

A *Financial and Statistical Supplement to the 1975 Annual Report* covering the years 1965-1975 is available to all interested shareholders, and may be obtained by writing Mr. P. A. Perry, Secretary, Consumers Power Company, 212 West Michigan Avenue, Jackson, Michigan 49201.

Shareholders Who Receive Duplicate Reports

Shareholders who own shares of more than one class of Company stock may receive more than one copy of the Annual Report. Securities and Exchange Commission rules provide that the Company may omit sending an Annual Report to a shareholder if such shareholder authorizes the Company in writing to do so, provided that at least one report is sent to another shareholder at the same address.

If two or more copies of the Company's Annual Report to shareholders are being sent to you, and you wish to have the mailing of duplicate reports discontinued, please notify in writing Mr. P. A. Perry, Secretary, Consumers Power Company, 212 West Michigan Avenue, Jackson, Michigan 49201. Please include in your letter the classes of stock (common, preferred or preference) for which you want your name removed for annual report mailings, your name, address and signature.

This will not affect the mailing of your dividend checks, interim reports, proxies, and proxy statements, which each shareholder will continue to receive exactly as before.

You may request that your name be added to the list for Annual Reports any time in the future.

CONSUMERS POWER
COMPANY
ELECTRIC AND
NATURAL GAS
SERVICE AREAS

★ Division Headquarters City

Electric Service Area

Natural Gas Service Area

Combination Electric and
Natural Gas Service Area

N Steam Plant—Nuclear

F Steam Plant—Fossil

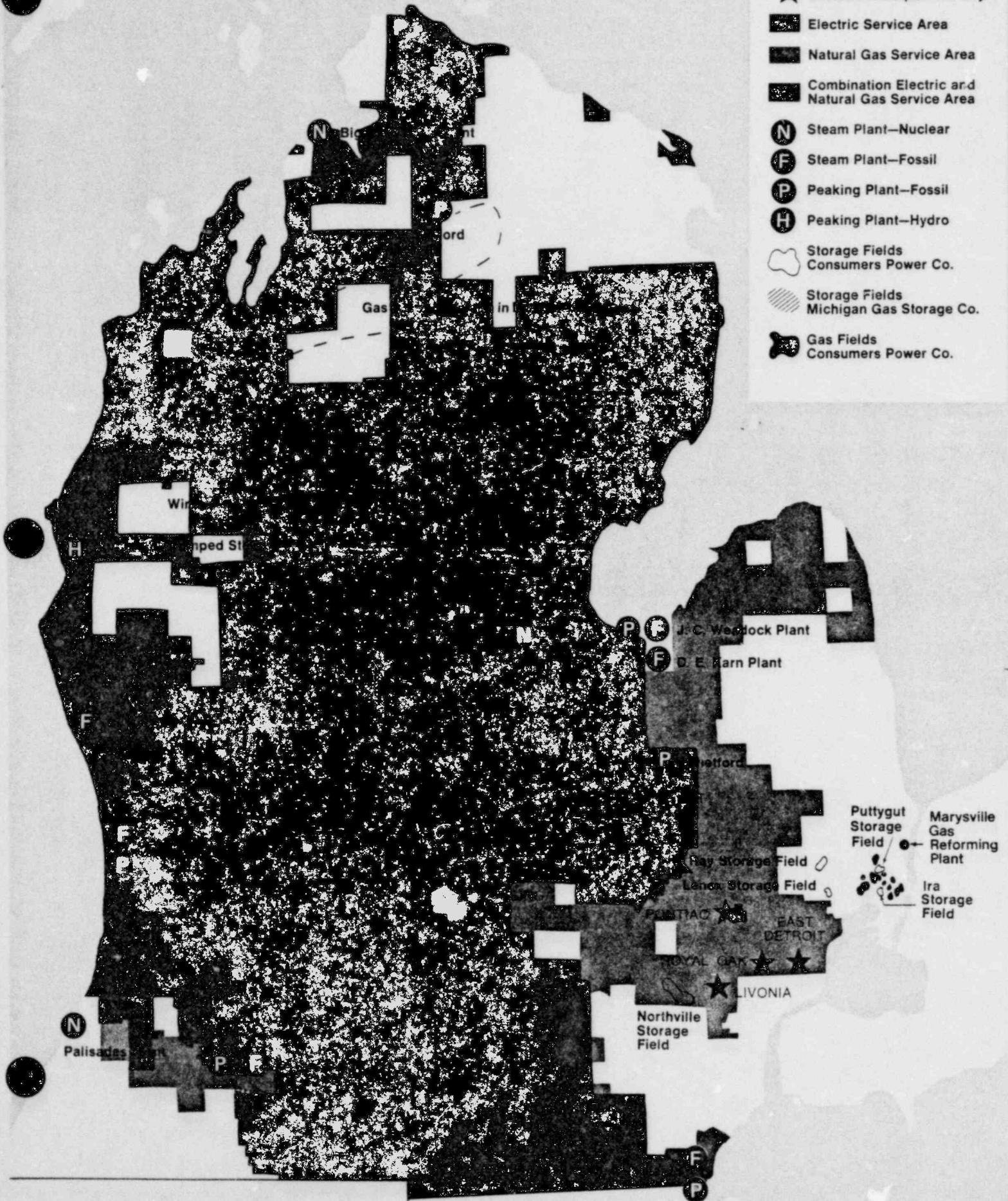
P Peaking Plant—Fossil

H Peaking Plant—Hydro

Storage Fields
Consumers Power Co.

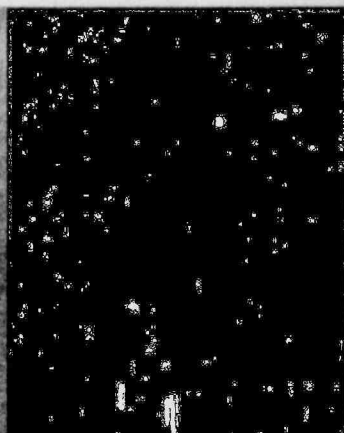
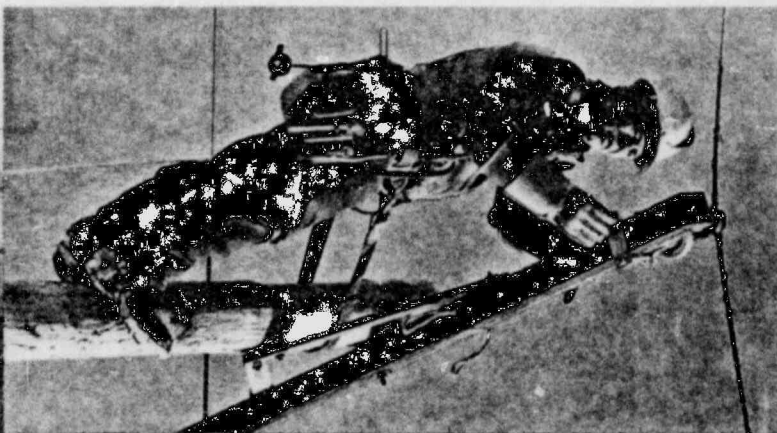
Storage Fields
Michigan Gas Storage Co.

Gas Fields
Consumers Power Co.





Consumers Power Company 212 West Michigan Avenue, Jackson, Michigan 49201



DEC 16 1975

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the complaint of the)
CITY OF WYOMING and CITY OF GRAND RAPIDS)
against Consumers Power Company)
_____)

Case No. U-3773

At a session of the Michigan Public Service Commission held at its
offices in the City of Lansing on the 15th day of December, 1975.

PRESENT: Hon. Daniel J. Demlow, Chairman
Hon. Lenton G. Sculthorp, Commissioner
Hon. William R. Ralls, Commissioner

ORDER

On September 18, 1970, the City of Wyoming (Wyoming) and the City of
Grand Rapids (Grand Rapids), collectively referred to as "Complainants", jointly
filed a complaint against Consumers Power Company (Respondent) requesting certain
relief with regards to the rates for street lighting services in the respective
municipalities. Wyoming asked that the present restrictions in Respondent's
currently filed and effective rate schedules for General Secondary Service -
Optional Rate "C" (Rate C) and Commercial and Industrial Primary Service -
Contract Rate "D" (Rate D), which reads "This is not available for street
lighting service or for resale purposes," be removed or, in the alternative,
that Respondent be ordered to establish a new rate for energy only municipal
street lighting purposes. In addition Grand Rapids asks that a special contract

On October 21, 1975, all of the parties to these proceedings signed a written Settlement Agreement and a hearing on the Settlement Agreement was set for November 3, 1975. At the hearing on November 3, 1975 the Settlement Agreement, signed by all parties, was received in evidence. No party presented any evidence or testimony in support of the Settlement Agreement. The Commission Staff certified on the record that the Settlement Agreement was fair and reasonable and in the public interest. All of the parties waived the provisions of Section 81 of the Administrative Procedures Act of 1969, as amended.

II.

LEGAL CONSIDERATIONS

It is elementary and axiomatic that the resolution of disputed matters by settlement rather than by litigation is favored. (See, e.g., Pedder v. Kalish, 26 Mich. App. 655 (1970); Johnston's Administrator v. United Airlines, 23 Mich. App. 279 (1970); Callaghan's Michigan Civil Jurisprudence, "Compromise and Settlement", Sec. 3, citing Empire Industries v. Northern A. Co., 342 Mich. 425 (1955).)

This predisposition in favor of the settlement of disputes has been incorporated into all contested cases before state administrative agencies through Section 78 of the Administrative Procedures Act of 1969, MCLA 24.278:

"Sec. 78 (1) The parties in a contested case by a stipulation in writing filed with the agency may agree upon any fact involved in the controversy, which stipulation shall be used as evidence at the hearing and be binding on the parties thereto. Parties are requested to thus agree upon facts when practicable.

(2) Except as otherwise provided by law, disposition may be made of a contested case by stipulation, agreed settlement, consent order, waiver, default or other method agreed upon by the parties."

III.

THE SETTLEMENT AGREEMENT

The Settlement Agreement in this matter is brief and its provisions are set out in full as follows:

It is hereby agreed by and between these parties that all the issues raised pursuant to the Complaint initiating this proceeding will be resolved by immediate Commission approval of the Institution by Consumers Power Company of the primary and secondary voltage energy-only streetlighting rate, Rate SL-"8", set forth on Exhibit A, attached hereto and made a part hereof. It is further agreed by and between these parties that:

- 1) Upon Commission approval of Rate SL-"8", that rate will become immediately effective for streetlighting service in the City of Wyoming and thereby eliminate use of Rates C and D for streetlighting service.
- 2) The 100 kilowatt minimum contained in Rate SL-"8" for primary voltage installations shall not apply to existing primary voltage streetlighting installations of the City of Wyoming and of the State Department of Highways and Transportation in the Grand Rapids area, but shall apply to all new primary voltage installations.
- 3) The provisions contained in Rate SL-"8" requiring an unmetered secondary voltage installation shall not apply to the existing metered secondary voltage streetlighting installations of the City of Wyoming and the State Department of Highways and Transportation (if any) in the Grand Rapids area, but shall apply to all new secondary voltage installations.
- 4) Except as provided in paragraphs numbered 2 and 3 hereof, the parties shall be bound by the provisions of Rate SL-"8" as it is changed

in all matters before the Commission. In regard to this case, the Staff has certified that the results of the negotiations, as manifested in the Agreement, are reasonable and in the public interest.

By its very nature, the Agreement does not give any of the interests all they desire. But each represented interest does feel that the Agreement is a reasonable disposition of the matter. The Commission notes that this matter has already consumed many days of hearings spread over a considerable amount of time in two different stages.

In light of these factors, and particularly the full and vigorous participation in this matter by the Staff, the Commission is loathe to reject the Agreement. Certainly in the absence of tangible and compelling questions about the agreed upon result, the Commission should not withhold its approval.

Consequently, the Agreement transmitted to the Commission in this matter is approved and the relief contained in the Agreement will be granted.

The Commission FINDS that:

- a. Jurisdiction is pursuant to Act 106, P.A. 1909, as amended, MCLA 460.551; Act 419, P.A. 1919, as amended, MCLA 460.51; Act 3, P.A. 1939, as amended, MCLA 460.1; Act 306, P.A. 1969, as amended, MCLA 24.201; and the Commission's Rules of Practice and Procedure, 1954 Administrative Code, Supplement No. 54, R 460.11.
- b. The provisions of the Administrative Procedures Act of 1969, as amended, have been complied with in all pertinent respects.
- c. The provisions of the Rules of Practice and Procedure Before the Commission and Interpretive and Informational Statement 1975-5 have been complied with in all pertinent respects.
- d. The Agreement of Settlement admitted as evidence in this proceeding should be approved.

ENERGY-ONLY STREETLIGHTING SERVICE
(Customer-Owned and Customer-Maintained System Contract Rate SL-8)

Availability:

Open to the State of Michigan or any political subdivision or agency thereof having jurisdiction over public streets or roadways, for primary or secondary voltage energy only streetlighting service where the Company has existing distribution lines available for supplying energy for such service. Luminaires which are served under any of the Company's other streetlighting rates shall not be intermixed with luminaires served under this streetlighting rate. This rate is not available for resale purposes.

Nature of Service:

Secondary Voltage Service:

Alternating current, 60 hertz, single phase, 120/240 nominal volt service for a minimum of ten luminaires located within a clearly defined area. Except for control equipment which will be furnished, installed, owned and maintained by the Company, the customer will furnish, install, own and maintain all equipment comprising the streetlighting system including, but not limited to the overhead wires or underground cables between the luminaires, protective equipment, and the supply circuits extending to the point of attachment with the Company's distribution system. The Company will connect the customer's equipment to the Company's lines and supply the energy for its operation. All of the customer's equipment will be subject to the Company's review.

Primary Voltage Service:

Alternating current, 60 hertz, single phase or three phase, primary voltage service for actual kW demands of not less than 100 kW for each point of delivery and where the customer guarantees a minimum of 4000 annual hours use of the actual demand, the particular nature of the voltage in each case shall be determined by the Company. The customer will furnish, install, own and maintain all equipment comprising the streetlighting system including, but not limited to, controls, protective equipment, transformers and overhead or underground streetlighting circuits extending to the point of attachment with the Company's distribution system. The Company will furnish, install, own and maintain the metering equipment and connect the customer's streetlighting circuit to its distribution system and supply the energy for operation of the customer's streetlighting system.

Monthly Rate:

Secondary Energy Charge:

The monthly charge shall be 2.77¢ per kWh based on the capacity requirements in kilowatts of the lamp(s), associated ballast(s) and control equipment assuming 4,200 burning hours per year, adjusted by the ratio of the

M.P.S.C. No. 7 - Electric
Consumers Power Company

ENERGY ONLY STREETLIGHTING SERVICE
(Customer-Owned and Customer-Maintained System Contract Rate SL-8) (Contd)

Delayed Payment Charge:

A delayed payment charge of 2% of the total net bill shall be added to any bill not paid within 30 days after its issuance.

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 electric energy, 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 generation or sale of electrical energy.

Contract:

Initial term of contract five years, or more, and year to year, thereafter, until terminated by mutual consent or upon twelve 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, contribution in aid of construction, annual charges or other special considerations when the customer requests service, equipment or facilities not normally provided under this rate.

Hours of Lighting:

Streetlights shall be controlled to burn only when the natural general level of illumination is lower than about 3/4 footcandle, and under normal conditions this is approximately one-half hour after sunset until approximately one-half hour before sunrise.

Rules and Regulations:

Service governed by Company's Standard Rules and Regulations.

APPENDIX C

STATEMENT OF SOURCE OF FUNDS
FOR GROSS PROPERTY ADDITIONS

<u>Source of Funds for Gross Property Additions</u>	<u>3 Months Ended</u> <u>December 31, 1975</u>
Funds Generated From Operations:	
Net Income After Dividends on Preferred and Preference Stock	\$ 17,395,851
Principal Noncash Items	
Depreciation and Amortization	
Per Statement of Income	27,234,261
Charged to Other Accounts	1,332,757
Deferred Income Taxes, Net	10,002,190
Investment Tax Credit, Net	2,435,680
Allowance for Funds Used During Construction	(5,601,606)
Undistributed Earnings of Subsidiaries	(2,751,908)
	<u>\$ 50,047,225</u>
Less:	
Dividends Declared on Common Stock	\$ 13,587,022
Reacquired Long-Term Debt	8,339,000
	<u>\$ 28,121,203</u>
Funds Obtained From Financing:	
Net Proceeds From Installment Sales Contracts Payable	\$ 11,803,984
Increase in Notes Payable	24,000,000
	<u>\$ 35,803,984</u>
Other Sources (Uses) of Funds:	
Change in Net Current Assets and Current Liabilities	
Accrued Utility Revenue	\$ (36,223,000)
Accounts Receivable	(25,931,490)
Materials and Supplies	(9,334,675)
Gas in Underground Storage	3,913,696
Prepaid Real and Personal Property Taxes	(20,753,335)
Bankers Acceptance Drafts	(5,400,000)
Current Maturities and Sinking Fund - LTD	14,805,857
Accounts Payable	78,890,332
Accrued Interest	4,149,936
Accrued Taxes	(9,525,105)
Other	4,253,359
	<u>\$ (1,154,425)</u>
Other, Net	(3,960,642)
	<u>\$ (5,115,067)</u>
Total Funds for Construction From Above Sources	\$ 58,810,120
Allowance for Funds Used During Construction	<u>5,601,606</u>
Gross Property Additions	<u>\$ 64,411,726</u>

6-13-74

50-329
330

Question No. 1

Identify and state the amount of each major system-wide source of construction funds which will be realized during the twelve months' period beginning June 1, 1974 assuming all of the following:

- (a) Palisades is returned to service at the earliest probable date (please specify).
- (b) Construction of the Midland units continues on schedule.
- (c) Fuel costs and interest rates remain at their present levels.

Response

The following response assumes (b) and (c) above. As to (a), it is estimated that the earliest probable date the Palisades Plant could be returned to service is September 1, 1974. However, because of the uncertainties involved, and in order to provide a greater measure of conservatism, the sources of funds for construction have also been calculated on the assumption that Palisades is returned to service on January 1, 1975, and on the assumption that Palisades is not returned to service at all during the period in question.

Internal and external sources of funds for construction are estimated to be as follows for the twelve months beginning June 1, 1974:

(1) Internal Sources

Internal sources consist of retained earnings, depreciation, deferred taxes and several other miscellaneous items. It is currently estimated that net internally generated funds for June 1, 1974 through May 31, 1975 will be:

- i. \$132 million if Palisades starts operation on September 1, 1974
- ii. \$114 million if Palisades starts operation on January 1, 1975
- iii. \$97 million if Palisades does not operate at all in the twelve-month period.

(2) External Sources

The Company plans to raise funds through external sources as follows:

1. A \$50 million 7-year term loan from First National City Bank in New York in June 1974.
- ii. Approximately \$50 million of convertible preference stock in the summer of 1974.
- iii. Approximately \$100 million of first mortgage bonds in late summer of 1974.
- iv. Approximately \$40 million of straight preference stock in the fall of 1974.
- v. A \$35 million nuclear fuel lease is currently being negotiated. Closing is expected in the summer of 1974.
- vi. Approximately \$11 million will be taken down from prior issues of pollution control revenue bonds. The trustee holds the funds from the sale of pollution control revenue bonds until construction on the associated projects is performed.

This amounts to about \$286 million to be raised through external sources.

In addition to the external sources mentioned above, the Company has access to significant amounts of bank credit as discussed in the answer to Question No. 9.

Question No. 2

If the aggregate amount of the estimated construction funds developed for Item 1 above is less than the construction budget for the twelve months' period beginning June 1, 1974 using the assumptions described in Item 1, indicate whether or not certain construction projects (describe and state the dollar amounts involved) could be delayed to bring about a parity between estimated construction funds and the construction budget.

Response

Estimated construction requirements for the period June 1, 1974 through May 31, 1975 are approximately \$364 million.

The total of the external sources as shown in the answer to Question No. 1, of \$286 million, plus the minimum amount of internal funds of \$97 million (which assumes no operation of Palisades) is sufficient to meet the estimated construction requirements.

Question No. 3

Provide copies of Consumers Power Company's income and sources of construction funds statements for the most recent twelve months' period and balance sheet dated as of the end of the same period. Copies of similar statements for the corresponding twelve months' period ended in the previous year should also be submitted.

Response

Attached as Exhibit A, totaling 12 pages, are Consumers Power Company's statement of income for the 12 months ended April 30, 1974 and April 30, 1973, balance sheet as of April 30, 1974 and April 30, 1973, statement of sources of funds for gross property additions for the 12 months ended April 30, 1974 and April 30, 1973, and notes to the financial statements.

Question No. 4

Provide copies of the most recent Officer's Certificate prepared in connection with the issuance of mortgage bonds and showing interest coverage and debt ratio calculations pursuant to the applicable indenture.

Response

Attached as Exhibit B, totalling 15 pages, are copies of the two certificates which include the requested information. The first is the Net Earnings Certificate provided in connection with the August 1973 sale of \$75,000,000 First Mortgage Bonds, 8-5/8% Series due 2003, which contains the computation of earnings before taxes available to pay interest on first mortgage bonds under the terms of the Company's Indenture. The second is the Accountant's Certificate provided in connection with the same sale of bonds, which contains the computation of the amount of property available at that time to be funded for the issuance of additional first mortgage bonds.

The Indenture contains no provisions pertaining to required capitalization ratios.

Question No. 5

Provide an estimate with detailed calculations of the amount of additional first mortgage bonds which could be issued at the present time pursuant to the applicable indenture and assuming a realistic range of current interest costs.

Response

For the twelve months ended April 30, 1974, the indenture Net Earnings and Interest earnings requirement are:

Net Earnings \$169,731,051

Interest Earnings Requirement \$144,625,312

The calculations of net earnings and annual interest requirement on first mortgage bonds are attached as Exhibits C and D, respectively.

Additional annual interest charges that can be incurred and still meet indenture test are calculated as follows:

$$\begin{array}{r} \$169,731,051 \\ -144,625,312 \\ \hline \$ 25,105,739 \end{array}$$

$$\frac{\$25,105,739}{2.0} = \$12,552,869$$

Additional first mortgage bonds that could be issued (computed by dividing interest rate into the \$12,552,869 of additional annual interest that can be incurred):

<u>Interest Rate</u>	<u>Additional* 1st Mtg Bonds</u>
8%	\$156,910,862
9%	139,476,322
10%	125,528,690
11%	114,116,991

*Unfunded Net Property Additions as of April 30, 1974 were \$673,572,975.

Question No. 6

Provide projections of coverages of interest on long-term debt to be outstanding based on definitions included in the applicable bond indenture for each successive twelve month period beginning with the twelve months' period ending May 31, 1974 and ending with the twelve months' period terminating May 31, 1975.

Response

For the twelve months ended April 30, 1974, the Company's indenture coverage was 2.34. Indenture coverages beyond this date are not shown because interest coverage depends upon the amounts and timing of future rate increases and the results of future operations. However, based upon presently known facts, it is believed that the indenture coverage as of June 30, 1974 will exceed the required 2.00 coverage after reflecting the proposed issuance of \$100,000,000 of first mortgage bonds in the late summer of 1974. No further first mortgage bond financing is contemplated by the Company prior to June 1975.

Question No. 7

Provide copies of the most recent prospectus prepared in connection with the issuance of securities.

Response

Attached as Exhibit E is a copy of the Official Statement dated January 29, 1974 as supplemented February 7, 1974 for the sale of \$27,500,000 Charter Township of Hampton, Michigan Pollution Control Revenue Bonds, and \$7,200,000 City of Marysville, Michigan Pollution Control Revenue Bonds, both issued for financing the construction of pollution control equipment for Consumers Power Company.

Attached as Exhibit F is a copy of Preliminary Prospectus issued May 3, 1974 in connection with a proposed issuance of Common Stock, the registration of which did not become effective and application for withdrawal of which was submitted on June 6, 1974. None of such Common Stock was issued.

Question No. 8

Indicate the dollar amount on an annualized basis of requests for rate increases still pending before state and Federal regulatory agencies.

Response

Pending rate cases are as follows:

- a. Electric - On April 23, 1974 the Company filed Case U-4576 before the Michigan Public Service Commission (MPSC). The proposed annual revenue increase is \$72,159,000 based on a year-end 1973 test period. At the same time, the Company requested partial and interim relief in the amount of \$54,659,000 annually.
- b. Public Pumping - On March 5, 1974 the Company filed Case U-4543 before the MPSC. The proposed annual revenue increase is approximately \$614,500 based on a year-end 1972 test period.
- c. Wholesale for Resale - On November 6, 1972 the Company filed a case, Docket E-7803, before the Federal Power Commission (FPC). The annual revenue increase is approximately \$1,500,000 based on a 1972 test period. The increased rates became effective in June 1973, subject to refund, pending FPC determination as to their reasonableness.
- d. Steam - On February 4, 1974 the Company filed Case U-4522 before the MPSC. The proposed annual revenue increase is approximately \$192,500 based on a 12 months ended June 30, 1973 test period.

Question No. 9

Indicate the present and maximum amount of bank credit and explain those factors, such as interest coverage and capital structure ratios, which tend to limit an expansion of such credit.

Response

The Company has authority from its Board of Directors and the Federal Power Commission to issue up to \$300,000,000 of short-term debt which includes borrowings from banks or the issuance of commercial paper or a combination thereof. At the present time the Company has lines of credit with four large banks in the aggregate amount of \$122,000,000.

There is no restriction on the expansion of such short-term credit relating to interest coverages. However, the Company's Articles of Incorporation require the affirmative vote of a majority of the outstanding shares of Preferred Stock for the issuance of unsecured indebtedness in excess of 20 percent of the aggregate of capital, surplus and secured indebtedness, except to refund unsecured indebtedness or to redeem Preferred Stock. As of April 30, 1974 the 20-percent limit was approximately \$460,000,000. At April 30, 1974 there was approximately \$73,000,000 of short-term debt and approximately \$40,000,000 of long-term unsecured debt outstanding. The balance of unsecured debt available to be issued at that time was approximately \$347,000,000. The Company proposes to complete an unsecured long-term borrowing of \$50,000,000 in June 1974 which would leave a short-term debt capability of an additional \$297,000,000 under the terms of the Articles of Incorporation.

Question No. 10

Indicate the average age of accounts receivable applicable to electric service and gas service with the electric service accounts receivable classified as (a) residential, (b) commercial-industrial, (c) public authorities, and (d) other electric utilities as of the latest available date and the corresponding date of the previous year.

Response

As of April 30, 1974 and April 30, 1973 the Company had service accounts receivable of \$69,247,558 and \$57,308,600 respectively.

Attached as Exhibit G is information on the Company's accounts receivable and accounts receivable in arrears as of April 30, 1974 and April 30, 1973.

Page G-1 provides information on accounts receivable in arrears for only a current bill (From 1 to 30 days in arrears) by class of account. The Company does not separate arrears by electric and gas but maintains such accounts in combined form. Any public authority in arrears would be included in "Commercial." Any other electric utilities would be included in "Other."

Page G-2 provides information on accounts receivable in arrears for more than one bill (31 days or more but not more than six months) by class of account. After six months, accounts receivable in arrears are written off to expense as bad debts.

Page G-3 provides information on accounts receivable for which the customer has been disconnected either at the customer's request or as a result of the Company's disconnect policy.

Page G-4 totals the arrearages set forth on pages G-1, G-2 and G-3.

For the 12 months ended December 31, 1973 total uncollected bills charged off to bad debts were \$1,628,063 or .20% of sales for 1973. For 1972 the

amount was \$1,213,577 or .16% of sales. The corresponding figures for the first quarter of 1974 were \$310,631 and .11%. For the first quarter of 1973 they were \$242,994 and .10%.

CONSUMERS POWER COMPANY
Statement of Income

	<u>12 Months Ended April 30,</u>	
	<u>1974</u>	<u>1973</u>
OPERATING REVENUE:		
Electric	\$515,901,473	\$440,348,161
Gas	374,312,660	336,419,032
Steam	1,384,183	1,235,135
Total operating revenue (Notes 1 and 6)	<u>\$891,598,316</u>	<u>\$778,003,128</u>
OPERATING EXPENSES AND TAXES:		
Operation		
Purchased and interchanged power (Note 3)	\$101,854,697	\$ 50,557,880
Fuel consumed in electric generation	106,115,129	97,730,300
Cost of gas sold	209,353,844	160,425,610
Other	146,464,204	142,150,070
Total operation	<u>\$563,787,874</u>	<u>\$450,864,060</u>
Maintenance	45,979,404	43,199,939
Depreciation and amortization (Note 1)	76,894,377	66,211,540
General taxes	56,657,636	48,777,294
Income taxes (Note 12)	30,942,392	47,224,505
Total operating expenses and taxes	<u>\$774,261,683</u>	<u>\$656,277,338</u>
Net operating income	<u>\$117,336,633</u>	<u>\$121,725,790</u>
OTHER INCOME:		
Allowance for funds used during construction (Note 1)	\$ 22,370,222	\$ 26,150,149
Income of subsidiaries (Note 1)	4,456,717	2,356,002
Gain on reacquisition of long-term debt	1,611,404	1,418,414
Other, net	2,228,562	379,934
Net other income	<u>\$ 30,666,905</u>	<u>\$ 30,304,499</u>
INTEREST CHARGES:		
Interest on long-term debt	\$ 73,983,818	\$ 66,481,872
Other interest charges	3,630,957	1,720,776
Total interest charges	<u>\$ 77,614,775</u>	<u>\$ 68,202,648</u>
Net income	<u>\$ 70,388,763</u>	<u>\$ 83,818,641</u>
DIVIDENDS ON PREFERRED STOCK:		
Net income after dividends on preferred stock	<u>21,067,289</u>	<u>13,046,840</u>
	<u>\$ 49,320,774</u>	<u>\$ 70,771,801</u>
EARNINGS PER SHARE OF COMMON STOCK		
BASED ON AVERAGE SHARES OUTSTANDING		
(26,233,838 shares in 1974 and 25,317,171 shares in 1973)	\$1.88	\$2.80

The accompanying notes are an integral part of this statement.

CONSUMERS POWER COMPANY
Balance Sheet

ASSETS

STOCKHOLDERS' INVESTMENT AND LIABILITIES

	April 30,	
	1974	1973
PLANT:		
original cost - (Note 13)		
Plant in service and held for future use -		
Electric	\$1,802,774,232	\$1,636,187,664
Gas	880,575,938	762,135,466
Steam	3,280,397	3,265,047
Common to all departments	71,507,625	70,333,547
	<u>\$2,856,438,205</u>	<u>\$2,471,891,724</u>
Less - Provision for accrued depreciation	680,036,436	620,246,500
	<u>\$2,176,401,769</u>	<u>\$1,851,645,224</u>
Construction work in progress (Note 2)	452,066,258	500,433,876
	<u>\$2,628,468,027</u>	<u>\$2,352,079,100</u>
PHYSICAL PROPERTY:		
Cost or less - less provision for accrued depreciation of \$37,438 in 1974 and \$37,527 in 1973	\$ 2,709,271	\$ 2,817,395
INVESTMENTS:		
Wholly-owned subsidiaries -		
Michigan Gas Storage Company	\$ 16,205,186	\$ 16,205,186
Equity in undistributed net earnings of		
Michigan Gas Storage Company (Note 1)	4,004,857	3,974,766
Northern Michigan Exploration Company (Note 4)	15,600,000	12,200,000
Equity in undistributed net earnings of		
Northern Michigan Exploration Company (Note 1)	3,943,225	579,164
Other, at cost or less	825,146	744,879
	<u>\$ 43,178,414</u>	<u>\$ 34,824,015</u>
INTANGIBLE ASSETS:		
Patents (Note 11)	\$ 11,384,744	\$ 12,222,637
Accounts receivable, less reserves of \$710,219 in 1974 and \$800,015 in 1973	71,346,454	59,220,437
Materials and supplies, at average cost	63,242,832	38,012,287
Oil in underground storage, at average cost	15,444,000	7,057,946
Property taxes - future period, net	17,229,397	14,670,806
Payments and other	2,072,515	3,416,834
	<u>\$ 180,477,382</u>	<u>\$ 135,130,947</u>
Deferred debits	\$ 9,612,824	\$ 6,976,812
	<u>\$2,865,446,461</u>	<u>\$2,530,342,072</u>

CAPITALIZATION:

Common stockholders' equity -

Common stock, \$10 par value, authorized
32,500,000 shares, outstanding 26,233,838
shares

\$ 262,338,380 \$ 262,338,380

Capital in excess of par value (Note 9)

247,230,615 246,914,418

Retained earnings (Note 9)

224,282,736 227,429,624

\$ 733,851,721 \$ 736,682,422

Less - Capital stock expense

7,007,854 6,153,481

Total common stockholders' equity

\$ 726,843,867 \$ 730,528,941

Preferred stock, cumulative, \$100 par value,
authorized 5,000,000 shares (Note 3)

347,133,800 217,533,500

Total stockholders' investment

\$1,073,977,667 \$ 948,062,441

Long-term debt (Note 10)

1,248,160,838 1,130,523,176

Total capitalization

\$2,322,138,505 \$2,078,585,617

NOTES PAYABLE:

To banks (average interest rate of 10.48% and
6.79%, respectively) (Note 11)

\$ 72,700,000 \$ 43,000,000

CURRENT LIABILITIES:

Current maturities and sinking fund on long-
term debt (Note 10)

\$ 14,024,521 \$ 14,940,812

Accounts payable

56,767,853 37,388,638

Accrued taxes

71,368,585 79,830,388

Accrued interest

25,912,715 23,021,360

Other

46,172,440 33,143,321

\$ 214,245,114 \$ 168,324,519

DEFERRED CREDITS:

Deferred income taxes

\$ 186,258,055 \$ 157,788,502

Investment tax credit, being amortized over
life of the related property

50,289,971 40,743,585

Other

5,046,002 8,665,112

\$ 242,594,028 \$ 207,197,200

(OTHER OPERATING RESERVES: (Note 6))

\$ 13,967,814 \$ 13,217,421

\$2,865,446,461 \$2,530,342,072

The accompanying notes are an integral part of this statement.

STATEMENT OF SOURCE OF FUNDS
FOR GROSS PROPERTY ADDITIONS

SOURCE OF FUNDS FOR GROSS PROPERTY ADDITIONS	12 Mo Ended April 30	
	1974	1973
Funds Generated From Operations		
Net Income After Dividends on Preferred Stock	\$ 49,320,774	\$ 70,771,801
Principal Noncash Items		
Depreciation and Amortization		
Per Statement of Income	76,894,377	66,211,540
Charged to Other Accounts	10,150,910	13,548,661
Deferred Income Taxes, Net	28,469,553	20,932,167
Investment Tax Credit, Net	9,540,466	11,088,687
Common Equity Component of Allowance for Funds Used During Construction	(6,287,689)	(7,878,605)
Undistributed Earnings of Subsidiaries (Note 1)	(2,701,718)	(481,003)
	<u>\$165,386,673</u>	<u>\$174,193,248</u>
Less		
Dividends Declared on Common Stock	\$ 52,467,676	\$ 51,367,675
Retirement of Long-Term Debt and Pref Stock	12,938,000	12,138,000
	<u>\$ 99,980,997</u>	<u>\$110,687,573</u>
Funds Obtained From New Financing		
Issuance of Common Stock (Note 5)	-	\$ 59,620,000
Issuance of Preferred Stock	\$130,000,000	70,000,000
Issuance of First Mortgage Bonds	75,000,000	120,000,000
Net Proceeds From Installment Sales Contracts Payable	57,806,602	-
(Decrease) in Other Long-Term Debt	(2,102,056)	(4,439,369)
Increase in Notes Payable	29,700,000	4,000,000
	<u>\$290,404,546</u>	<u>\$249,180,631</u>
Funds Obtained From Other Sources		
Common Equity Component of Allowance for Funds Used During Construction	\$ 6,287,689	\$ 7,878,605
Change in Net Current Assets and Current Liabilities	(20,418,513)	12,633,208
Other, Net	(5,564,786)	4,839,134
	<u>\$(19,695,610)</u>	<u>\$ 25,350,947</u>
(Increase) Decrease in Investment in Northern Michigan Exploration Co (Note 4)	\$ (6,400,000)	\$ 100,000
	<u>\$(26,095,610)</u>	<u>\$ 25,450,947</u>
GROSS PROPERTY ADDITIONS (Note 13)	<u>\$364,289,933</u>	<u>\$385,319,151</u>

() Denotes deduction.

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

(1) SIGNIFICANT ACCOUNTING POLICIES

The Company's wholly-owned subsidiaries, Michigan Gas Storage Company and Northern Michigan Exploration Company, have not been consolidated as they are not significant and there is no significant difference between recorded cost and the underlying net book value of the subsidiaries. Effective January 1, 1973, the Company, pursuant to Federal Power Commission Order 469, adopted the equity method of accounting for the investment in subsidiaries. Under this method of accounting the Company's interest in the earnings of the subsidiaries is reflected in earnings and in the carrying value of the investments. Prior years which include dividends paid by one of the subsidiaries have not been restated for this change in accounting since the effect was not material; however, retained earnings have been credited with the undistributed earnings of the subsidiaries at December 31, 1972 in the amount of \$4,359,272.

The Company provides depreciation on the basis of straight-line rates approved by the Michigan Public Service Commission. Composite depreciation rates were approximately 2.84% for electric property and 3.33% for gas property for the 12 months ended April 30, 1974 and 2.80% for electric property and 3.01% for gas property for the 12 months ended April 30, 1973.

Operating revenue is recognized at the time of monthly billings on a cycle basis for electric and gas service.

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 7).

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. The allowance is being capitalized at a rate of 7-3/4% in 1974 and was capitalized at a rate of 7-1/2% in 1972 and 1973.

Reference is made to Note 12 for information regarding income taxes.

(2) CONSTRUCTION WORK IN PROGRESS

Construction work in progress includes \$123,395,000 at April 30, 1974 and \$74,068,000 at April 30, 1973 related to the Midland Nuclear Plant. The issuance of construction permits by the Atomic Energy Commission (AEC) in December 1972 was upheld by an Appeal Board of the AEC in May 1973 but is subject to judicial review. Construction, delayed since 1970, was resumed in June 1973. In

NOTES TO FINANCIAL STATEMENTS (Contd)

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 quality assurance regulations and that there is reasonable assurance that such compliance will continue throughout the construction process. An AEC hearing on the show cause order is scheduled to commence in July 1974.

(3) PALISADES NUCLEAR PLANT

The Palisades Plant has been shut down since August 1973 for repairs to certain reactor vessel internal components and the steam generators of the plant. It was thought that repairs had been completed and the plant would be returned to service during May 1974. However, during preoperational tests being conducted in preparation for start-up of the plant, there were tube failures in one of the plant's two steam generators. This will require further testing and repair which will further delay the start-up. During the period of shutdown the Company has also installed cooling towers which were originally scheduled to be tied into the plant during a 12-week outage in the first six months of 1974. The net cost of replacement power, through April 30, 1974, amounting to \$15,322,000, net of related income taxes (\$.58 per share of common stock), has been charged to income.

(4) 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. At April 30, 1974, the Company's investment in Northern consisted of \$14,600,000 in common stock and \$4,000,000 in notes receivables.

(5) COMMON STOCK ISSUE

In October 1972 the Company sold 2,200,000 shares of its common stock at a net price of \$27.10 per share. In connection with this transaction, \$22,000,000, representing the par value of the shares issued, was credited to the common stock account and \$37,620,000 was credited to capital in excess of par value.

NOTES TO FINANCIAL STATEMENTS (Contd)

(6) RATE MATTERS

On January 18, 1974, the Michigan Public Service Commission (MPSC) authorized increases in the Company's electric and gas rates of \$31,000,000 and \$46,600,000, respectively, on an annual basis. The rate increases included interim increases aggregating \$50,000,000 divided equally between electric and gas rates which were placed in effect November 10, 1973. The authorized rate increases became effective on January 19, 1974 except for approximately \$14,571,000 of the gas rate increase which became effective on April 20, 1974 after the Company had submitted proof to the MPSC that the second unit of the Marysville Gas Reforming Plant was fully and commercially operable.

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. On March 29, 1974, the Court ruled in favor of the MPSC with respect to the income tax surcharge issue and ordered the Company to refund \$24,542,632 to its electric and gas customers. The Company has established a reserve stated net of related income taxes in the amount of \$11,867,818, and believes that the amount of such reserve is adequate to cover the refund obligation, exclusive of interest charges which are presently not capable of determination. The Company is undertaking to request a stay of the refund pending action to seek further review of the Court order of March 29, 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 which is presently not capable of determination, for which no reserve has been provided.

In April 1974 the Company submitted an application to the MPSC to increase its electric rates by not less than \$72,159,000 annually and at the same time requested partial and interim relief in the amount of \$54,659,000 annually. It is not expected that the MPSC will act upon the application or the request for partial and interim relief until later in 1974 following hearings and other investigation of the requests.

NOTES TO FINANCIAL STATEMENTS (Contd)

(7) 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 \$15,339,000 and \$13,346,000 for the 12 months ended April 30, 1974 and April 30, 1973 respectively. Of these amounts \$11,794,000 in 1974 and \$10,985,000 in 1973 were charged directly to expense accounts with the remainder being charged to various construction, clearing and other accounts. The unfunded prior service cost at January 1, 1974, the date of the most recent actuary's report, amounted to approximately \$21,569,000.

(8) CONSTRUCTION COMMITMENTS AND FINANCING RESTRICTIONS

As of June 5, 1974, capital expenditures for property additions in 1974 were estimated to total approximately \$360,318,000. Total construction expenditures for the two years ending December 31, 1975 are estimated to approximate \$725,000,000.

In order to finance this construction program and to meet First Mortgage Bond maturities of \$86,324,000 in 1977, it will be necessary for the Company to sell substantial additional securities, 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 re-funding purposes, minimum earnings coverage, before income taxes, of at least two times pro forma annual interest charges on bonds. The Company's Charter requires for 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 these formulae, the pro forma coverages for the 12 months ended April 30, 1974 would be, respectively, not less than 2.34 times as compared with the requirement of at least two times and not less than 1.34 times as compared with the requirement of at least one and one-half times. The amounts of additional First Mortgage Bonds and Preferred Stock which can be issued in future years will be contingent upon increases in earnings through rate increases or otherwise.

NOTES TO FINANCIAL STATEMENTS (Contd)

(9) PREFERRED STOCK AND PREFERENCE STOCK

Preferred stock is represented by:

	Redemption Price per Share	April 30	
		1974	1973
\$4.50 - 547,788 Shares Outstanding	\$110.00	\$ 54,778,800	\$ 54,778,800
\$4.52 - 127,550 Shares Outstanding	104.725	12,355,000	12,755,000
\$4.16 - 100,000 Shares Outstanding	103.25	10,000,000	10,000,000
\$7.45 - 700,000 Shares Outstanding	108.00	70,000,000	70,000,000
\$7.72 - 700,000 Shares Outstanding	108.00	70,000,000	70,000,000
\$7.76 - 750,000 Shares Outstanding	109.19	75,000,000	-
\$7.68 - 550,000 Shares Outstanding	108.00	55,000,000	-
Total Preferred Stock		<u>\$347,133,800</u>	<u>\$217,533,800</u>

At April 30, 1974, retained earnings in the amount of \$26,065,035, equivalent to \$7.50 per share of preferred stock outstanding, are not available for payment of cash dividends on common stock.

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 \$160,272 in the 12 months ended April 30, 1974 and \$256,505 in the 12 months ended April 30, 1973 which was credited to capital in excess of par value.

On April 9, 1974 the Company's shareholders approved an increase of 1,500,000 shares in the authorized preferred stock.

On April 9, 1974 the Company's shareholders approved a revision in the Company's Articles of Incorporation which authorized 5,000,000 shares of cumulative \$1 par value preference stock. There are no shares of this new class of stock outstanding.

NOTES TO FINANCIAL STATEMENTS (Contd)

(10) LONG-TERM DEBT

Long-term debt is represented by:

First Mortgage Bonds, Secured by a
Mortgage and Lien on Substantially
All Property -

	April 30	
	1974	1973
2-7/8% Series due 1975	\$ 86,324,000	\$ 86,324,000
8-3/4% Series due 1976	60,000,000	60,000,000
2-7/8% Series due 1977	24,010,000	24,010,000
3% - 4-3/4% Series due 1981 - 1991	275,957,000	287,895,000
5-7/8% - 6-7/8% Series due 1996 - 1998	247,550,000	247,550,000
7-1/2% - 8-5/8% Series due 1999 - 2003	470,000,000	395,000,000
Total First Mortgage Bonds	\$1,163,841,000	\$1,100,779,000
Installment Sales Contracts Favourable (Net of \$15,893,398 Held by Trustee Pending Completion of Construction)	57,806,602	-
Sinking Fund Debentures, 4-5/8%, due 1994	37,600,000	38,200,000
Other	2,332,554	6,531,908
Unamortized Net Debt Premium	2,078,203	1,867,086
	<u>\$1,263,658,359</u>	<u>\$1,147,377,994</u>
Deduct:		
Current Maturities and Sinking Fund Included in Current Liabilities -		
First Mortgage Bonds	\$ 11,815,000	\$ 10,634,000
Other	2,209,521	4,306,818
	<u>\$ 14,024,521</u>	<u>\$ 14,940,818</u>
Reacquired Securities for Satis- faction of Sinking Requirements - But Not Yet Retired		
First Mortgage Bonds	\$ 873,000	\$ 1,304,000
Sinking Fund Debentures	600,000	600,000
	<u>\$ 1,473,000</u>	<u>\$ 1,904,000</u>
Total Long-Term Debt	<u>\$1,248,160,838</u>	<u>\$1,130,533,176</u>

NOTES TO FINANCIAL STATEMENTS (Contd)

(11) COMPENSATING BALANCES AND NOTES PAYABLE

The Company has agreements with banks providing for short-term borrowings of up to \$122,000,000. In connection with these agreements the Company is 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 issues 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 12 months ending April 30, 1974 amounted to \$37,964,208, the maximum amount outstanding at any one time during the period was \$82,000,000 and the weighted average interest rate during the period was 9.02%, excluding the effect of compensating balances.

(12) INCOME TAX EXPENSE

Income tax expense is made up of the following components:

	<u>12 Months Ending April 30</u>	
	<u>1974</u>	<u>1973</u>
Charged to Utility Operations		
Federal Income Taxes	\$(7,267,836)	\$11,223,436
State Income Taxes	200,209	3,980,214
Deferred Federal Income Taxes, Net	24,034,835	17,598,963
Deferred State Income Taxes, Net	4,434,718	3,333,204
Charge Equivalent to Investment Tax Credit, Net	<u>9,540,466</u>	<u>11,088,688</u>
Total (See Statement of Income)	\$30,942,392	\$47,224,505
Charged to Nonutility Operations	<u>1,163,147</u>	<u>196,602</u>
Total Income Tax Expense	<u>\$32,105,539</u>	<u>\$47,421,107</u>

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.

NOTES TO FINANCIAL STATEMENTS (Contd)

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.

The total tax expense as set forth above produces an effective income tax rate of 31.3% for the 12 months ended April 30, 1974 and 36.1% for the 12 months ended April 30, 1973. The following schedule reconciles the statutory Federal income tax rate of 48% to the effective income tax rates.

	12 Months Ended April 30			
	1974		1973	
	Amount	Rate	Amount	Rate
Computed "Expected" Tax Expense	\$ 49,197,265	48.0%	\$ 62,995,079	48.0%
Increase (Reduction) in Taxes Resulting From:				
Certain Capitalized Construction Costs, Principally Interest, Deducted Currently for Income Tax Purposes for Which no Deferred Taxes Are Provided in Accordance With the Requirements of the MPSC	(15,045,390)	(14.7)	(17,025,555)	(13.0)
State Income Taxes, Net of Federal Income Tax Benefit	2,506,458	2.4	3,815,930	2.9
Amortization of Deferred Investment Tax Credit	(1,479,895)	(1.4)	(1,127,894)	(.9)
Other Miscellaneous Items	(3,072,899)	(3.0)	(1,236,453)	(.9)
Actual Tax Expense	<u>\$ 32,105,539</u>	<u>31.3%</u>	<u>\$ 47,421,107</u>	<u>36.1%</u>

NOTES TO FINANCIAL STATEMENTS (Contd)

(13) Contributions in Aid of Construction

Effective January 1, 1974 the Company, pursuant to Federal Power Commission Order 490, reclassified Contributions in Aid of Construction as an offset to Utility Plant at original cost. The financial statements for April 30, 1973 have been restated to a comparable basis.

NET EARNINGS CERTIFICATE

J. W. Kluberg, an accountant appointed by the board of directors of Consumers Power Company, hereinafter sometimes called the "Company," DOES HEREBY CERTIFY to First National City Bank, as Trustee under the Indenture of Consumers Power Company dated as of September 1, 1945, as amended and supplemented, hereinafter sometimes referred to as the "Indenture," that the net earnings of the Company for the twelve consecutive calendar months ended May 31, 1973 stated pursuant to Section 1.03 of said Indenture are as follows:

I. Net earnings for the twelve months
ended May 31, 1973

(1) Gross operating revenues -	
Electric	\$445,883,491
Gas	337,425,034
Steam	1,244,503
(2) Net nonoperating revenues excluding income taxes	<u>\$2,718,263</u>
(3) Applicable net nonoperating revenues, being the lesser of the amount (\$2,718,263) specified in subdivision I (2) or an amount (\$21,660,065) equal to 15% of the interest earnings requirement speci- fied in subdivision III	<u>2,718,263</u>
	<u>\$787,271,291</u>
(4) Operating expenses -	
Operation	\$453,983,455
Maintenance	43,371,822
Provision for Depreciation	66,942,594
Taxes (other than taxes on income)	48,930,838

Expenses which in accordance with
generally accepted utility ac-
counting practice are classified
as income deductions

536,943

Excess of 15% of gross operating revenues, after deduction of the aggregate cost of electric energy and gas purchased for resale (no steam having been purchased for resale), over the aggregate of actual charges for current repairs and maintenance and charges to expense to provide for depreciation

\$613,765,652

Net Earnings

\$173,505,639

II.(A) Principal amount and interest rates of the respective bonds on which the annual interest charges referred to in subdivision II (B) are calculated.

Consumers Power Company First Mortgage Bonds -

	Description	Principal Amount
(1)	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
	3-1/8% Series Due 1981	39,000,000
	3% Series Due 1984	24,075,000
	4% Series Due 1986	34,245,000
	3-1/4% Series Due 1987	25,000,000
	4-3/4% Series Due 1987	223,000
	4-1/2% Series Due 1988	36,046,000
	4-5/8% Series Due 1989	30,677,000
	3-1/4% Series Due 1990	30,000,000
	4-5/8% Series Due 1990	31,188,000
	4-5/8% Series Due 1991	37,441,000
	5-7/8% Series Due 1996	59,000,000
	6% Series Due 1997	78,550,000
	6-7/8% Series Due 1998	55,000,000
	6-5/8% Series Due 1998	55,000,000
	7-5/8% Series Due 1999	50,000,000
	8-1/4% Series Due 1999	55,000,000
	8-5/8% Series Due 2000	50,000,000
	8-1/8% Series Due 2001	60,000,000
	7-1/2% Series Due 2001	60,000,000
	7-1/2% Series Due 2002	70,000,000
	7-1/2% Series Due 2002	50,000,000
(2)	8-5/8% Series Due 2003	75,000,000

(B) Annual interest charges upon -

(1) All bonds authenticated under the Indenture and outstanding (as defined) at May 31, 1973	\$ 66,387,718
(2) Bonds applied for in the applica- tion in connection with which this certificate is made	6,468,750
(3) All prior lien bonds outstanding at May 31, 1973	-
(4) All other indebtedness outstanding (as defined) at May 31, 1973	-
Aggregate annual interest charges	<u>\$ 72,856,468</u>

III. Interest earnings requirement (200% of the aggregate annual interest charges specified in accordance with subdivision II (B) above)	<u>\$145,712,936</u>
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The undersigned has read the covenants and conditions of the Indenture (together with the definitions relevant thereto) relating to the requirements for a net earnings certificate as part of an application for the authentication and delivery of bonds, in accordance with the provisions of Sections 1.03, 1.07 and 4.01 thereof; he is informed of matters relevant to the statements contained in this certificate through personal knowledge and examination of records of the Company and reports or information furnished to him by officers or employees of the Company having knowledge of the relevant facts; he has conferred with counsel with respect to the foregoing; and the statements and opinions contained in this certificate are based on such knowledge, examination and investigation.

In the opinion of the undersigned, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not the covenants or conditions provided in said Indenture (including any covenants compliance with which constitutes a condition precedent) relating to the requirements for a net earnings certificate as part of an application under the provisions of Article IV of the Indenture for the authentication and delivery of bonds, have been complied with; and in his opinion, such conditions and covenants have been complied with.

Dated: August 1, 1973

J. W. Kluberg
Accountant

ACCOUNTANT'S CERTIFICATE

J. W. Kluberg, an accountant appointed by the board of directors of Consumers Power Company, hereinafter sometimes called the "Company," DOES HEREBY CERTIFY to First National City Bank, as Trustee under the Indenture of Consumers Power Company dated as of September 1, 1945, as amended and supplemented, hereinafter sometimes referred to as the "Indenture," as follows:

- (a) The amount of net property additions stated pursuant to paragraph (3) of Section 4.01 of said Indenture, in subdivision (h) of the most recent certificate heretofore filed complying with the requirements of said paragraph (3)

\$2,248,170,812.39

- (b) The cost of the gross property additions made or acquired by the Company or becoming such during the period covered by this certificate, namely, the period from July 31, 1972 to May 31, 1973, inclusive, or concurrently being acquired or becoming such, (such property additions being described as provided by subdivision (y) of paragraph (3) of Section 4.01 of said Indenture), other than property additions, if any, heretofore specified in accordance with subdivision (b) of paragraph (3) of said Section 4.01 in a certificate filed complying with the requirements of said paragraph (3) as property additions as authorized by the last paragraph of Section 1.10 of said Indenture, is the amount set opposite each of the following items, all of which are located in the State of Michigan:

Construction Work in ProgressElectric Plant

Ludington Pumped Storage Plant - six units	\$ 29,400,684
Midland Plant	1,154,691
Quanicassee - Units 1 and 2	1,219,430
Karn Plant - Units 3 and 4	29,743,468
J. H. Campbell Plant - Unit 3	118,258
Palisades Plant 1 - Pool Unit 4	76,278,816
Thetford Plant - peaking gen- eration	26,118
Miscellaneous generating plant additions and improvements	10,364,544
Additions and improvements necessitated by load growth - transmission system	29,183,520
Interconnections	8,048,691
Replacement of obsolete, in- adequate or damaged equipment - substations	533,465
Purchase of land and landrights	5,237,834
Replacement of obsolete, in- adequate or damaged equipment - transmission lines	152,400
Miscellaneous relocations - transmission lines and substa- tions	460,158
Additions and improvements necessitated by load growth - distribution substations	10,741,530
Purchase electric meters	1,539,365
Electric distribution system - additions and improvements	41,623,353

Plant transfers	\$ (125,719)
Adjustment of prior year's additions	<u>21,983</u>
	<u>\$245,722,589</u>

Gas Plant

Misc compressor stations, buildings and storage field additions	\$ 83,623,549
Transmission system additions and improvements	1,735,736
Pumping and regulating equipment additions and improvements	588,293
Distribution system additions and improvements - blanket projects	21,681,034
Distribution system additions and improvements - specific projects	2,109,716
Purchase of land and landrights	114,769
Plant transfers	(2,126)
Adjustment of prior year's additions	<u>773,153</u>
	<u>\$110,624,124</u>

Heating Plant

Misc heating plant additions and improvements	\$ 7,372
Distribution system additions and improvements	6,623
Plant transfers	(15,500)
Adjustments of prior year's additions	<u>100</u>
	\$ (1,405)

General and Miscellaneous
Plant

Garage equipment	\$ 16,485
Office furniture and mechanical equipment	540,597
Tools, implements and testing equipment	698,634
Office and service buildings	4,046,133
Communication system - additions and improvements	25,532
Misc land purchases, special assessments and surveys	57,037
Adjustment of prior year's additions	<u>568</u>
	<u>\$ 5,384,986</u>

Total cost of property additions made or acquired during the period covered by this certificate

\$ 361,730,294.00

- (c) The original fair value of each of the gross property additions (which has not been retired) described in subdivision (b) above is not less than the cost thereof
- (d) The amount of such gross property additions
- (e) None of such gross property additions consist of plant or property operated by others
- (f) The retirements (described as provided in subdivision (y) of paragraph (3) of Section 4.01 of said Indenture) during the period covered by this certificate, are as follows:

\$ 361,730,294.00

Retirement Work in ProgressElectric Plant

Improvements - various generating plants	\$ 7,768,875
Purchase of land and landrights	1,254
Replace obsolete, inadequate or damaged equipment - transmission lines	26,577
Replace obsolete, inadequate or damaged equipment - substations	689,272
Miscellaneous relocations - transmission lines and substations	72,690
Additions and improvements necessitated by load growth - distribution substations	2,233,103
Additions and improvements necessitated by load growth - distribution system	1,050,522
Electric distribution system	8,534,683
Land sold	<u>123,093</u>
	<u>\$ 20,500,069</u>

Gas Plant

Miscellaneous natural gas production plant	\$ 188,306
Gas distribution system - blanket projects	2,870,623
Gas transmission system	14,122
Gas distribution system - specific projects	449,761
Pumping and regulating equipment	266,337
Land sold	<u>21,257</u>
	<u>\$ 3,810,406</u>

General and Miscellaneous
Plant

Garage equipment	\$ 11,072
Office furniture and mechanical equipment	224,590
Communications equipment	974
Tools, implements and testing equipment	467,982
Office and service buildings	1,403,569
Land sold	<u>114</u>
	<u>\$ 2,108,301</u>

Sale of land held for future use	<u>\$ 5,282</u>
----------------------------------	-----------------

Total retirements during the period covered by this certificate

\$ 26,424,058.00

(g) The amount of net property additions during the period covered by this certificate

\$ 335,306,236.00

(h) The amount of net property additions to May 31, 1973, inclusive

\$2,583,477,048.39

(i) The amount of unfunded net property additions calculated (subject to the provisions of Section 1.10 of said Indenture) as of the date of this certificate and the computation thereof in the manner provided by Section 1.11 of said Indenture, is as follows:

From the aggregate of:

(1) The amount of net property additions (subdivision (h) above)

\$2,583,477,048.39

- (2) The principal amount of bonds authenticated under said Indenture made the basis of the release of property or made the basis for the withdrawal of, or retired or to be retired by the use or application already made or directed of, proceeds of released property

and

- (3) Proceeds of released property now held by the Trustee and for the withdrawal, use or application of which no other appl'cation, request or direction is now pending

\$ 4,480.20

Less the amount of cash sought to be withdrawn, pursuant to the provisions of paragraph (1) of Section 10.05 of said Indenture.

4,480.20

which aggregate is

\$2,583,477,048.39

there is deducted the sum of the following:

- (a) Ten-sixths (10/6ths) of the aggregate principal amount of bonds heretofore authenticated under the Indenture and delivered upon the basis of unfunded net property additions or for the authentication and delivery of which upon such basis any other application is now pending

\$1,773,876,666.67

and

- (b) Ten-sixths (10/6ths) of the amount of cash heretofore deposited with the Trustee for the authentication and delivery of bonds under Section 6.01 of said Indenture and subsequently withdrawn under Section 6.02 thereof upon the basis of unfunded net property additions or for the withdrawal of which upon such basis any other application is now pending

\$ 26,123,333.33

and

- (c) The aggregate of:

- (i) The total amount of unfunded net property additions certified to satisfy unsatisfied balances of the maintenance and replacement requirement

\$215,565,101.70

and

- (ii) All cash and bonds deposited with or acquired by the Trustee under the provisions of Section 7.07 of said Indenture which have been withdrawn or for the withdrawal of which any other application is now pending, and all bonds the waiver of the right to the authentication and delivery of

which has been or
is being revoked
under the provisions
of said Section
7.07, upon the
basis of unfunded
net property addi-
tions

\$215,565,101.70

Less the amount (not
exceeding such ag-
gregate) by which
the same has been
offset by any avail-
able maintenance
credit or by the
deposit of bonds
authenticated under
said Indenture or
by the waiver of
the right to the
authentication and
delivery of bonds
as provided in said
Section 7.07

\$ 14,289,978.18 \$ 201,275,123.52 \$2,001,275,123.52

The balance remaining, con-
stituting the amount of
unfunded net property ad-
ditions

\$ 582,201,924.87

- (j) The amount of unfunded net
property additions, if any,
made the basis for the ap-
plication of which this
certificate is a part

\$ 125,000,000.00

and

- (k) The amount equal to the ex-
cess, if any, of the amount
stated in the foregoing
subdivision (i) over the
amount, if any, stated in
the foregoing subdivision
(j)

\$ 457,201,924.87

Since the termination of the period covered by this certificate, the Company has not made retirements in excess of the sum of the amount certified pursuant to the foregoing subdivision (k) and the amount of the gross property additions made since such termination, and the properties described herein as property additions pursuant to subdivision (b) hereof are, or concurrently with the granting of the application of which this certificate forms a part, will become property additions; no portion of the amount thereof has been included in subdivision (b) of any other certificate filed with the Trustee complying with the requirements of paragraph (3) of Section 4.01 of said Indenture; the items of property described in this certificate as property additions are desirable in the conduct of the business of the Company and are not subject to any prior lien; the provisions of Section 7.05 of the Indenture were complied with in acquiring such property; and no portion of the cost of the property additions described in this certificate should properly have been charged, and no portion has been charged, to maintenance or to any other operating expense account.

That for the period since the end of the calendar year 1972 and through May 31, 1973 (such date being the last day of the calendar month preceding the date of this certificate to which the information is reasonably available):

- (i) The amount applied by the Company for maintenance and renewals and replacements, as defined in Section 7.07 of said Indenture, of the mortgaged and pledged property (other than specially classified property), is \$ 21,259,539.00
- (ii) The maintenance and replacement requirement computed in accordance with the requirements of said Section 7.07 is \$ 42,189,674.00

The undersigned has read the covenants or conditions of the Indenture relating to the requirements for an accountant's certificate as part of an application under the provisions of Article IV of the Indenture for the authentication and delivery of bonds, and the definitions relevant to such covenants or conditions; he is acquainted with the property additions and retirements described in this certificate and the relevant facts concerning them, through personal knowledge and examination of records of the Company and reports or information furnished to him by officers or employees of the Company having knowledge of the relevant facts; he has conferred with counsel with respect to the foregoing; and the statements and opinions contained in this certificate are based on such knowledge, examination and investigation.

In the opinion of the undersigned, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not the covenants or conditions provided in said Indenture relating to the requirements for an accountant's certificate as part of an application under

the provisions of Article IV of the Indenture for the authentication and delivery of bonds, have been complied with; and in his opinion such conditions and covenants have been complied with.

Dated: August 1, 1973

J. W. Kluberg

Accountant

STATE OF MICHIGAN)
) ss:
COUNTY OF JACKSON)

J. W. Kluberg, being duly sworn, deposes and says that he is an accountant appointed by the board of directors of Consumers Power Company; that he executed the foregoing certificate as such, and that the same is true to the best of his knowledge, information and belief.

J. W. Kluberg

Subscribed and sworn to before me
this 1st day of August 1973.

Helen I. Dempki

NOTARY PUBLIC

Jackson County, Michigan

My commission expires January 9, 1976

CONSUMERS POWER COMPANY
Calculation of Net Earnings
12 Months Ended as of 4-30-74

Gross operating revenues -	
Electric	\$515,901,473
Gas	374,312,660
Steam	1,384,183
Net nonoperating revenues excluding income taxes	<u>\$21,719,501</u>
Applicable net nonoperating revenues, being the lesser of net nonoperating revenues excluding income taxes (\$21,719,501) or an amount (\$21,693,797) equal to 15% of the interest earnings requirement	<u>21,693,797</u>
	<u>\$913,292,113</u>
Operating expenses -	
Operation	\$563,774,239
Maintenance	45,979,404
Provision for Depreciation	76,671,785
Taxes (other than taxes on income)	56,594,782
Expenses which in accordance with generally accepted utility accounting practice are classified as income deductions	540,852
Excess of 15% of gross operating revenues, after deduction of the aggregate cost of electric energy and gas purchased for resale (no steam having been purchased for resale), over the aggregate of actual charges for current repairs and maintenance and charges to expense to provide for depreciation	<u>-</u>
	<u>\$743,561,062</u>
Net Earnings	<u>\$169,731,051</u>

CHARTER TOWNSHIP OF HAMPTON, MICHIGAN
CITY OF MARYSVILLE, MICHIGAN

(Consumers Power Company Projects)

Supplement to Official Statement dated January 29, 1974

Reference is made to Note (b) appearing on page A-4 of the Official Statement.

On February 4, 1974 the Michigan Public Service Commission ("MPSC") denied the application filed by Consumers Power Company (the "Company") for permission to defer the net cost of replacement power during the suspension of operations at the Company's Palisades Plant and to amortize the deferred amounts to income through debits to operating expenses over a ten-year period. As a result of this decision, the Company has decided to withdraw a similar application to the Federal Power Commission and has charged to income, through a debit to operating expenses, on December 31, 1973, the total cost of replacement power to such date, which includes the amounts previously deferred.

Set forth below are the affected items appearing in the Statement of Income for the twelve months ended November 30, 1973, unaudited, as reported on page A-3 in the Official Statement and as adjusted to show the effect of the MPSC order issued on February 4, 1974.

	<u>As Reported</u>	<u>As Adjusted</u>
	<u>Thousands of Dollars</u>	
Operating Expenses and Taxes:		
Operation	\$475,904	\$486,533
Income taxes	\$ 52,537	\$ 47,004
Total operating expenses and taxes	\$699,277	\$704,373
Net operating income	\$130,929	\$125,833
Net Income	\$ 87,673	\$ 82,577
Net Income After Dividends on Preferred Stock	\$ 70,771	\$ 65,675
Earnings Per Share of Common Stock	<u>\$2.70</u>	<u>\$2.50</u>
Ratio of Earnings to Fixed Charges	2.92	2.78

(over)

February 7, 1974

Also, with respect to the Balance Sheet at November 30, 1973 appearing on pages A-22 and A-23 of the Official Statement, the amounts shown as "Deferred Debits" and "Retained Earnings", after adjustment to show the effect of such MPSC order, are reduced by \$5,096,000 in each case.

The above adjustments have a similar effect on other financial data contained in the Appendix to the Official Statement.

Since the Official Statement was issued, the Company has released an unaudited income statement for the year ended December 31, 1973 showing operating revenues of \$834,954,000, net income of \$80,893,000 and earnings per share of \$2.41; these amounts are unaudited but in the opinion of the Company include all adjustments necessary to a fair statement of such amounts.

The pro forma ratio of earnings to fixed charges for the twelve month period ended November 30, 1973, referred to on page A-5 of the Official Statement, as adjusted to show the effect of such MPSC order, is approximately 2.62, and such ratio for the twelve months ended December 31, 1973, is approximately 2.59, in each case based on long-term debt outstanding at the respective dates (excluding current maturities) after giving effect to the execution of the Installment Sales Contracts with the City of Marysville and the Charter Township of Hampton, Michigan proposed herein and the balance of the Installment Sales Contracts with Cover Township and the City of Luna Pier, Michigan. The pro forma coverages under the provisions of the Company's Indenture and charter for the twelve month period ended November 30, 1973, also shown on page A-5 of the Official Statement, as adjusted to show the effect of such MPSC order, and for the twelve month period ended December 31, 1973, are not less than 2.44 and 2.39 times, respectively, as compared with the requirement of at least two times and not less than 1.48 and 1.44 times, respectively, as compared with the requirement of at least one and one-half times.

OFFICIAL STATEMENT

\$27,500,000**CHARTER TOWNSHIP OF HAMPTON, MICHIGAN**

Pollution Control Revenue Bonds, Series A
(Consumers Power Company Project)

\$7,200,000**CITY OF MARYSVILLE, MICHIGAN**

Pollution Control Revenue Bonds, Series A
(Consumers Power Company Project)

**The Charter Township of Hampton Bonds and the City of Marysville Bonds are
 Separate Issues.**

The Bonds are not a charge against the general credit or taxing powers of the issuing Municipalities. Each issue of Bonds is payable from and secured by a pledge of the income and revenues derived from the particular Project financed by such issue of Bonds, including amounts to be received under installment sales contracts between the Charter Township of Hampton and City of Marysville, respectively, and

Consumers Power Company

In the opinion of Miller, Canfield, Paddock and Stone, Bond Counsel, (i) interest on the Bonds is exempt from all present Federal income taxes to the extent, upon the conditions and subject to the limitations stated in "Tax Exemption" herein, and (ii) the Bonds and interest thereon are similarly exempt from all taxation in the State of Michigan except for inheritance and estate taxes and taxes measured by gain or profit on the sale or payment of the Bonds.

Serial Bonds Due February 1,

<u>Year</u>	<u>Principal Amount of Hampton Bonds</u>	<u>Principal Amount of Marysville Bonds</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Principal Amount of Hampton Bonds</u>	<u>Principal Amount of Marysville Bonds</u>	<u>Interest Rate</u>
1979	\$500,000	\$350,000	4.45%	1984	\$500,000	\$ 550,000	4.90%
1980	500,000	350,000	4.50	1985	500,000	1,125,000	5.00
1981	500,000	350,000	4.60	1986	500,000	1,125,000	5.10
1982	500,000	550,000	4.70	1987	500,000	1,125,000	5.20
1983	500,000	550,000	4.80	1988	500,000	1,125,000	5.25

\$22,500,000 6.05% Hampton Term Bonds Due February 1, 2004

PRICES 100% AND ACCRUED INTEREST

Principal and semi-annual interest (February 1 and August 1) are payable at the principal office of National Bank of Detroit, the Trustee, and at the corporate trust office of Bankers Trust Company, the Paying Agent. The Bonds of both issues will be coupon Bonds in the denomination of \$5,000, registrable as to principal only, and fully registered Bonds in denominations of \$5,000 and multiples thereof. Coupon Bonds and fully registered Bonds of the same maturity and of the same issuer are interchangeable. The Bonds are subject to redemption prior to maturity as described herein.

Each issue of the Bonds is offered, subject to prior sale, when, as and if issued by the appropriate Municipality and accepted by the Underwriters, subject to the approval of legality by Bond Counsel and certain other conditions, including approval of the Michigan Municipal Finance Commission. It is expected that delivery of the Bonds will be made on or about February 14, 1974 in New York, N. Y., against payment therefor in New York funds.

MORGAN STANLEY & CO.

Incorporated

January 29, 1974

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offers made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Charter Township of Hampton, the City of Marysville, Consumers Power Company or the underwriters. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Charter Township of Hampton, the City of Marysville or Consumers Power Company since the date hereof. This Official Statement does not constitute an offer or solicitation in any state in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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\$27,500,000

**Charter Township of Hampton, Michigan
Pollution Control Revenue Bonds
(Consumers Power Company Project)
SERIES A**

\$7,200,000

**City of Marysville, Michigan
Pollution Control Revenue Bonds
(Consumers Power Company Project)
SERIES A**

INTRODUCTION

This Official Statement is provided to furnish information regarding the Pollution Control Revenue Bonds (Consumers Power Company Project), Series A, to be issued in the aggregate principal amount of \$27,500,000 by the Charter Township of Hampton, Michigan ("Hampton") and the Pollution Control Revenue Bonds (Consumers Power Company Project), Series A, to be issued in the aggregate principal amount of \$7,200,000 by the City of Marysville, Michigan ("Marysville"). Hampton and Marysville are sometimes referred to together herein as "the Municipalities" and separately as "each Municipality", "that Municipality", etc. The bonds of Hampton (the "Hampton Bonds") and the bonds of Marysville (the "Marysville Bonds") (collectively, the "Bonds") will be issued, sold and traded separately.

The Hampton Bonds and the Marysville Bonds are being issued and secured under separate Trust Indentures, each dated as of February 1, 1974 (collectively, the "Indentures", and separately, the "Indenture", etc.), between each Municipality, respectively, and National Bank of Detroit (the "Trustee") as Trustee thereunder.

The Hampton Bonds are being issued to finance the costs of the acquisition, installation and construction of water and air pollution control facilities for sale to Consumers Power Company (the "Company") for use at its electrical generating plants known as the Karn-Weadock Plants, including the cost of such Bond issue. The proceeds of the sale of the Marysville Bonds will be used to defray such costs of water and air pollution control facilities for sale to the Company for use at its synthetic natural gas plant known as the Marysville Reforming Plant, including the costs of such Bond issue. The pollution control facilities to be financed by the sale of the Hampton Bonds and the Marysville Bonds will be sold to the Company pursuant to separate Installment Sales Contracts, each dated as of February 1, 1974 (collectively, the "Contracts", and separately, the "Contract", etc.), between each of the Municipalities and the Company. The pollution control facilities to be sold under the Contract to which Hampton will be a party are referred to in this Official Statement as the "Hampton Project" and the pollution control facilities to be sold to the Company under the Contract to which Marysville will be a party are called the "Marysville Project" (collectively, the "Projects" and separately, the "Project", etc.).

Each Contract provides for the acquisition from the Company of the Project by the Municipality in which such Project is located, the completion of such Project by the Company and the immediate sale thereof by such Municipality to the Company. Under each Contract, the Company is unconditionally obligated to make payments in semi-annual installments at times and in amounts sufficient to enable the Municipality to meet its obligations on its Bonds. In the opinion of counsel, in the event of any bankruptcy or reorganization of the Company under the Federal Bankruptcy Act, a claim against the Company under each Contract arising out of the failure of the Company to pay any and all amounts payable under such Contract and assigned to the Trustee under the related Indenture, if timely filed, and after taking into account any security, would rank at least equal to the claims of general unsecured creditors and be provable as such in any such bankruptcy or reorganization of the Company. See "The Bonds—Security for the Bonds."

As more fully described in "The Bonds—Security for the Bonds" below, each Municipality is assigning to the Trustee, as security for payment of its Bond obligations, the security interest of the Municipality in its respective Project, subject to certain "Permitted Encumbrances" hereinafter described, and is assigning its interest in its Contract and the installment payments thereunder, subject to the right to receive payments in respect of taxes, insurance, indemnification and its administrative costs. The Bonds of each Municipality will be payable solely from the income and revenues, including such installment payments, derived from its Project and Contract and will not be general obligations of that Municipality or pledge the general credit or taxing power of that Municipality or any other political entity or agency.

Information concerning the Company is contained in the Appendix to this Official Statement. Brief descriptions of Hampton and Marysville, the Projects, the Bonds, the Additional Bonds which may be issued under the Indentures, the Indentures and the Contracts are also included in this Official Statement. Such information and descriptions do not purport to be comprehensive or definitive. All references herein to the specified documents are qualified in their entirety by reference to each such document, copies of which are available from the Company and the underwriters, and all references to the Bonds are qualified in their entirety by the definitive forms thereof and the information with respect thereto included in the aforesaid documents to which they relate.

THE MUNICIPALITIES

The Municipalities are bodies corporate created, organized and operating under the constitution and statutes of the State of Michigan. Each Municipality is authorized by Act No. 62, Michigan Public Acts of 1963, as amended, known as the Industrial Development Revenue Bond Act of 1963 (the "Act"), to acquire its Project and to sell the same to the Company as provided in its Contract, and to issue its Bonds, payable solely from the revenues derived from its Project, including the installment payments, and secured as provided in its Indenture. The Act was amended in 1973 (Act No. 7, Michigan Public Acts of 1973) to provide specifically for the acquisition from and sale to public utilities of water and air pollution control equipment subject to prior encumbrances and for the conveyance of title to such equipment to public utilities prior to the retirement of the bonds issued under the Act for the financing of such equipment.

THE PROJECTS

The Projects are treated as between the respective Municipalities and the Company as constituting wholly personal property, and are located on real estate most of which is owned by the Company.

Hampton Project

The Hampton Project consists of air and water pollution control equipment for the Company's Karn-Weadock Plants: electrostatic precipitators for Weadock Units 7 and 8; facilities for the conversion from coal firing to oil firing for Weadock Units 1 through 6; and, for Karn Units 3 and 4, closed-loop mechanical draft cooling tower system, exhaust stack extension and separation, oil contamination control facilities, acid wash disposal system and sanitary waste system.

Included as a part of the cooling tower system for Karn Units 3 and 4 are the costs of certain losses in electrical generating capacity due to the operation of the cooling towers.

Marysville Project

The Marysville Project consists of air and water pollution control equipment for the Company's Marysville Gas Reforming Plant: floating roof systems for two fuel storage tanks, vapor recovery system, fuel oil desulfurization unit, sulfur recovery unit, integrated flare system, boiler and heater exhaust stack extensions, waste water treatment and holding facilities (which consist of oil-water separator, waste water stripper, neutralization pit and a holding pond), closed-loop mechanical draft cooling tower system, cooling tower plume abatement system and brine disposal wells.

Cost of Projects and Use of Proceeds

Construction of the Hampton Project began in September 1970 and is expected to be completed in October, 1975. Construction of the Marysville Project began in August, 1971 and is expected to be completed by April, 1974. It is estimated that the proceeds of the Bonds will ultimately be expended in the following amounts:

	<u>Hampton Project</u>	<u>Marysville Project</u>
Equipment Cost: Karn 3 and 4	\$15,132,000	—
Weadock 1-6.....	8,599,000	—
Weadock 7 and 8.....	2,644,000	—
Marysville Gas Reforming Plant	—	\$6,822,000
Financing, legal and printing expenses; interest on the Bonds for up to six months following construction; and miscellaneous costs and expenses	1,125,000	378,000
	<u>\$27,500,000</u>	<u>\$7,200,000</u>

THE BONDS

Separate Issues

The Hampton Bonds and the Marysville Bonds are entirely separate issues. The underwriters have agreed to purchase the Bonds subject to all the terms and conditions of separate agreements with each Municipality. The nature of the underwriters' obligations is such that, if they purchase any Bonds of one of the issuing Municipalities, they must purchase all of the Bonds of such Municipality. Purchase of the Bonds of one Municipality does not, however, obligate the underwriters to purchase the Bonds of the other Municipality, and it is therefore possible that one issue of Bonds to which this Official Statement relates will be sold and the other will not. If both issues of Bonds are issued and accepted by the underwriters, each issue will thereafter be sold and traded independently.

Neither issue is entitled to the benefits of any revenues or other security pledged for the benefit of the other. Optional or extraordinary redemption of one issue of Bonds may be made in the manner described below without the redemption of the other issue and a default in the payment of the principal of, premium (if any) and interest on such Bonds will not constitute a default in the making of any payment in respect of the other issue of Bonds.

Interest, Maturity and Place of Payment

The Hampton Bonds and the Marysville Bonds will be dated February 1, 1974 (except as to subsequently dated fully registered Bonds) and will bear interest payable semi-annually on February 1 and August 1 of each year, commencing August 1, 1974, at the rates per annum set forth on the cover page of this Official Statement. The Bonds will mature on February 1 in the years and in the amounts set forth on the cover page and both issues are subject to prior redemption as hereinafter stated. Principal of, premium (if any) and interest on both issues of Bonds are payable at the principal office of National Bank of Detroit, the Trustee, in the City of Detroit, Michigan, or at the corporate trust office of Bankers Trust Company, as Paying Agent, in the City of New York, New York.

Security for the Bonds

The principal security for the Bonds consists of the unconditional obligation of the Company under each of the Contracts to make the purchase payments in amounts equal to the Bond obligations of the issuing Municipality and an assignment under the related Indenture to the Trustee of that Municipality's right to receive such payments.

Under each Contract, the Company is creating a security interest in the related Project, which security interest will attach to the Project, as then completed, at the time the Bonds are delivered and to the remaining portions of the Project as such remaining portions are completed. Each such security interest will be subject to the prior lien of the Indenture dated as of September 1, 1945 from the Company to City Bank Farmers Trust Company (First National City Bank, successor), as heretofore or hereafter amended, modified and supplemented (the "First Mortgage Indenture"), securing First Mortgage Bonds issued and to be issued by the Company, and will continue in full force and effect until the related Bonds are fully paid and retired. See "Capitalization" in the Appendix regarding the amount of First Mortgage Bonds outstanding under the First Mortgage Indenture.

Each Municipality in its Indenture will assign the security interest in the Project financed by its Bonds and its rights and interest in its Contract (reserving certain rights of that Municipality in respect of taxes, insurance, indemnification and its administrative costs), including the right to receive payments and other income and revenues derived from its Project, to the Trustee for the benefit of the holders of its Bonds. The purchase payments to be made by the Company under each Contract are to be paid directly to the Trustee and are required by each Contract to be sufficient (together with any other available funds held by the Trustee) to pay the principal of, premium (if any) and interest on the Bonds relating to that Contract.

Since the security interest in each Project is junior to the prior lien of the First Mortgage Indenture, the realization, upon foreclosure of such security interest, of any significant proceeds from the resale of the pollution control equipment is unlikely, and no representation is made in this Official Statement that, in a proceeding involving the enforcement against the Company of creditors' rights or involving the bankruptcy or reorganization of the Company, remedies adequate for the realization of any substantial benefit from such security interest in the Project would, as a practical matter, be available to the Trustee. Messrs. Miller, Canfield, Paddock and Stone, Bond Counsel, have advised that the security provided by the Projects may be of such limited value that, as a practical matter, only the unconditional obligation of the Company to make purchase payments under the Contract should be regarded as security for the Bonds.

The Bonds are to be only special obligations of the issuing Municipality, payable as to principal, premium (if any) and interest solely out of income and revenues derived from the particular Project financed by the sale of such issue (except certain principal and interest which may be payable from amounts attributable to the proceeds of the sale of such Bonds), including the purchase payments and any other revenues or funds received under the related Contract. The Bonds and interest coupons do not constitute or give rise to any pecuniary liability of the issuing Municipality or any charge against its general credit or taxing powers.

Form of Bonds

The Hampton Bonds and the Marysville Bonds are being issued in definitive form as coupon Bonds in the denomination of \$5,000, registrable as to principal only, and as fully registered Bonds in the denomination of \$5,000 or multiples thereof. The Bonds may be registered or transferred, and coupon Bonds and fully registered Bonds of the same maturity and of the same issuer are interchangeable, upon presentation or surrender, as the case may be, at the principal office of the Trustee, without charge except that any tax, fee or other governmental charge incurred in connection with a transfer or interchange must be paid as a condition to the exercise of the transfer or interchange privilege.

Replacement of Bonds; Forfeiture of Interest

If any Bond is mutilated, lost, stolen, or destroyed, the issuing Municipality may execute and the Trustee may authenticate, subject to the provisions of the related Indenture and applicable law, a new Bond of the same issue. The issuing Municipality and the Trustee may charge the holder or owner with their fees and expenses and require satisfactory indemnification in connection with replacing mutilated, lost, stolen, or destroyed Bonds.

Loss, theft or destruction of any coupon Bond or coupon may result in the effective forfeiture by the holder of all claim for interest represented by the coupons by reason of the restrictions on replacement of coupon Bonds in Act No. 354, Michigan Public Acts of 1972, Section 4 of which reads as follows:

"SEC. 4 (1) Relief shall not be granted on account of interest coupons claimed to have been attached to an obligation lost, destroyed or wrongfully taken, nor shall interest coupons while separated from the obligation they were issued, attached unto, lost, destroyed or wrongfully taken, be replaced.

“(2) Replacement obligations may be issued and delivered as heretofore provided, with unmatured interest coupons attached, providing payment is made to the governing body in the amount of the present market value to be determined by the governing body, of the attached unmatured interest coupons.”

Mandatory Redemption

The Hampton Bonds maturing on February 1, 2004 (the “Hampton Term Bonds”) are subject to mandatory redemption on the dates and in the principal amounts set forth below at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, without premium.

<u>February 1</u>	<u>Principal Amount</u>	<u>February 1</u>	<u>Principal Amount</u>
1989.....	\$ 500,000	1997.....	\$1,000,000
1990.....	500,000	1998.....	1,000,000
1991.....	1,000,000	1999.....	1,000,000
1992.....	1,000,000	2000.....	2,500,000
1993.....	1,000,000	2001.....	2,500,000
1994.....	1,000,000	2002.....	2,500,000
1995.....	1,000,000	2003.....	2,500,000
1996.....	1,000,000		

When all mandatory redemptions have been made, a balance of \$2,500,000 principal amount of the Hampton Term Bonds will be due on February 1, 2004, unless otherwise previously redeemed. The Hampton Term Bonds to be redeemed will be selected by the Trustee by lot. The principal amount of the Hampton Term Bonds to be redeemed on each date set forth in the table above will be subject to reduction by the principal amount of any such Bonds which shall have been theretofore surrendered by the Company to the Trustee for cancellation, or purchased or redeemed by the Trustee by applying moneys in the related Bond Fund or the related Surplus Fund, hereir after described, and which have not theretofore been made the basis for such a redemption, as provided in the related Indenture.

Giving effect solely to the mandatory redemption set forth above, the “average life” of the Hampton Term Bonds is approximately 24.6 years.

Optional Redemption

The Hampton Bonds, and the Marysville Bonds through January 31, 1988, are subject to redemption prior to maturity, at the option of the issuing Municipality, to be exercised at the direction of the Company, on any interest payment date on and after February 1, 1984, as a whole issue, or in part in inverse order of maturity (and within a maturity of an issue, by lot by the Trustee), at redemption prices equal to the prices (expressed as percentages of principal amount) set forth in the table below plus accrued interest to the redemption date.

<u>Redemption Date Inclusive</u>	<u>Price</u>
February 1, 1984—January 31, 1985.....	103 %
February 1, 1985—January 31, 1986.....	102½
February 1, 1986—January 31, 1987.....	102
February 1, 1987—January 31, 1988.....	101½
February 1, 1988—January 31, 1989.....	101
February 1, 1989—January 31, 1990.....	100½
February 1, 1990 and thereafter.....	100

The Bonds will not be subject to redemption prior to February 1, 1984, except as described under “Extraordinary Redemption” below.

Extraordinary Redemption

The Hampton Bonds and the Marysville Bonds are each subject to redemption prior to maturity as a whole issue on any interest payment date on or after August 1, 1975, at 100% of the principal amount thereof plus accrued interest to the redemption date, upon exercise by the Company of its option to accelerate payment of the purchase price of the Project financed by such Bonds upon the occurrence of certain events of the following general nature: damage or destruction of the particular Project financed by the sale of such Bonds or the plant in connection with which such Project is used, or the condemnation or taking by eminent domain of any part thereof or of use or control thereof, such that restoration may not reasonably be made or normal operations resumed within six months thereafter or such that the cost of restoration is deemed by the Company to be uneconomic; changes in laws or regulations or judicial or administrative action rendering the Contract relating to such Bonds void, unenforceable or impossible of performance or imposing excessive burdens or liabilities (such as taxes) on the issuing Municipality or the Company; changes in the economic availability of materials, supplies or facilities, or technological or other changes required by any governmental authority, which render the particular Project financed by the sale of such Bonds or the plant in connection with which such Project is used, in the reasonable judgment of the Company, uneconomic for use.

Notice of Redemption and Payments

Notice of any redemption, identifying the Bonds to be redeemed, will be given by the Trustee in the name of the Municipality by publication in a financial journal or newspaper of general circulation in New York, N. Y., and by mailing a copy of the redemption notice by first class mail to the registered holder of each registered Bond to be redeemed, not less than thirty days prior to the redemption date, except that if all Bonds being redeemed are registered, then notice by mailing will be sufficient. However, failure to mail or receive such notice or any defect in the notice will not affect the validity of any proceedings for the redemption of the Bonds.

If any Bonds are not presented for payment at the date fixed for their redemption, or if any Bonds or coupons are not presented for payment when due, and if funds sufficient for such redemption or payment are held by the Trustee, the holders of such Bonds and coupons will thereafter be restricted exclusively to such funds for the satisfaction of any claim relating to such Bonds or coupons.

ADDITIONAL BONDS

The Company expects that the proceeds from the sale of each issue of Bonds will be sufficient to substantially complete the construction of the Project to be financed from the sale of such issue. If, however, the proceeds of a particular issue should be insufficient, the Company will be obligated to complete such Project with its own funds. The Company may, however, request the appropriate Municipality to issue Additional Bonds, and that Municipality may, but shall not be required to, authorize the issuance of Additional Bonds for the purposes of defraying the cost of completing such Project, or to pay the cost of making additions, improvements, extensions, alterations, relocations, enlargements, expansions, modifications or changes in, on or to such Project, or of acquiring and installing in or near the plant in connection with which such Project is used other industrial machinery and equipment which may be acquired by that Municipality pursuant to the Act as the same may be amended at that time, or for the purpose of refunding outstanding Bonds or Additional Bonds issued by that Municipality, and for payment of the expenses of issuing and paying any capitalized interest on Additional Bonds. The Additional Bonds shall rank equally and be on a parity with the Bonds of the issuing Municipality and will be secured equally and ratably by the pledge of the same revenues, and be issued in the same denominations and form as the Bonds of the issuing Municipality, but shall be dated, bear such interest, have such maturity dates, redemption dates and redemption premiums, be subject to such redemption and be issued at such price or prices as shall be approved by that Municipality and the Company. Additional Bonds may be issued only after adoption of appropriate amendments and supplements to the related Contract and the related Indenture providing for such issuance and increasing or adjusting, if necessary, the installment payments to such amounts as shall be sufficient, together with any other moneys in the related Bond Fund or on deposit with the Trustee and available for such purpose, to pay principal, premium (if any) and

interest when due or payable on all outstanding Bonds of the Municipality including the Additional Bonds and to the satisfaction of certain other conditions. As used in this Official Statement, the term "Bonds" of an issuing Municipality shall be deemed to include any such Additional Bonds and the term "Project" shall be deemed to include the additions, improvements, extensions, enlargements and expansions of that Project, except as the context otherwise requires.

THE INSTALLMENT SALES CONTRACTS

The following is a summary of certain principal provisions of each of the Contracts. Except for the description of the pollution control facilities sold thereunder and differences attributable to the fact that they are related to different Municipalities, Projects, Bonds, and Indentures, the two Contracts are substantially identical.

Acquisition and Completion of Projects

Each Contract provides that the Municipality will purchase, subject to Permitted Encumbrances (as defined in the Contract), from the Company the Project located in such Municipality for a purchase price equal to the lesser of the Cost of the Project (as defined) or the amounts in the Acquisition and Construction Fund (hereinafter described). Each Project is to be completed by the Company in accordance with the plans therefor, but the Company has the right to revise the plans and to make additions of or deletions from any items subject to certain limitations. If moneys in the related Acquisition and Construction Fund (hereinafter described), including proceeds from the issue and sale of any Additional Bonds for that Project, are not sufficient to complete that Project, the Company is obligated to do so at its own expense without diminution or abatement of its purchase payments to be made under the related Contract. Each Contract also provides that the Municipality will sell to the Company the Project, previously acquired from the Company, for the purchase price described under "The Installment Sales Contracts—Installment Payments" below, expressly reserving its security interest in the Project. See "The Bonds—Security for the Bonds."

Installment Payments

The Company agrees to pay to the Trustee, for the account of each Municipality, as the purchase price for the Project financed by that Municipality, including interest, such amount on or before each semi-annual interest payment date on the Bonds issued by that Municipality (commencing August 1, 1974) as shall be sufficient to pay the principal, premium (if any) and interest required to be paid on such Bonds on such date. The obligation of the Company in each Contract to make such purchase payments is absolute and unconditional, not subject to reduction by reason of any set-off, counterclaim, abatement or otherwise, and shall so remain until all Bonds used to finance the Project covered by that Contract and the interest and premium (if any) thereon have been fully paid or provision made for payment thereof as provided in the related Indenture. The Company is nevertheless entitled to credits upon such purchase payments to the extent of moneys held by the Trustee in the related Bond Fund which are available for debt service payments on the related Bonds. The purchase payments made by the Company are to be deposited into such Bond Fund which is hereinafter described.

Acquisition and Construction Fund and Surplus Fund

The proceeds of the sale of each issue of Bonds (except for accrued interest) are required to be deposited into an Acquisition and Construction Fund, which is established for each issue, and, to the extent necessary, may be used only for payment of the costs of acquiring and constructing the Project financed by such Bonds (including legal, financial and other expenses incidental to the issuance of such Bonds). Such payments are to be made by the Trustee on requisition by the Company. See "The Projects—Cost of Projects and Use of Proceeds."

Within 90 days after completion of each Project, any surplus remaining in the Acquisition and Construction Fund for that Project (except for that portion derived from the investment of amounts in such Fund) must be deposited into a Surplus Fund, which is established for each issue, and any such portion derived from the investment of amounts in such Fund must be deposited into a Bond Fund, which

is established for each issue. Money in each such Surplus Fund may be used by the Trustee, at the direction of the Company, to purchase related Bonds on the open market for cancellation or transferred to the Bond Fund for payment of principal of such Bonds or for payment of interest accruing on such Bonds (provided that surplus Bond proceeds originally in the Acquisition and Construction Fund may pay interest for only up to six months following completion of construction of the Project financed by such Bonds), or if qualified bond counsel certify that the federal tax exemption of interest on such Bonds will not thereby be impaired, to finance improvements or additions to the Project financed by such Bonds. See "The Indentures—Investment of Funds."

Maintenance; Improvement; Removal

The Company is required at its expense to maintain the Projects and to keep the same in good repair and working order and make all necessary replacements and renewals except with respect to repairs, replacements and renewals which have become and are certified by the Company as uneconomic to the Company.

The Company, at its expense, and subject to specified conditions, is given the right to remodel and make improvements to the Projects, to substitute machinery and equipment and to remove the same without substitution, so long as the character of the affected Project pollution control facilities is not materially altered or its operation materially impaired. Substituted property becomes a part of the affected Project subject to the security interest of the Municipality. Where property is removed without substitution subject to certain credits as provided in the Contracts, certain payments must be made by the Company into the related Surplus Fund in amounts representing scrap value, sale price, trade-in allowance or depreciated cost. The foregoing will not in any case entitle the Company to any abatement or diminution of its installment payments.

Casualties; Insurance; Eminent Domain

The Company is required to keep the Projects insured against such property risks as is consistent with its insurance practices, including self-insurance. The option whether or not to rebuild in the event of damage or destruction lies with the Company but there is in no case to be any abatement or reduction in the installment payments. Except as hereinafter mentioned with respect to "unfunded net property additions," there is no requirement that insurance proceeds be paid to the Trustee. The Company is also required to maintain insurance or self-insurance in respect of liability for bodily injury and death and property damage.

In the event a Project is damaged or destroyed or such Project or any part thereof is taken by eminent domain, and the Company determines that rebuilding, repairing or restoring such Project is not practicable or desirable, the Company shall utilize any unfunded net property additions which are then available to the Company under the First Mortgage Indenture to withdraw any insurance proceeds or condemnation awards, as the case may be, in respect of such Project or any part thereof and promptly, upon the withdrawal of such proceeds or awards, pay the funds so withdrawn to the Trustee for deposit in the related Bond Fund.

Payment of Taxes and Charges

All taxes, assessments and similar charges levied by any governmental unit upon the Projects or the use thereof or the income therefrom, whether imposed upon the Company, the Municipality or the Trustee, must be paid by the Company.

Option to Accelerate Payment of the Purchase Price of the Project

The Company is given the option in each Contract, under specified circumstances, to accelerate payment of the purchase price of the Project covered thereby by paying a sum which, together with money then on deposit in the related Bond Fund and available for such purpose, is sufficient to retire and redeem all then outstanding related Bonds (including principal, premium (if any) and interest becoming due on or prior to the date of such redemption) and to pay all expenses incidental thereto, and also by paying all proper Trustee's and paying agents' fees and expenses and any amounts (other than future-due installment payments) owing to the Municipality which is a party to that Contract.

Defaults and Remedies: Force Majeure

An "Event of Default" under a Contract relating to one of the Projects will not constitute an Event of Default under the other Contract. The following are declared to be Events of Default by each Contract:

- (i) Failure of the Company to make any installment payment, including interest thereon, thereunder when due.
- (ii) Failure of the Company to pay the purchase price, including interest thereon, after exercise of its option thereunder to accelerate payment of the purchase price of the Project.
- (iii) Failure of the Company to perform any other contractual obligation thereunder for 60 days after written notice given to the Company by the Municipality which is a party to the Contract or the Trustee specifying such failure and requesting that it be remedied, except that if the failure is such that it cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is instituted by the Company within such period and diligently pursued until the failure is corrected.
- (iv) Dissolution, liquidation, bankruptcy, assignment for benefit of creditors, or other similar action involving the Company as specified in each Contract.
- (v) The acceleration of the First Mortgage Bonds and the continuance thereof.

However, if, by reason of *force majeure* as defined in each Contract, the Company is unable in whole or in part to carry out its obligations under a Contract, other than by reason of financial inability, the Company shall not be deemed in default during the continuance of such inability.

When any Event of Default shall have occurred and be continuing, the Municipality may take any one or more of the following remedial steps:

- (i) The Municipality may, if the principal and interest accrued on the related Bonds shall have been declared immediately due and payable pursuant to the related Indenture, declare all purchase payments for the remainder of the term of the Contract (including the interest accrued thereon to the date of payment) in default to be immediately due and payable, whereupon the same shall become immediately due and payable.
- (ii) The Municipality may take whatever action at law or in equity as may appear necessary or desirable to collect the purchase payments then due and thereafter to become due or to enforce performance and observance of any other obligation, agreement or covenant of the Company under the Contract in default, including foreclosure of the security interest in the Project.
- (iii) The Municipality may have access to and inspect, examine and make copies of the books and records and any and all accounts, data and income tax and other tax returns of the Company only, however, insofar as they relate to the Project covered by the Contract in default.

Any amounts collected pursuant to the above action must be paid into the related Bond Fund or, if the related Bonds have been fully paid or provision therefor has been made, must be paid to the Company.

Amendment of Contract

Each Contract may be amended (as provided in the Indenture related to each), with the consent of the Trustee but without notice to or consent of the related Bondholders, as may be required (i) by the provisions of such Contract or related Indenture, (ii) in connection with the issuance of Additional Bonds, (iii) for the purpose of curing any ambiguity or formal defect or omission, (iv) to grant or pledge to the Municipality for the benefit of the holders of the related Bonds any additional security, or (v) in connection with any other change therein which, in the judgment of the Trustee acting in reliance upon an opinion of counsel, is not to the prejudice of the Trustee or the holders of the related Bonds. Copies of any such amendments must be filed with, and if required by law approved by, the Municipal Finance Commission of the State of Michigan or any successor agency.

Other amendments may be adopted only after publication of notice of the proposed amendment as provided in each Indenture and only with the approval of the holders of not less than two-thirds in principal amount of outstanding related Bonds.

THE TRUST INDENTURES

The following is a summary of the main aspects of the Indentures, except to the extent already discussed above. Each Indenture is substantially identical except for differences attributable to the fact that each Indenture is related to a different issue of Bonds, Municipality, Project and Contract.

Security and Pledge of Revenues

In each Indenture, the security interest of the Municipality in the related Project, subject to Permitted Encumbrances, and its rights and interest in the related Contract together with all income and revenues derived from such Project, including the installment payments and all income from the investment thereof, but excluding the rights of the Municipality in respect of taxes, insurance, indemnification and its administrative costs, are to be pledged and assigned to the Trustee for the benefit and security of the holders of the Bonds issued under such Indenture. The Trustee is not assuming the obligations of the Municipality under either Contract. See "The Bonds—Security for the Bonds". Under each Contract and related Indenture the Company, with such assistance from the Municipality as the Company may request, is responsible for the recording and filing of that Contract, the related Indenture and all financing and continuation statements necessary to perfect and protect the security interests in such state and county offices and at such times as required by law. It is also covenanted by each Municipality under its Indenture that it will do what the Trustee may reasonably require for better assuring the security interest covered by that Indenture.

Bond Fund

Each Indenture establishes a Bond Fund which is to be maintained by the Trustee in the name of the Municipality adopting that Indenture and from which all principal, premium (if any) and interest on the Bonds covered thereby are to be paid. Moneys are required to be deposited into the Bond Fund as follows:

- (i) From such Bond proceeds, the amount received from the purchasers as accrued interest on the Bonds issued under that particular Indenture.
- (ii) All installment payments, including interest thereon, made by the Company pursuant to the related Contract (excluding moneys paid for compensation of the Trustee and other paying agents or expenses of the issuing Municipality).
- (iii) Any amounts required by the related Contract to be so deposited from the Acquisition and Construction Fund and the Surplus Fund established by that particular Indenture.
- (iv) Any other moneys received by the Trustee with directions from the Municipality or the Company to deposit the same into such Bond Fund.

Investment of Funds

Moneys in an Acquisition and Construction Fund, a Surplus Fund and a Bond Fund may be invested by the Trustee, subject to such investments being lawful for the Municipality's funds, in direct obligations of the United States, or its agencies and instrumentalities, obligations unconditionally guaranteed by the United States, Public Housing bonds or notes fully secured by contracts with the United States, direct and general obligations of the State of Michigan, and certificates of deposit issued by the Trustee or any member of the Federal Reserve System provided that, if issued by a Michigan bank, the bank must have capital and surplus of not less than \$20 million, or if issued by a bank in another state, it must have capital and surplus of not less than \$50 million, and no certificate of deposit may exceed 10% of the capital and surplus of the issuing bank; and such moneys may be invested by the Trustee upon the advice of counsel that such investments of the issuing Municipality's funds have become and are then lawful under the laws of the State of Michigan in obligations issued or guaranteed by any state of the United States, the District of Columbia or any political subdivision thereof, provided that such obligations are rated A or better by Moody's Investors Service, Inc. or by Standard & Poor's Corp. or a comparable rating by another rating service of comparable standing; commercial paper rated not less than prime-two by Moody's Investors Service, Inc. or not less than A-2 by Standard & Poor's Corp. or prime finance company paper; or

repurchase agreements with banking and other financial institutions with respect to any of the foregoing described obligations. Profit or loss from any such investment shall be credited or charged to the Fund from which the investment was made. Any investment is prohibited if the result would be to cause the Bonds to become "arbitrage bonds" under the Internal Revenue Code and applicable regulations.

Defeasance

When all principal, premium (if any) and interest on an issue of Bonds have been paid or provision has been made for such payment, and if all obligations of the Municipality issuing such Bonds have been discharged as required by the Bonds and by the Indenture under which such Bonds were issued, then the pledge of income and revenues from the Project financed by such Bonds and all obligations of such Municipality shall cease and be void, and the Trustee shall execute and deliver such evidences of discharge and satisfaction as may be appropriate, and assign and deliver to such Municipality or the Company or such other person as shall be entitled to receive the same, all property then in its possession except cash or securities held for payment of principal, premium (if any) or interest on such Bonds. Provision for payment may be made by delivery of cash and/or direct obligations of the United States to the Trustee in such amount that the principal and interest thereon when due will be sufficient to pay the principal, premium (if any) and interest on the Bonds when due or redeemable, provided that appropriate arrangements have been made for the giving of any required notices of redemption.

Default and Remedies

An "Event of Default" under an Indenture relating to one issue of Bonds will not constitute an Event of Default under the other Indenture. The following are Events of Default as declared and defined in the Indenture:

- (i) Default in the due and punctual payment of any interest on any Bond issued under such Indenture.
- (ii) Default in the due and punctual payment of the principal and premium (if any) of any Bond issued under such Indenture, whether at the stated maturity thereof, or upon proceedings for redemption thereof, or upon the maturity thereof by declaration or otherwise.
- (iii) Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the issuing Municipality contained in such Indenture, and the continuance thereof for a period of 60 days after written notice given by the Trustee or by the holders of not less than 25% in aggregate principal amount of Bonds issued under such Indenture then outstanding except that if such default cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is instituted by the Company within such period and diligently pursued until the default is corrected.
- (iv) Occurrence of an event of default under the related Contract, as defined in the Contract.

Upon the occurrence and during the continuance of an Event of Default:

- (i) The Trustee may, and shall upon written request of holders of not less than 25% in principal amount of the Bonds issued under such Indenture then outstanding, by written notice to the issuing Municipality and the Company, declare the principal and interest of all Bonds then outstanding immediately due and payable.
- (ii) The Trustee may, and shall upon written request of holders of 25% in principal amount of then outstanding Bonds issued under such Indenture and when furnished with reasonable security and indemnity, institute legal proceedings to prevent impairment of security or to protect the interests of itself and the holders of such Bonds.
- (iii) The Trustee may, in the alternative, pursue any available remedies to enforce payment of the outstanding Bonds issued under such Indenture and premium (if any) and interest thereon and may intervene in any suit to which the issuing Municipality is a party if it appears to affect the interests of holders of such Bonds. Such action shall be taken if requested in writing by holders of not less than 25% in principal amount of outstanding Bonds issued under such Indenture.
- (iv) The Trustee may, in any judicial proceedings, have the right to have a receiver of the related Project appointed.

Holders of a majority in principal amount of outstanding Bonds issued under the Indenture in default are entitled to direct the conduct of the above described proceedings. No holder of any Bond or coupon is entitled, in the event of a default, to bring suit for enforcement of rights or remedies under the Indenture in default unless, after request, the Trustee has failed to act (except as otherwise permitted by the Act or to compel payment of a Bond or coupon then due and unpaid).

Moneys collected pursuant to the above mentioned proceedings are to be applied, after paying the costs and expenses of the proceedings and of the Trustee, to pay the principal of, premium (if any) and interest on the Bonds as provided in each Indenture.

The Trustee must, within 90 days after the occurrence thereof, give written notice to all holders of Bonds issued under an Indenture in default as to any Event of Default (unless cured or waived) of which the Trustee is required to take notice or is given notice.

The Trustee is not required to take notice of any Event of Default (except failure of the issuing Municipality to cause any required payments to be made to the Trustee) unless specifically notified thereof in writing by the issuing Municipality or by holders of at least 25% in principal amount of the outstanding Bonds issued under such Indenture in default.

To the extent not precluded by the Act, the Trustee may, and upon written request of the holders of not less than one-half in aggregate principal amount of all Bonds affected thereby shall, waive any Event of Default and its consequences and rescind any declaration of maturity of principal; provided that the Trustee shall not waive (i) any default in the payment of the principal of any outstanding Bonds at the date of maturity or the date fixed for redemption or (ii) any default in the payment when due of interest on any such Bonds, unless prior to such waiver or rescission, all arrears of interest, or all arrears of payment of principal when due, as the case may be, together with interest (to the extent permitted by law) on overdue principal and interest, at the applicable rate of interest borne by the Bonds, and all expenses of the Trustee in connection with such default, shall have been paid or provided for.

The Trustee

Each Indenture provides that the Trustee may act upon an opinion of its counsel and shall not be responsible for any loss or damage resulting from its good faith reliance on such opinion. In certain instances, the Trustee may perform its duties through attorneys, agents or receivers. In addition, the Trustee may rely on certain other instruments specified in the Indenture and it will not be liable for any action reasonably taken or omitted to be taken by it in good faith or be responsible other than for its own negligence or wilful acts or omissions. The Indenture also provides for the resignation and removal of the Trustee and for the appointment of successor trustees and successor paying agents.

The Company maintains depositary and other normal banking relationships, including a line of short term credit, with the Trustee. In addition, A. H. Aymond, Chairman of the Board and President of the Company, is a director of the Trustee.

Supplemental Indentures

Supplemental Indentures may be adopted, with the consent of the Trustee but without notice to or consent of the holders of Bonds issued under the Indenture to be supplemented, for any of the following purposes (with approval of the Municipal Finance Commission or any successor agency if required):

- (i) To cure any ambiguity or formal defect or omission in the Indenture to be supplemented.
- (ii) To grant to or confer upon the Trustee for the benefit of such Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon such Bondholders or the Trustee.
- (iii) To grant or pledge to the Trustee for the benefit of such Bondholders any additional security.
- (iv) To provide for the issuance of Additional Bonds.
- (v) To make any other change which, in the judgment of the Trustee acting in reliance upon an opinion of counsel, is not to the prejudice of the Trustee or such Bondholders.

Other supplemental indentures may be adopted only with the approval of the holders of not less than two-thirds in principal amount of outstanding Bonds issued under the Indenture to be supplemented and after publication of notice of the proposed supplemental indenture as provided in each Indenture. However, no supplemental indenture may permit (i) an extension of the maturity of the principal of or the interest on any Bond or the mandatory redemption date of any Bond, or (ii) a reduction in the principal amount of any Bond or the rate of interest thereon, or (iii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds issued under the Indenture to be supplemented, or (iv) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture

TAX EXEMPTION

In the opinion of Miller, Canfield, Paddock and Stone, Bond Counsel, under existing statutes, regulations, rulings and court decisions, (i) interest on the Bonds is exempt from Federal income taxes except such exemption does not apply with respect to any Bond for any period during which it is held by a "substantial user" of a Project or a "related person" (within the meaning of the Internal Revenue Code), (ii) the interest on the Bonds is exempt from all present taxation in the State of Michigan, including state and municipal income taxes, except for interest on any Bonds held by a "substantial user" of a Project or a "related person", and (iii) the Bonds are exempt from all other present taxation in the State of Michigan, except inheritance and estate taxes or taxes measured by any gain or profit on the sale or payment thereof.

LEGAL OPINIONS

Legal matters incident to the authorization and issuance of the Bonds are subject to the unqualified approving opinion of Miller, Canfield, Paddock and Stone, Bond Counsel. Copies of such opinion will be available at the time of delivery of the Bonds. The validity of the Company's obligations under the Contracts will be passed upon for the Company by its counsel, Winthrop, Stimson, Putnam & Roberts and its Vice President and General Counsel, Harold P. Graves, and for the underwriters by their counsel, Simpson Thacher & Bartlett.

MISCELLANEOUS

The foregoing summaries do not purport to be complete and are expressly made subject to the exact provisions, and particularly to any limiting or qualifying provisions, of the complete documents. For details of all terms and conditions, purchasers are referred to the Contracts, the Indentures and the copies of which may be obtained from the Company or the underwriters.

Neither Municipality has provided any information contained herein concerning the other Municipality, the other Municipality's Bonds or the documents entered into in connection with the issuance of the other Municipality's Bonds. Execution of this Official Statement was duly authorized by Hampton and Marysville. Such execution shall not be deemed to constitute approval by either of the executing Municipalities of any part hereof that does not relate to the Bonds to be issued by it.

The Municipalities are not authorized to make any representation and make no representation on behalf of the Company as to the accuracy or completeness of the information in this Official Statement relating to the Projects and the cost thereof or information pertaining to the Company attached as an Appendix to this Official Statement.

CHARTER TOWNSHIP OF HAMPTON

By ALEX WALRAVEN, JR.
Township Supervisor

CITY OF MARYSVILLE

By HARRY W. STARK
Mayor

APPENDIX

Consumers Power Company

The information contained herein as an Appendix to the Official Statement has been obtained from Consumers Power Company.

THE COMPANY

The Company, whose executive offices are located in Jackson, Michigan 49201 (telephone number including area code—517-788-1030), was incorporated in the State of Michigan in 1968. It is the successor to a corporation, organized in the State of Maine in 1910, which did business in Michigan as a foreign corporation from 1915 until June 6, 1968, when the Maine corporation was merged into the Company for the purpose of changing the State of incorporation from Maine to Michigan. Information and data herein with respect to a time or period prior to June 6, 1968 refer to the predecessor Maine corporation.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of November 30, 1973 (excluding current portions of long-term debt) and as adjusted to reflect the execution of \$34,700,000 principal amount of Installment Sales Contracts with the City of Marysville and the Charter Township of Hampton, Michigan, and the balance of the \$39,000,000 principal amount of Installment Sales Contracts with Covert Township and the City of Luna Pier, Michigan.

<u>Title of Class</u>	<u>Outstanding November 30, 1973</u>	<u>As Adjusted</u>	<u>% of Capitalization As Adjusted</u>
	<u>Thousands of Dollars</u>		
Long-term debt(1)			
First Mortgage Bonds.....	\$1,151,153	\$1,151,153	
Installment Sales Contracts payable.....	30,601	73,700	
4% Sinking Fund Debentures due 1994.....	37,000	37,000	
Other long-term debt.....	489	489	
Unamortized net premium.....	2,170	2,170	
Total long-term debt.....	<u>\$1,221,413</u>	<u>\$1,264,512</u>	54.0%
Preferred Stock, cumulative, \$100 par value, authorized 3,500,000 shares(2)			
\$4.50—547,788 shares.....	\$ 54,779	\$ 54,779	
\$4.52—127,550 shares.....	12,755	12,755	
\$4.16—100,000 shares.....	10,000	10,000	
\$7.45—700,000 shares.....	70,000	70,000	
\$7.72—700,000 shares.....	70,000	70,000	
\$7.76—750,000 shares.....	75,000	75,000	
\$7.68—550,000 shares.....	55,000	55,000	
Total Preferred Stock.....	<u>\$ 347,534</u>	<u>\$ 347,534</u>	14.8%
Common stockholders' equity			
Common Stock, \$10 par value, authorized 32,500,000 shares, outstanding 26,233,838 shares.....	\$ 262,338	\$ 262,338	
Capital in excess of par value.....	247,070	247,070	
Retained Earnings(3).....	227,973	227,973	
Less—Capital stock expense.....	(6,912)	(6,912)	
Total common stockholders' equity.....	<u>\$ 730,469</u>	<u>\$ 730,469</u>	31.2%
Total Capitalization(4).....	<u><u>\$2,299,416</u></u>	<u><u>\$2,342,515</u></u>	<u>100.0%</u>

(1) Reference is made to Note 12 to the Financial Statements.

(2) Reference is made to Note 11 to the Financial Statements.

(3) Reference is made to Note 10 to the Financial Statements.

(4) The Company has been authorized by the Federal Power Commission to issue short-term notes payable of up to \$300,000,000. The Company has agreements with banks providing for short-term borrowings of up to \$92,000,000. As of November 30, 1973 short-term notes payable amounted to \$31,000,000 and the current sinking fund requirement on long-term debt amounted to \$13,288,000. It is estimated that on February 1, 1974 short-term notes payable will aggregate approximately \$60,000,000 without taking into account the receipt of any proceeds of the issues offered by this Official Statement.

CONSUMERS POWER COMPANY

STATEMENT OF INCOME

The following Statement of Income of Consumers Power Company for the five years ended December 31, 1972 has been examined by Arthur Andersen & Co., independent public accountants, as set forth in their report elsewhere in this Official Statement. The Statement of Income for the twelve months ended November 30, 1973 (including the notes related thereto), which has not been examined by independent public accountants, reflects, in the opinion of the Company, subject to resolution of the matter set forth in Note (b), all adjustments (which include only normal recurring adjustments) necessary to present fairly the results of operations for such period. This statement should be read in conjunction with the Financial Statements and related notes appearing elsewhere in this Official Statement.

	Year Ended December 31					Twelve Months Ended November 30, 1973
	1968	1969	1970	1971	1972	(Unaudited)
	Thousands of Dollars					
Operating Revenue: (a)						
Electric	\$286,246	\$308,000	\$334,904	\$364,230	\$416,994	\$489,601
Gas	217,682	240,536	273,874	286,091	332,085	339,265
Steam	1,191	1,239	1,212	1,296	1,374	1,340
Total operating revenue.....	\$505,119	\$549,775	\$609,990	\$651,617	\$750,453	\$830,206
Operating Expenses and Taxes:						
Operation (b)(c)(d)	\$246,686	\$280,384	\$324,789	\$378,987	\$444,489	\$475,904
Maintenance	24,686	26,121	32,818	31,512	41,187	45,652
Depreciation and amortization	48,825	51,881	55,608	58,210	62,937	71,404
General taxes	31,768	37,058	39,062	43,873	48,204	53,780
Income taxes (e)	67,416	59,472	54,281	37,585	39,519	52,537
Total operating expenses and taxes.....	\$419,381	\$454,916	\$506,558	\$550,167	\$636,336	\$699,277
Net operating income.....	\$ 85,738	\$ 94,859	\$103,432	\$101,450	\$114,117	\$130,929
Other Income:						
Allowance for funds used during construction (f)	\$ 4,891	\$ 8,421	\$ 14,108	\$ 21,862	\$ 25,455	\$ 24,029
Income of Subsidiaries	1,030	1,350	1,650	1,897	1,920	3,588
Gain on reacquisition of long-term debt.....	514	769	1,074	1,260	1,418	1,609
Other, net	372	282	530	889	526	717
Net other income.....	\$ 6,807	\$ 10,822	\$ 17,362	\$ 25,908	\$ 29,319	\$ 29,943
Interest Charges:						
Interest on long-term debt.....	\$ 28,940	\$ 35,867	\$ 44,774	\$ 53,829	\$ 63,754	\$ 70,715
Other interest charges.....	1,048	2,854	3,188	1,749	1,504	2,484
Total interest charges	\$ 29,988	\$ 38,721	\$ 47,962	\$ 55,578	\$ 65,258	\$ 73,199
Net Income	\$ 62,557	\$ 66,960	\$ 72,832	\$ 71,780	\$ 78,178	\$ 87,673
Dividends on Preferred Stock	3,548	3,534	3,517	7,108	11,251	16,902
Net Income After Dividends on Preferred Stock.....	\$ 59,009	\$ 63,426	\$ 69,315	\$ 64,672	\$ 66,927	\$ 70,771
Earnings Per Share of Common Stock (g)	\$ 2.60	\$ 2.79	\$ 2.95	\$ 2.69	\$ 2.72	\$ 2.70
Ratio of Earnings to Fixed Charges(h)	5.35	4.28	3.67	2.98	2.81	2.92

Notes:

(a) During 1972, the Michigan Public Service Commission ("MPSC") authorized increases in the Company's electric and gas rates of approximately \$29,000,000 and \$18,800,000, respectively, on an annual basis. The electric rate increase was authorized by the MPSC on November 24, 1972. The gas rate increase was authorized by the MPSC on May 24, 1972 and included a previously authorized interim increase of \$6,500,000. Of the total increase of \$18,800,000, approximately \$12,600,000 covered increases in the cost of gas already in effect.

On January 18, 1974, the MPSC authorized increases in the Company's electric and gas rates of approximately \$31,000,000 and \$46,600,000, respectively, on an annual basis. The rate increases included interim increases aggregating \$50,000,000 divided equally between electric and gas rates which were placed in effect November 10, 1973. Of the authorized gas rate increase, \$14,600,000 will not become effective until the second unit of the Marysville Gas Reforming Plant becomes operable in the second quarter of 1974.

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 1970. In connection therewith, the Company has established a reserve stated net of related income taxes in the amount of \$11,867,818. As a result of authorizations by the MPSC to increase electric and gas rates effective December 14 and December 23, 1971, respectively, it is unlikely that there will be any refund obligations arising subsequent to these dates.

Litigation is also pending with respect to the legality of the electric rate increase which became effective in 1969 because the increased rates became effective by court order in October 1969 and the MPSC did not issue an order approving said rates until April 1970. As a result, the electric rates charged during the period are subject to refund in an amount of approximately \$7,000,000, for which no reserve has been provided.

(b) On August 11, 1973, the operations of the Palisades Plant were suspended as set forth in Note (b) under "Business—Construction". During the suspension period, the net cost of replacement power is being deferred subject to the approval of the MPSC and the Federal Power Commission. Requests for such approval are pending, and if granted, will result in the deferred amounts being amortized to income over a ten-year period. At November 30, 1973, \$5,096,278 net of related income taxes (\$.19 per share of common stock) has been deferred. Reference is made to Note 3 to Financial Statements for additional information relating to nuclear generating plants.

(c) The Company receives a portion of its gas supply from its wholly-owned subsidiaries and, accordingly, operation expense includes approximately \$35,952,000 in 1968, \$37,170,000 in 1969, \$39,465,000 in 1970, \$40,770,000 in 1971, \$47,953,000 in 1972 and \$47,395,000 for the twelve months ended November 30, 1973, relating to the cost of gas purchased from these subsidiaries.

(d) Reference is made to Note 7 to Financial Statements for information relating to the Company's pension plan.

(e) Reference is made to Notes 15 and 16 to Financial Statements for information relating to income taxes.

(f) The allowance for funds used during construction, included in other income, represents the estimated cost of funds applicable to utility plant in process of construction. 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.

The composite rate used by the Company to capitalize the cost of funds devoted to construction was 6.6%, 6.8%, 7.6%, 8%, 7.5% and 7.5% in 1968, 1969, 1970, 1971, 1972 and the twelve months ended November 30, 1973, respectively. The amount capitalized has increased since 1968 principally as a result of substantial increases in construction work in progress and in the costs of capital.

Based on the Company's source of funds for gross property additions, the estimated common equity component of the allowance for funds used during construction amounted to 3.8%, 5.3%, 7.9%, 10.9%, 12.0% and 9.3% of net income available for common stock for the years 1968, 1969, 1970, 1971, 1972 and the twelve months ended November 30, 1973, respectively.

(g) Earnings per share of common stock are computed based on the average number of shares outstanding during the periods shown as follows: 22,670,777 shares in 1968, 22,768,900 shares in 1969, 23,506,780 shares in 1970, 24,033,838 shares in 1971, 24,583,838 shares in 1972 and 26,233,838 shares for the twelve months ended November 30, 1973.

(h) For the purpose of computing the ratio of earnings to fixed charges, earnings represent the Company's net income (including allowance for funds used during construction), before deducting Federal and State income taxes, provision for deferred income taxes—net, charge equivalent to investment tax credit—net, and fixed charges. Fixed charges represent the Company's interest expense and amortization of debt discount, premium and expense.

The pro forma ratio of earnings to fixed charges for the twelve months ended November 30, 1973, is approximately 2.76, based on long-term debt outstanding at that date (excluding current maturities) after giving effect to the execution of the Installment Sales Contracts with the City of Marysville and the Charter Township of Hampton, Michigan proposed herein and the balance of the Installment Sales Contracts with Covert Township and the City of Luna Pier, Michigan.

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. 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 these formulae, the pro forma coverages for the twelve-month period ended November 30, 1973 would be, respectively, not less than 2.59 times as compared with the requirement of at least two times and not less than 1.53 times as compared with the requirement of at least one and one-half times. The amounts of additional First Mortgage Bonds and Preferred Stock which can be issued in future years will be contingent upon increases in earnings through rate increases or otherwise.

Earnings used in the computations of the above pro forma ratios do not reflect the net cost of replacement power. See Note (b) to the Statement of Income.

The decreases in net income and earnings per share of common stock in 1971 are principally the result of inadequate levels of electric and gas rates in relation to continuing increases in operating costs (principally purchased power, fuel and gas) and interest costs (both of which are offset in part by related reductions in income taxes) and increased dividends due to the issuance of additional preferred stock and to a larger average number of shares of common stock outstanding.

BUSINESS

General

The Company is engaged, entirely in the Lower Peninsula of the State of Michigan, in the generation, purchase, distribution and sale of electricity, and in the purchase, production, storage, distribution and sale of natural gas. The population of the territories served is estimated to exceed 5,200,000. The Company also supplies steam service in one community. The Company's utility operating revenues were derived about 59% from electric service and 41% from gas service for the twelve months ended November 30, 1973.

The industries in the territory served by the Company include automobile and automobile equipment, primary metals, chemicals, fabricated metal products, pharmaceuticals, machinery, oil refining, paper and paper products, food products and a diversified list of other industries.

Construction

The Company presently estimates that its construction program for the years 1974 through 1978 will be approximately \$3,000,000,000. In order to finance this program and to meet First Mortgage Bond maturities of \$170,334,000 during this period it will be necessary for the Company to sell substantial additional securities, the amounts and types of which have not been determined. The sale of certain securities may be restricted as set forth under "Statement of Income". The Company plans in 1974 to seek shareholder approval to increase the number of shares of preferred stock which the Company is authorized to issue, and to create a new class of preference stock.

As of January 3, 1974 the Company has made or proposed to make capital expenditures for property additions in 1974 in an estimated amount of \$409,537,300. The 1974 program as projected includes \$225,141,000 of expenditures towards the construction of five major projects as follows:

<u>Project and Location</u>	<u>Features</u>	<u>Estimated Date of Operation</u>	<u>Estimated Total Cost to Company (a)</u>
Palisades Plant (Van Buren County, Michigan)	Nuclear fueled with initial full capacity of about 700,000 kilowatts and ultimate capacity of about 787,000 kilowatts	(b)	\$ 188,600,000
Midland Plant (Near Midland, Michigan)	Two nuclear fueled units with aggregate capacity of about 1,301,000 kilowatts and 4,000,000 pounds per hour of process steam (b)(c)	First unit in 1979, second unit in 1980	\$ 940,000,000
D. E. Karn Plant, Units 3 and 4 (Near Essexville, Michigan)	Two oil fired units at existing plant to add approximately 1,307,000 kilowatts of capacity (d)	Unit 3 in 1974, Unit 4 in 1975	\$ 234,000,000
Quinacassie Plant, Units 1 and 2 (Near Bay City, Michigan)	Two nuclear fueled units with aggregate capacity of about 2,300,000 kilowatts	Unit 1 in 1981, Unit 2 in 1983	\$1,400,000,000
J. H. Campbell Plant, Unit 3 (Ottawa County, Michigan)	Coal fired unit at existing plant to add about 800,000 kilowatts of capacity	1977	\$ 270,000,000

(a) Expenditures have been made or are scheduled to be made as follows:

	Prior to 1974	1974	After 1974
Palisades Plant.....	\$180,459,000	\$ 8,141,000	\$ —
Midland Plant.....	\$106,988,000	\$101,000,000	\$ 732,012,000
D. E. Karn Plant.....	\$ 99,607,000	\$ 88,000,000	\$ 46,393,000
Quanicassee Plant.....	\$ 8,517,000	\$ 14,000,000	\$1,377,483,000
J. H. Campbell Plant.....	\$ 800,000	\$ 14,000,000	\$ 255,200,000

(b) Reference is made to "Atomic Energy Commission" under "Regulation".

The Company's Palisades Plant (which began operation in 1971 and reached a capacity of 700,000 kilowatts in April 1973) is presently shut down for investigation and correction of a leak in one of the steam generator's tubes. During this outage, modifications also are being made to correct unanticipated motion of certain reactor vessel internal components experienced during operations prior to shutdown of the plant. Such modifications will result in additional delays and significant expense. It is expected the plant will remain out of service until late in March 1974 which will result in significant expense for replacement power.

(c) The steam will be furnished to The Dow Chemical Company for industrial processes.

(d) In connection with the construction of the two oil fired units and the conversion of other units to burn oil, the Company has a purchase agreement with a Canadian supplier to import oil from Canada. Licenses for the export of the oil are required from the Canadian government and licenses for the import of the oil are required from the United States government. The receipt of such licenses is not necessarily assured. See "Regulation".

The 1974 construction program also includes \$184,396,300 for other facilities, including other electric production facilities, power supply projects, electric transmission and distribution facilities, gas supply lines, gas production, transmission and distribution facilities, steam additions and general and miscellaneous additions. Of this amount, it is estimated \$131,548,400 will be expended for electric additions, \$40,614,000 for gas additions and \$12,233,900 for general, miscellaneous and steam additions.

Electric Service

The Company renders electric service in an area of approximately 27,800 square miles, having a population of approximately 3,300,000. Principal cities served are Battle Creek, Bay City, Flint, Grand Rapids, Jackson, Kalamazoo, Muskegon, Pontiac and Saginaw.

The Company owns and operates electric generating plants with aggregate capacity of 5,363,100(a) kilowatts and, as shown under "Business—Construction" above, is constructing additional plants which will add substantially to the Company's generating capacity. The capacity of the present and proposed generating plants as of November 30, 1973 was as follows:

	Kilowatts	
	Present Plants	Plants Proposed or Under Construction
Fossil fuel steam-electric plants (6 at present, 3 units under construction)		
Coal.....	2,400,000	800,000
Oil.....	542,000	1,307,000
Nuclear steam-electric plants (2 at present, 2 under construction)	771,000(a)	3,601,000
Pumped storage plant(1)	994,500(b)	—
Hydroelectric plants(13)	133,600	—
Gas turbine plants(7)	522,000	—
Total	5,363,100(a)	5,708,000

(a) This includes 700,000 kilowatts for the Palisades Plant. See "Atomic Energy Commission" under "Regulation" and Note (b) under "Business—Construction" above.

(b) This represents the Company's share of the capacity of the Ludington Pumped Storage Plant, a portion of which has been sold to Commonwealth Edison Company.

The Company has long-term contracts with various coal companies which the Company believes provide an adequate source of fuel for its present coal-fired generating units. Future changes in governmental requirements pertaining to the coal industry could adversely affect cost and availability of these supplies. See "Compliance with Environmental Requirements" under "Regulation" for matters pertaining to meeting EPA regulations on coal-fired generating units.

The Company's electric generating plants are interconnected by a transmission system operating at from 138,000 to 345,000 volts.

The Company has an electric coordination agreement with The Detroit Edison Company providing for coordination of planning, design, construction and operation of the electric system of the parties, the rendering of mutual assistance during emergencies and the effecting of the maximum practical economy in providing the electric power requirements of each system. There are four 138,000 volt and four 345,000 volt interconnections between the systems. The use of these interconnections permits sharing of the reserve capacity of the two systems and thus effects a substantial reduction in investment in plant facilities for each company. The Company and The Detroit Edison Company have filed a joint petition with the MPSC for approval of certain emergency procedures to be invoked, if necessary, in the event of anticipated or predictable energy shortages in the electric service areas of the two companies. The matter is pending before the MPSC.

The Company has an agreement with The Detroit Edison Company and The Hydro-Electric Power Commission of Ontario for interconnections linking the power systems of the Company and Detroit Edison with the power system of Hydro-Electric and also providing for mutual assistance during emergencies, improved reliability of bulk power supply and the effecting of economies by coordinated development and exchange of power. Two 230,000 volt and one 345,000 volt interconnections have been established under the agreement.

The Company has agreements with several other major electric utilities operating in Michigan, Ohio, Indiana and Illinois providing for interconnection services and other transactions. The Company also maintains interconnections with the Michigan Municipals and Cooperatives Power Pool, the Cities of Lansing and Holland and interchanges power with the Edison Sault Electric Company.

The maximum net demonstrated capability for the winter of 1973-1974 of the Company's interconnected system including supplemental purchases is 6,002,000 kilowatts to serve a projected maximum demand of 4,400,000 kilowatts. The net maximum demand on the interconnected system through December 31, 1973 was 4,394,295 kilowatts on August 27, 1973.

For the twelve months ended November 30, 1973, approximately 58% of the Company's kilowatt hour requirements were obtained from coal-fired generation, 12% from nuclear, 1% from hydro (including net pumped storage generated), 5% from oil, 3% from peaking (oil and gas) and 21% from purchased and interchanged power.

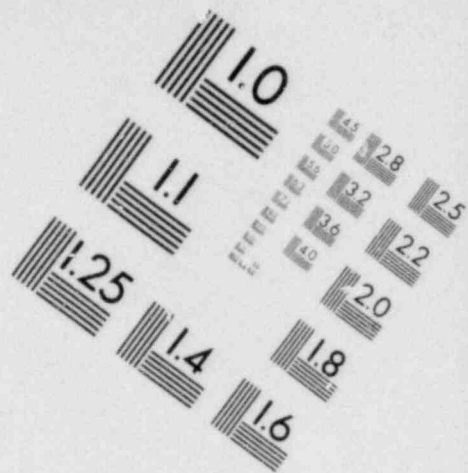
Gas Service

The Company renders gas service in an area of approximately 12,900 square miles having a population of approximately 3,800,000. Principal cities served are Bay City, Flint, Jackson, Kalamazoo, Lansing, Pontiac, Royal Oak, Saginaw, Warren and a number of suburban communities near Detroit.

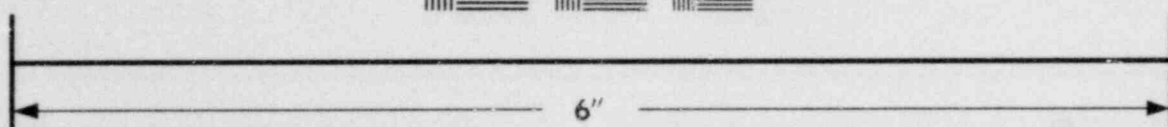
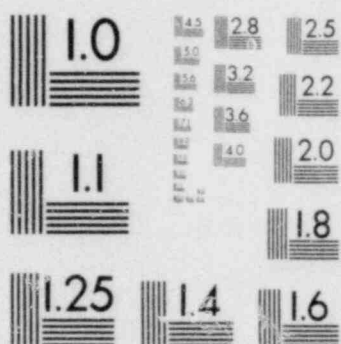
The Company owns gas transmission and distribution mains and other gas lines, compressor stations and facilities, and storage rights, wells and gathering facilities in several fields in Michigan. The Company stores a portion of its gas supply in the warmer months of the year for use in the colder months of the year.

The Company receives its major gas supplies from Michigan Gas Storage Company ("Storage Company"), a wholly-owned subsidiary of the Company, and Trunkline Gas Company ("Trunkline"), a subsidiary of Panhandle Eastern Pipe Line Company ("Panhandle"). The Company also obtains a smaller portion of its gas supply from Michigan fields and from its gas reforming plant.

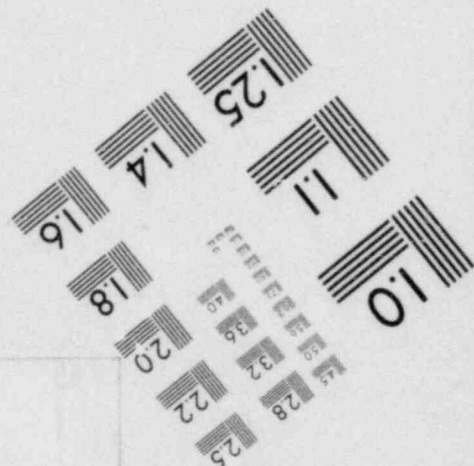
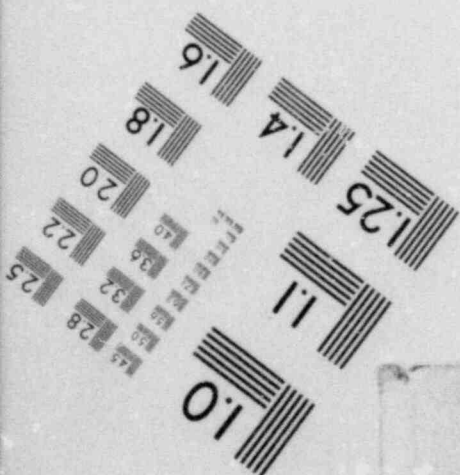
The Storage Company presently has a contract with Panhandle providing for the delivery of 92 billion cubic feet of gas per year. The Storage Company operates a gas storage system which is based on the Storage Company taking gas from Panhandle, in large part during the summer off-peak months, pumping part of it into underground storage and providing part of the day-to-day requirements of the Company throughout the year. Panhandle has applied to the Federal Power Commission ("FPC") for authority to

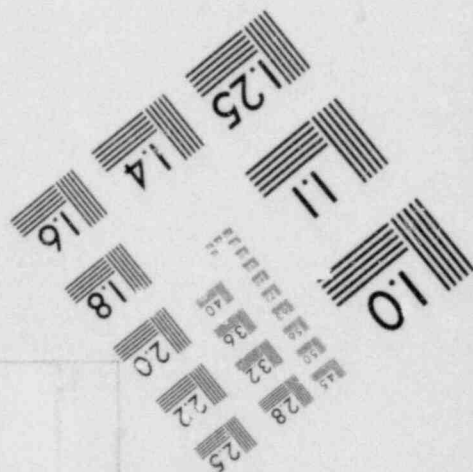
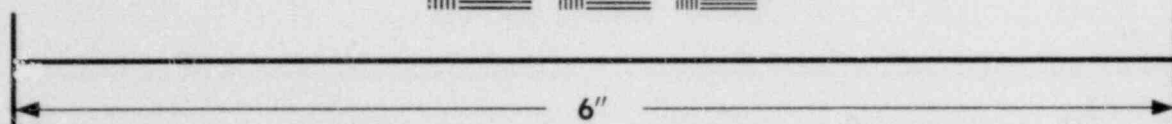
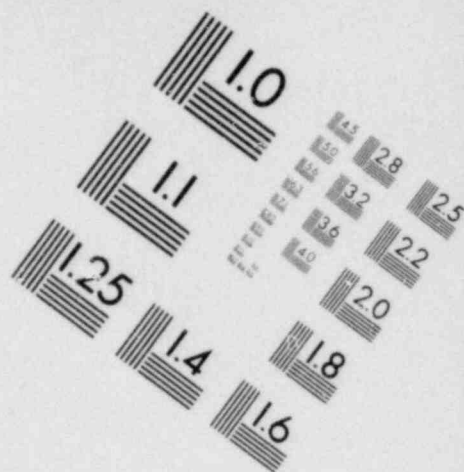


**IMAGE EVALUATION
TEST TARGET (MT-3)**



MICROCOPY RESOLUTION TEST CHART





increase its rates for the sale of natural gas, which, if granted, would increase the cost of gas purchased by the Company by approximately \$4,700,000 on an annual basis. In the meantime, the rates have taken effect, subject to refund, pending final action by the FPC.

Gas is furnished by Trunkline to the Company pursuant to a contract providing for the delivery of 700 million cubic feet of natural gas per day or over 255 billion cubic feet of natural gas per year. Since 1971 the Company has experienced curtailments from its pipeline suppliers and is currently experiencing additional curtailments which are expected to continue for an indefinite period. These curtailments aggregated approximately 64 billion cubic feet of gas in 1973 and are expected to be 90 billion cubic feet in 1974 and could increase to a higher level in the future. The curtailments imposed by the pipeline companies are the subject of pending proceedings before the FPC, and orders issued in such proceedings will determine the curtailment procedures ultimately to be placed into effect by the pipeline companies.

The maximum daily sendout of natural gas for the Company through December 31, 1973 was 2,283 million cubic feet on January 16, 1972. Of this total, 691 million cubic feet were purchased from the Storage Company, 897 million cubic feet were delivered from the Company's storage fields, 649 million cubic feet were purchased from Trunkline and 46 million cubic feet were obtained from producing Michigan fields. The peak-day system capacity is in excess of 2,800 million cubic feet.

As a consequence of the national gas shortage and in order to protect service to its existing customers and to limit new customer requirements to the gas supply available, the Company applied for and received approval of the MPSC to place into effect a gas allocation procedure, effective in November 1971. Under such procedure the Company in February 1973 stopped serving all new customers and new loads of existing customers except for prior commitments. The Company was permitted to resume approving applications for residential service in May 1973. The Company is unable to predict whether it will be required in 1974 and later years to cease adding residential customers or to curtail gas service to any of its customers other than seasonal customers or when it will be able to commence attaching additional non-residential load. Such actions are dependent upon the extent of future curtailments on the part of the Company's pipeline suppliers referred to above and the receipt of additional gas supplies from the sources of supply hereinafter described, including the gas reforming plant. The Company has filed a petition with the MPSC for approval of a curtailment program for firm gas customers, to be invoked if it becomes necessary. The matter is pending before the MPSC.

The Company has initiated several programs to provide it with additional supplies of gas. Northern Michigan Exploration Company ("Northern"), a wholly-owned subsidiary of the Company, has carried on a gas exploration program in the northern part of the Lower Peninsula of Michigan for the past several years, having varying interests in oil and gas leases on lands covering approximately 500,000 acres in that area. Such leases authorize exploration for oil and gas with the right to retain a portion of any oil or gas produced thereunder. Northern owns part of the working interest in 39 oil or gas wells in several fields in northern Michigan. Further drilling and development will be required to determine the size of the fields in which these wells are located, and additional geophysical surveys and exploratory wells are planned in northern Michigan. The Company also has gas purchase contracts with several producers in the northern Michigan area and has placed in service a pipeline to transport gas purchased in this area to its integrated gas transmission system. By the end of 1973 the Company was receiving approximately 35 million cubic feet of natural gas per day from this northern Michigan area and deliveries are expected to increase to 60 million cubic feet by the latter part of 1974.

Northern is also participating with others in the exploration and development of 87,600 acres in offshore Louisiana, and Northern's net ownership therein is 9,400 acres in 19 tracts. Four production platforms have been set on three of these tracts; development drilling is in progress on two of the platforms and has been completed on one platform. Delivery to the Company of Northern's share of gas from this development cannot be expected before the end of 1974 and will be subject to the receipt of regulatory approvals, which is not assured.

The Company's geologists and petroleum engineers estimate that Northern presently holds working interests which amount to approximately 12 million barrels of proven oil reserves and approximately 2 million barrels of probable oil reserves as well as approximately 135 billion cubic feet of proven gas reserves and approximately 40 billion cubic feet of probable gas reserves. Reference is made to Note 4 to the Financial Statements for further information relating to Northern.

The Company has been receiving gas from an independent producer near Mason, Michigan. Purchases from this source amounted to approximately 15 million cubic feet of gas per day at the end of 1973. During 1973 the Company also made spot purchases of gas aggregating approximately 21 billion cubic feet.

The Company is currently completing the construction of a gas reforming plant for converting natural gas liquids into gas. Such liquids are imported from Canada under a purchase agreement expiring in 1988, which provides for delivery to the Company of up to 50,000 barrels per day. The plant began production at the rate of 100 million cubic feet of gas per day in September 1973, and production of up to 200 million cubic feet per day is expected in 1974. The cost to the Company of such gas, including overhead, fixed charges, import fees and taxes hereinafter referred to, is and will be substantially in excess of the present cost of other gas now received by the Company from interstate pipelines and other sources and has resulted and will result in a substantial increase in the cost of gas service to all of the Company's customers. In April 1973, the President of the United States issued a proclamation relating to imports of petroleum and petroleum products which, among other things, suspended tariffs on imports of petroleum and petroleum products and, effective May 1973, shifted to a system of fees for licenses covering such imports. Under such proclamation, since amended, the natural gas liquids to be converted into gas by the reforming plant are subject to such licensing and payment of fees. Under such fee schedule the Company incurred additional costs of \$.0975 per barrel beginning in June 1973, which will increase to \$.5775 per barrel by November 1975. Also, the Canadian government has imposed a tax on crude oil and equivalent material exported from Canada to the United States at an initial rate of \$.40 per barrel effective October 1973, with subsequent increases bringing such tax effective February 1974 to \$6.40 per barrel. The tax presently applies to approximately 70% of the delivered quantities of such liquids. The Company expects to recover substantially all of such additional expense through the operation of fuel adjustment clauses contained in its rate schedules for gas service. The impact of the Canadian tax in future years is unknown because it is based upon the difference between the price of foreign crude oil (other than Canadian) at Chicago, Illinois, and Canadian crude oil, with the aim being to have the export price of Canadian crude oil equal to the price of foreign crude oil at Chicago. Future policies of the Canadian government regarding the levy of such a tax are uncertain. Furthermore, licenses for the export and import of the natural gas liquids are required from the Canadian and the United States governments, respectively. The Canadian licenses require renewal monthly and the United States licenses are of longer term. The receipt of such licenses is not necessarily assured.

Employees

The Company has approximately 11,500 employees, of whom about 5,200 operating, maintenance and construction employees are represented by the Utility Workers Union of America, AFL-CIO. The current working agreement between the Company and the Union was reached on August 31, 1971 and expires August 31, 1974. Pursuant to the agreement increases in wages were made on June 18, 1973, in addition to cost of living increases. The wage increases, together with wage increases placed in effect for office and technical employees, resulted in additional costs (before income taxes) in 1973 of approximately \$3,725,000 of which approximately \$2,750,000 was charged to operations.

REGULATION

Compliance With Environmental Requirements

The Company and its subsidiaries, Northern and Storage Company, are subject to regulation with regard to environmental quality, including air and water quality (including thermal discharges) and other matters, by various Federal, State and local authorities and are also subject to zoning and other regulation by local authorities. The Company and its subsidiaries are attempting to insure that their facilities meet applicable environmental regulations and standards. However, it is not presently possible to forecast the ultimate effect of environmental quality regulations upon the existing and proposed facilities and operations of the Company and its subsidiaries. Moreover, developments in these and other areas may require the Company or its subsidiaries to modify, supplement, replace or cease operating equipment and facilities, and may delay or impede construction and operation of new facilities, at costs which could be substantial.

For many years the Company has followed an environmental protection program which included reforestation along Michigan rivers and the siting of electric generating plants and transmission lines with consideration for the impact of such facilities upon the environment. In more recent years the program has included installation of electrostatic precipitators to remove particulates from smoke emission at electric generating plants and conversion of electric generating units to burn cleaner fuels. The program for 1973 through 1977 includes, among other things, installation of new precipitators and adding new controls and modifying previously installed precipitators at existing plants; utilization of coal with a lower sulfur content; conversion of several generating units to burn oil instead of coal; elimination of an old inefficient generating plant which cannot be modified to meet environmental standards; construction of new smoke stacks at generating plants to reduce ground level concentrations of sulfur dioxide due to "downwash" conditions; and construction of ponds or towers to cool water at new generating plants before it is returned to its source. The Company estimates that it made capital expenditures of \$41,000,000 in 1973 and that it will make capital expenditures of more than \$300,000,000 during the five years 1974-1978 for environmental protection. In connection with the conversion of generating units to burn oil and the construction of new oil-burning generating units, the Presidential Proclamation, referred to under "Gas Service" above, will result in fees for imported oil of \$.03 per barrel in May 1974 which will increase to \$.63 per barrel beginning May 1980. In addition, the Canadian export tax on crude oil, referred to under "Gas Service" above commenced at \$.40 per barrel effective October 1973, with subsequent increases bringing such tax to \$.64 per barrel effective February 1974. In 1974 the Company expects to import approximately 2,700,000 barrels, increasing to an annual rate of approximately 11,000,000 barrels beginning in November 1975. The Company expects to recover substantially all of such additional expense through the operation of fuel adjustment clauses included in its rate schedules for electric service. The impact of this Canadian tax in future years cannot be stated for the reasons set forth above under "Gas Service." Furthermore, licenses for the export and import of the crude oil are required from the Canadian and the United States governments, respectively. The Canadian licenses require renewal monthly and the United States licenses are of longer term. The receipt of such licenses is not necessarily assured.

Regulations promulgated by the United States Environmental Protection Agency ("EPA") in August 1973 will require, unless other measures are adopted by the State of Michigan and approved by EPA, that various steps be taken by the Company to reduce emissions of sulfur dioxide at the J. H. Campbell Plant, Units 1 and 2; the D. E. Karn Plant, Units 1 and 2; the B. C. Cobb Plant and the J. C. Weadock Plant, Units 7 and 8. Such generating facilities have an aggregate generating capability of over 2,000 megawatts. Specifically, the new regulations required that the Company should have notified EPA no later than October 1, 1973 of its intention to either (i) utilize fuel with a sulfur content of not more than 1½ percent or (ii) install stack gas desulfurization equipment to reduce emissions to an equivalent amount, not later than July 1, 1975. The new regulations would further require that the Company notify EPA not later than January 31, 1974 of its intention to either (i) utilize fuel with a sulfur content of not more than 1 percent or (ii) install stack gas desulfurization equipment to reduce emissions to an equivalent amount, not later than July 1, 1978. Dates are also specified in the regulations for various increments of progress to be met in achieving the lowered sulfur dioxide emissions by July 1, 1975 and July 1, 1978. The Company believes that adequate amounts of low sulfur fuel may not be available to permit conversion of such plants to low sulfur fuel. Moreover, the Company believes that stack gas desulfurization technology is not adequately developed to assure that any such equipment would allow satisfactory operation of its plants. The Company has entered into performance contracts with the Michigan Air Pollution Control Commission regarding the four plants, under which contracts the Company would be required to submit to the Commission by January 1, 1977 a sulfur dioxide control strategy and a time schedule for the implementation of the same not later than January 1, 1980. The performance contracts also require the Company to monitor air quality in the vicinity of the four plants and to periodically report the results thereof to the Commission. Should the data secured by such monitoring at any time fail to substantiate that emissions from such plants are not causing or contributing to ambient levels of sulfur dioxide in excess of applicable air quality standards, the performance contracts provide that the Company must then submit to the Commission a sulfur dioxide control strategy and a time schedule for the implementation thereof as expeditiously as practicable. The Company has submitted the four contracts to EPA and has requested

EPA's approval thereof. Should EPA's approval be secured, the requirements of the new EPA regulations will be replaced by said performance contracts. In September 1973, the Company instituted suit against EPA for review of the regulations which would require the Company to take immediate steps toward the reduction of sulphur dioxide emissions at the generating plants mentioned above. A stay of the regulations was issued by the Court but expired on December 20, 1973. Prior to such expiration, the Company filed with the Court a renewed motion for stay and the EPA has opposed the same. The Court has not acted upon the Company's renewed motion for stay and the matter is pending before the Court.

In June 1973, an evenly-divided United States Supreme Court left standing an opinion of a lower Federal court to the effect that EPA could not approve State implementation plans under the Federal Clean Air Act which would permit significant deterioration of ambient air in areas in which air quality is better than national standards. Neither the Federal Clean Air Act nor the regulations of EPA contain any definition of "significant deterioration" nor any standards by which it may be determined to occur. Air quality in the areas in which many of the Company's existing and planned electric generating facilities are located is believed to be better than national standards. Accordingly, the absence of any objective standard by which to judge the meaning of "significant deterioration" raises substantial question as to whether the Company's existing and planned coal-fired electric generating facilities can meet the requirement. Moreover, the decision leaves unclear the status of certain voluntary agreements entered into between the Company and the State of Michigan for bringing various of the Company's electric generating facilities, including those mentioned in the preceding paragraph, into compliance with air quality criteria. As a result of the decision, EPA gave public notice in July 1973 that it intends to issue regulations setting up a mechanism for preventing "significant deterioration" of air quality in areas where air pollution levels are below the national ambient air quality standards. In announcing that it proposed to consider four alternative proposals for defining and preventing "significant deterioration", EPA stated that any policy adopted will have a substantial impact on the nature, extent and location of future industrial, commercial and residential development throughout the United States and could affect a number of economically and socially important matters, including the cost of producing and transporting electricity. The Company is unable to forecast the ultimate regulations that will be adopted by EPA in this matter, but it is likely that any such regulations will materially affect the Company's operating expenses and power resources.

Applications for water discharge permits for various of the Company's existing and proposed plants and facilities are currently pending under the Federal Water Pollution Control Act Amendments of 1972 (the "1972 Amendments"). In October 1973, the EPA delegated to an agency of the State of Michigan responsibility for processing the applications under the 1972 Amendments and applicable standards. With respect to existing facilities and plants, the 1972 Amendments require achievement of effluent limitations that necessitate the application of the "best practicable control technology currently available" by July 1, 1977 and the "best available technology economically achievable" by July 1, 1983. They also require that the standards for cooling water intake structures must reflect the "best technology available for minimizing adverse environmental impact." With respect to future steam electric power plants, standards of performance required to be established by the 1972 Amendments will require achievement of effluent limitations that necessitate the application of the "best available demonstrated control technology," including, where practicable, a standard permitting no discharge of pollutants. Final guidelines for definitions of the terms are to be issued by EPA. The Company is not able to evaluate the effect of any standard or guideline ultimately adopted, although such effect may be substantially adverse to the Company's operations.

The Federal Energy Office ("FEO") has adopted mandatory fuel allocation regulations, under which volumes of middle distillate fuels are to be allocated to the Company, based upon the Company's usage in 1972. The Company shall be allocated 100% of its 1972 volume, or as otherwise determined by the FEO, but not less than 100% of current requirements for nuclear plants, start-up, testing, and flame stability of coal-fired plants (except for peaking uses). Under the program, the Company is not assured of receiving an adequate supply of middle distillate fuels to meet its needs and may be required to seek additional supplies by applying to the FEO for an additional allocation, or to a Michigan agency for an allocation from a "state reserve". Receipt of such an allocation will not be assured, and the failure to receive the same could have an adverse effect upon the Company's generation capabilities. The FEO's regulations also provide for the allocation of residual fuel oil and crude oil for electric generation. To the extent there

is a shortage of such fuels, utilities using these fuels for electric generation will receive a reduced supply so that each utility "within appropriate groupings" will absorb an equal percentage cutback of power generation to the extent practicable. Under the regulations, the Company is not assured of receiving an adequate supply of residual fuel oil and crude oil to meet its needs and may be required to seek additional supplies by applying to the FEO for an additional allocation. Receipt of such an allocation will not be assured, and the failure to receive the same could have an adverse effect upon the Company's generation capabilities.

The Federal government issued regulations effective December 7, 1973 establishing priorities for use of certain low sulfur petroleum products. The regulations are to be in effect for a maximum period of one year. The intent of the regulations is to prevent coal-to-oil fuel conversions and to delay shifts to lower sulfur content fuel oils than are in use as of the effective date of the regulations, except where such actions are required to achieve primary ambient air quality standards under the Federal Clean Air Act or to comply with EPA new source performance standards. Because the oil which the Company has arranged to purchase to fuel the D. E. Karn Unit 3, a 660,000 kw generating unit scheduled to commence operation in 1974, may be of lower sulfur content than required by primary ambient air quality standards, the Company may be required to apply for an exception from the regulations. Receipt of such an exception is not assured, and the failure to receive the same could adversely affect the Company's cost of generating electricity with the unit and/or the Company's ability to obtain an adequate supply of fuel to operate the unit.

Michigan Public Service Commission

The Company is subject to the jurisdiction of the MPSC, which has general power of supervision and regulation of public utilities in Michigan with respect to rates, accounting, services, certain facilities, ascertainment of values, the issuance of securities, and various other matters.

On March 30, 1973 the Company submitted applications to the MPSC to increase its electric rates by approximately \$59,000,000 annually and its gas rates by approximately \$83,000,000 annually. At the same time the Company requested interim gas rate relief of approximately \$55,600,000 annually pending the outcome of that rate case. On April 5, 1973 the MPSC dismissed the applications without hearing (and without prejudice to the filing of new applications) principally on the grounds that the rate relief requested was excessive and contrary to criteria for public utility rate increases established in January 1973 by the Federal Cost of Living Council pursuant to the Federal Economic Stabilization Act of 1970, as amended, and contrary to similar criteria established under rules of the MPSC adopted in May 1972 pursuant to the aforesaid Federal Act. On May 3, 1973, the Company petitioned the MPSC to reconsider such dismissal order. On April 18, 1973 the Company submitted new applications to the MPSC for authorization to increase its electric rates by approximately \$36,100,000 annually and its gas rates by approximately \$50,400,000 annually. At the same time the Company requested interim rate relief of approximately \$33,700,000 annually in gas rates pending outcome of the rate proceedings. In filing the new applications, the Company acted without prejudice to and with specific reservation of its legal rights to further challenge the MPSC's dismissal order of April 5, 1973. Hearings on the Company's application of April 18, 1973 commenced in July 1973. In August 1973 the Company requested interim rate relief of approximately \$33,810,000 annually in electric rates pending outcome of the rate proceedings. In November 1973 the MPSC authorized interim rate increases, effective November 10, 1973, aggregating \$50,000,000, divided equally between the pending electric and gas rate proceedings, subject to refund, pending the final determination of the Commission. In December 1973 the Attorney General of the State of Michigan instituted judicial review of the interim rate orders, including a request for a temporary injunction staying their effectiveness, which request has not been acted upon by the Court. On January 18, 1974, the MPSC authorized increases in the Company's electric and gas rates of \$31,000,000 and \$46,600,000, respectively, on an annual basis. The rate increases included the interim increases aggregating \$50,000,000 which were placed in effect November 10, 1973. Of the authorized gas rate increase, \$14,600,000 will not become effective until the second unit of the Marysville Gas Reforming Plant becomes operable in the second quarter of 1974.

Adjustment clauses authorized by the MPSC in August and October 1973, provide for reflecting in the Company's residential gas and electric rates changes in fuel and purchased gas costs. Similar clauses have theretofore been in effect covering industrial and commercial rates.

Litigation is pending on electric and gas rate increases which became effective on October 22, 1969. This litigation, which involves appeals taken by the Company as well as by parties opposing the rate increases, includes, among other things, a claim for refunds to customers amounting to approximately \$7,000,000, plus interest, for which no reserve has been provided. This claim is based upon the circumstance that the electric rates were placed in effect by court order on October 22, 1969 but the MPSC did not issue an order approving such rates until April 20, 1970. Also included in the litigation is a claim for refund relating to the reduction and elimination of the Federal income tax surcharge. In connection with this claim, revenues for service between January 30, 1970 and the effective dates of subsequent electric and gas rate increases, which were made effective in December 1971, have been reduced and a reserve, stated net of related income taxes, has been accumulated in the amount of approximately \$11,868,000. As a result of such December 1971 authorizations by the MPSC to increase electric and gas rates, the Company believes it is unlikely that there will be any refund obligations which would exceed the amount of the reserve.

In the opinion of the General Counsel for the Company, Storage Company and Northern are not public utilities under the laws of Michigan.

Federal Power Commission

The FPC has jurisdiction over the Storage Company as a natural gas company within the meaning of the Natural Gas Act, which jurisdiction relates, among other things, to the acquisition and operation of assets and facilities and to rates charged by the Storage Company. If the Company obtains from Northern deliveries of gas produced in offshore Louisiana, as described under "Gas Service" above, Northern will be subject to FPC's jurisdiction as a natural gas company within the meaning of the Natural Gas Act. Northern has been granted a certificate of public convenience and necessity as a small producer under the Natural Gas Act.

In instances of shortage of supply, the FPC has entered orders curtailing deliveries of natural gas transmitted by interstate pipelines to various users to amounts less than provided in their gas sales contracts. Under certain circumstances, the FPC also has the power under the Natural Gas Act to modify gas sales contracts of interstate pipeline companies. The FPC has adopted an end-use priority system for pipeline curtailments and is now considering adoption of a proposed rule which would make the end-use priority system also applicable to certificate proceedings for transmission of additional gas supplies. The end-use priority system places residential and small commercial service in the highest priority and interruptible service in the lowest priority. As natural gas companies under the Natural Gas Act, Panhandle, Trunkline and Storage Company, which provide substantially all of the Company's gas supply, are subject to the FPC's regulations. The effect of FPC regulations, present or future, upon the Company's gas supply and operations cannot be determined although such effect may be materially adverse.

The Company has accepted licenses under Part I of the Federal Power Act for a number of its constructed hydroelectric projects. One such license expires in 1980 and the others extend to the end of 1993. As a licensee, certain of the Company's operations are subject to regulation by the FPC, including compliance with the FPC's rules and regulations respecting accounting applicable to licensees. The Act provides that if a new license for a hydroelectric project is not issued to the original licensee upon expiration of the original license, a new license may be issued to a new licensee, or the United States may take over the project, upon paying severance damages, if any, and the amount of the original licensee's "net investment" in the project but not in excess of the fair value thereof.

The Company and The Detroit Edison Company have accepted a license from the FPC to construct, operate and maintain the Ludington Pumped Storage Plant, described under "Business—Construction" above. The license is for a period of 50 years, effective July 1, 1969.

By reason of the interconnections linking the electric system of the Company with the systems of companies in other states, the Company is a "public utility" under Part II of the Federal Power Act and certain of the Company's operations are subject to regulation by the FPC, including compliance with the FPC's rules and regulations respecting accounting applicable to "public utilities", the transmission of electric energy in interstate commerce and the rates and charges for the sale of such energy at wholesale, as

provided by the Federal Power Act. The Company is also subject to the general supervision and regulation of the MPSC, as described above, including the fixing of almost all retail rates and charges for the sale of electricity and gas.

In November 1972, the Company tendered for filing with the FPC proposed increases in its wholesale electric rates so as to increase the Company's wholesale electric revenues approximately \$1,500,000 on an annual basis. The increased rates became effective in June 1973, subject to refund, pending FPC determination as to their reasonableness. A number of municipal electric systems and rural electric cooperatives have intervened in the proceeding and seek to obtain the rejection of the proposed increases on economic grounds and because the Company allegedly has engaged in unlawful and anti-competitive practices. Alternatively, the intervenors have requested that the filing be conditioned upon the Company's compliance with certain requirements, including among other things, that the Company coordinate bulk power supply with any of the intervenors desiring so to do, that the Company wheel power across its transmission facilities, and that the Company provide power to the intervenors on terms comparable to those prevailing between the Company and certain other electric systems. The intervenors' filed case supports a rate increase of approximately \$376,000 subject to the aforementioned conditions. The staff of the FPC has recommended an increase of approximately \$875,000. Hearings upon the Company's application and related issues have been held in abeyance pending settlement discussions, now in progress involving the Company, the intervenors and the FPC staff.

Atomic Energy Commission

In 1967 the U. S. Atomic Energy Commission ("AEC") granted the Company a permit to construct the Palisades Plant, described under "Business—Construction" above. In March 1970, the AEC gave public notice of its proposed issuance of a provisional operating license for the plant. Thereafter, a number of organizations and individuals intervened in the proceedings before the AEC and opposed the licensing of the plant. Hearings on the issuance of an operating license for the plant commenced in June 1970 and continued intermittently during the balance of 1970. In view of the crucial importance of getting the plant in operation at the earliest possible date, and faced with indefinite delays in completion of the AEC hearing, the Company reached an agreement with the intervenors in March 1971 whereby the Company would install cooling towers to substantially eliminate thermal discharges into Lake Michigan and other equipment to eliminate release of virtually all radioactive materials in liquid discharges and, subject to certain conditions, the intervenors agreed to withdraw their opposition to a full-power operating license. The additional facilities, which are near completion, will cost an estimated \$30,000,000 to construct and are expected to result in additional annual costs in excess of \$5,000,000 attributable to reduced thermal efficiency of the plant, some curtailment of generating capability and increased operating and maintenance expenses, as well as fixed charges on the invested capital.

During 1971 and 1972 the AEC authorized the plant to be operated at less than full power levels. Since late March 1973 the Company has been authorized to operate the plant at full thermal power rating, but the plant is out of service at this time for the reasons described in Note (b) under "Business—Construction" above. The operating license issued by the AEC for the plant is provisional in nature and is scheduled to expire on March 1, 1974, unless extended for a good cause shown, or upon the earlier issuance of a superseding operating license. The Company has submitted an application for a full-term operating license. The application will be subject to the right of any person whose interest may be affected by the proceeding to intervene and request a public hearing on the application.

In 1971, the AEC announced that it was reviewing the adequacy of emergency core cooling systems in light-water power reactors, and thereafter held a public rule-making hearing with respect to new regulations covering the design of such emergency core cooling systems. In December 1973, the AEC announced its new regulations which provide that licensees, including the Company, must submit to the AEC by early August 1974, a plan detailing how compliance with the new rules will be achieved for each of the nuclear plants affected. The effect of the new rules upon the Company's plants has not yet been determined, but it may be necessary to modify the designs of the Big Rock Point Plant, the Palisades Plant and the Midland Plant (referred to below) and it may be necessary to derate the Big Rock Point Plant and/or the Palisades Plant. The cost of such potential modifications and deratings cannot be estimated at this time but could be substantial.

In May 1973 a suit was commenced against the AEC for a declaratory judgment and injunctive relief. The suit sought to compel the revocation of operating licenses heretofore issued by the AEC for 20 nuclear generating units, including the Palisades Plant. The basis for the suit was that operation of these units in accordance with certain AEC interim criteria for emergency core cooling systems allegedly constitutes a threat to the public health and safety. The Court dismissed the suit. In July 1973 the plaintiffs in such suit petitioned the AEC to revoke immediately the operating licenses of the 20 nuclear generating units on the same grounds alleged in the lawsuit. The petition was denied and an appeal from the denial is now pending before a Federal Court of Appeals.

In 1969 the Company applied to the AEC for permits to construct the Midland Plant, described under "Business—Construction" above. Various organizations and individuals intervened in the proceeding and objected to the granting of such permits. Public hearings on the application began in late 1970 and in December 1972 the AEC issued construction permits for the Midland Plant. Thereafter the intervenors appealed the granting of the permits and in May 1973 an Atomic Safety and Licensing Appeal Board of the AEC affirmed the issuance of the construction permits, subject to conditions imposing several new reporting requirements with respect to quality assurance matters. Construction on the site, which was halted in November 1970, was resumed in June 1973. In July 1973 and August 1973, the intervenors instituted appeals to a Federal Court of Appeals from the action of the AEC in granting the construction permits. In May 1972 some of the intervenors began suit in a Federal Court to prevent construction of the Midland Plant, contending that the AEC had not complied with the National Environmental Policy Act of 1969 in the proceedings for issuance of the construction permits for the plant. The Company and the AEC have moved to dismiss the suit. In March 1973 another intervenor began suit in a State Court in Jackson County, Michigan, seeking damages and to prevent construction and operation of the plant on the grounds that it constitutes a nuisance. The case has been transferred to Midland County, Michigan, and the Company has filed a motion to dismiss. Following AEC inspections which disclosed several inadequacies in the implementation of the quality assurance program at the Midland construction site, the AEC's Director of Regulation issued an order in December 1973 for the Company to show cause why all activities under the construction permits for the Midland Plant 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. The Company responded to the order to show cause by a motion to dismiss and an answer noting that the most recent AEC inspection has found the Company to be in compliance with AEC quality assurance regulations. Certain of the intervenors in the construction permit proceeding requested a hearing on the order to show cause. Also, in December 1973, the same intervenors petitioned the AEC to revoke the construction permits for the Midland Plant. The AEC, in January 1974, denied the petition to revoke the construction permits, denied the Company's motion to dismiss the order to show cause, and granted the intervenors' requests for a public hearing. Other parties are also being granted an opportunity to intervene in the hearing on the show-cause order. If the Atomic Safety and Licensing Board appointed to conduct the hearing decides that the Company is not implementing its quality assurance program in compliance with AEC regulations, or that there is not reasonable assurance that such implementation will continue throughout the construction process, it will determine whether the construction permits for the Midland Plant shall be modified, suspended or revoked, or whether other action is warranted by the record. Although the Company is unable to predict the outcome of these proceedings before the AEC, as well as the outcome of the litigation described in this paragraph and the immediately preceding paragraph, it expects its position to be upheld in these various proceedings. However, if the intervenors in the AEC proceedings or the plaintiffs in the litigation should be successful, the effect upon the Company's operating expenses and its power resources would be materially adverse.

Under amendments to the Atomic Energy Act which became effective in December 1970, applications to construct commercial nuclear reactors are subject to review to determine whether the activities under the license would create or maintain a situation inconsistent with the Federal antitrust laws and the AEC is required to refer such applications to the Attorney General of the United States for his advice. In June 1971, the Attorney General advised the AEC that the granting of authorization to construct the Midland Plant "may maintain a situation inconsistent with the antitrust laws" and recommended that the AEC conduct a hearing to determine whether there is any factual basis to so find. A number of municipal

electric systems and generating and transmission cooperatives have intervened in the proceeding. The AEC is authorized to issue or refuse to issue any license applied for or to issue a license with such conditions as it deems appropriate, and if it finds there are adverse antitrust aspects involved in any license application, it is also to consider, in determining whether a license shall be issued, such other factors as in its judgment it deems necessary to protect the public interest, including the need for power in the affected area. The Attorney General has indicated an intention to seek conditions in any license for the Midland Plant which would, among other things, require the Company to interconnect and share reserves with any utility engaged or proposing to engage in the generation of electric power, require the Company to engage in coordinated operations, development and electric plant construction with any such other electric utility, and to wheel power across the Company's transmission system. In April 1972, the AEC issued a notice of antitrust hearing and such hearing began in late 1973 and is continuing.

In December 1972 the AEC amended the Big Rock Point Plant operating license to authorize the use of a full core loading of nuclear fuel containing plutonium as well as uranium. The transition to the use of such fuel will extend over a period of several years, with a few fuel assemblies being installed in 1973 and with greater use of such fuel to occur in 1974 and later years. The use at the Big Rock Point Plant of developmental fuel assemblies and fuel rods containing plutonium had been authorized and carried out since 1969. In March 1973 an organization began suit in a Federal Court to prevent the use of such plutonium fuel at the Big Rock Point Plant. A temporary injunction against the 1973 fuel loading was refused by the Court. The lawsuit is pending and is opposed by the Company as well as by the AEC. In April 1973 the AEC offered an opportunity for public hearing on the December 1972 license amendment and the organization opposing the use of plutonium fuel at the plant has been granted the right to intervene and to have a public hearing. The matter is pending.

Under the Price-Anderson amendments to the Atomic Energy Act, the Company maintains private insurance and agreements of indemnity with the AEC to cover public liability for the consequences of nuclear incidents which might occur at the Company's nuclear power plants. Such nuclear insurance and indemnity coverage does not include coverage of the plant facilities themselves. To cover possible damage to these facilities, the Company maintains property damage insurance from Nuclear Mutual Limited, a Bermuda mutual insurance company of which the Company is a member, in the maximum amount available from such insurer, which is presently \$100,000,000, or the insurable value of the facility, whichever is less. Except for the Company's Big Rock Point Nuclear Plant, such insurance does not equal in amount the sums invested or to be invested in the Company's nuclear plants. The Company is therefore a self-insurer for any loss to its nuclear plant facilities to the extent its investment in them exceeds \$100,000,000 at any location. The Company regards this risk to be acceptable because of the very low probabilities of occurrence believed to be associated with incidents which could give rise to losses in excess of the insurance. The Company's practice in this regard is consistent with that of other utilities similarly situated.

Federal Economic Stabilization Program

In August 1973, the price freeze previously established by Executive Order terminated and Phase IV commenced for the sale of most commodities. Under the Cost of Living Council's Phase IV rules and regulations, which became effective with the expiration of the price freeze, rate increases for commodities or services provided by a public utility are exempt. The rules and regulations also provide for the exemption of charges for the sale of coal to a public utility under coal contracts providing for the purchase of coal over a period of at least 5 years.

Equal Employment Opportunity Commission

In January 1972, the U. S. Equal Employment Opportunity Commission ("EEOC") charged the Company and the Utility Workers of America with violation of Title VII of the 1964 Civil Rights Act, alleging discrimination against Negroes and females in matters of hiring, promotion, training, compensation, membership, referral representation and other terms and conditions of employment. An investigation was conducted and an *ex parte* decision was rendered by the EEOC finding reasonable cause to believe that the Company discriminated against females and that the Union failed to equally represent females. EEOC has proposed a conciliation agreement be negotiated with the Company as a means of correcting the alleged discrimination, but no such agreement has yet been entered into.

OPERATING STATISTICS

	Year Ended December 31					Twelve Months Ended November 30
	1968	1969	1970	1971	1972	1973
Electric Energy Generated, Purchased and Sold (Thousands of Kwh):						
Generated—after station loss and use:						
Hydro.....	427,774	495,638	438,625	438,635	410,287	92,386(a)
Fuel.....	18,120,945	17,918,597	18,063,715	17,834,469	19,504,520	20,717,475
Purchased Energy (including interchange).....	781,496	1,848,148	2,268,680	4,118,538	4,392,678	5,645,952
Total Electric Energy Generated and Purchased.....	19,330,215	20,262,383	20,771,020	22,391,642	24,307,485	26,455,813
Lost, unaccounted for and used by Company.....	1,719,605	1,783,020	1,964,343	1,895,889	2,229,011	2,360,511
Total Energy Sold.....	17,610,610	18,479,363	18,806,677	20,495,753	22,078,474	24,095,302
Electric Sales (Thousands of Kwh):						
Residential.....	5,090,536	5,546,263	5,931,840	6,328,749	6,841,221	7,108,631
Commercial.....	3,388,705	3,673,709	4,027,215	4,349,075	4,699,559	5,151,368
Industrial.....	8,104,063	8,578,389	8,073,913	8,972,723	9,575,919	10,768,093
Interdepartmental and Other.....	186,707	191,951	208,526	223,849	235,871	239,979
Total Sales to Ultimate Consumers.....	16,770,011	17,990,312	18,241,494	19,874,396	21,352,570	23,268,071
Power Pool.....	411,697	—	—	—	—	—
Other Resale.....	428,902	489,051	565,183	621,357	725,904	827,231
Total Electric Sales.....	17,610,610	18,479,363	18,806,677	20,495,753	22,078,474	24,095,302
Gas Produced, Purchased and Sold (1,000 cubic feet):						
Gas Produced and Purchased:						
Wisconsin Gas Company.....	—	—	—	—	—	3,671,993
Marysville Reforming Plant.....	—	—	—	—	—	5,751,507
Michigan Fields.....	18,301,997	16,600,080	17,196,639	13,194,067	18,905,307	25,692,425
Mississippi River Transm. Corp.....	—	—	—	—	—	2,701,058
Trunkline Gas Company.....	166,944,481	197,825,691	226,111,937	247,445,052	231,889,872	194,390,008
Michigan Consolidated Gas Co.....	—	—	—	—	—	12,171,792
Michigan Gas Storage Company.....	88,077,173	87,821,500	90,697,573	88,327,683	95,612,848	86,231,162
Total Gas Produced and Purchased.....	273,323,651	302,247,271	334,006,149	348,966,802	346,408,027	330,609,945
Net (to) from Storage.....	(6,204,577)	(10,937,194)	(13,896,516)	(9,882,117)	15,550,365	12,105,388
Compressor Station and Other Use.....	(2,999,413)	(2,724,061)	(3,604,715)	(2,871,811)	(2,455,853)	(2,920,810)
Lost, unaccounted for and used by Company.....	(9,649,125)	(6,824,203)	(6,160,960)	(2,339,363)	(6,239,695)	(3,146,681)
Total Gas Sold.....	254,470,536	281,761,813	310,343,958	333,873,511	353,262,844	336,647,842
Gas Sales (1,000 cubic feet):						
Residential—Home Heating.....	120,256,312	129,060,276	134,435,759	138,223,553	150,602,418	139,588,026
Other Residential.....	4,215,239	3,997,083	3,733,980	3,225,088	3,313,156	3,076,435
Industrial and Commercial.....	125,896,465	139,497,140	152,704,824	176,350,317	187,916,368	186,526,718
Interdepartmental.....	482,506	7,214,920	18,507,064	15,262,159	11,430,902	7,456,663
Total Sales to Ultimate Consumers.....	250,850,522	279,769,419	309,381,627	333,061,117	353,262,844	336,647,842
Resale.....	3,620,014	1,992,394	962,331	812,394	—	—
Total Gas Sales.....	254,470,536	281,761,813	310,343,958	333,873,511	353,262,844	336,647,842
Sales of Steam (1,000 pounds).....	792,881	847,854	814,225	742,650	682,412	667,812

(a) Including net pumped storage generated.

OPERATING STATISTICS

	Year Ended December 31					Twelve Months Ended November 30
	1968	1969	1970	1971	1972	1973
Cost of Electric Energy Generated and Purchased:						
Hydro Generation.....	\$ 506,183	\$ 64,199	\$ 569,069	\$ 577,889	\$ 609,158	\$ 751,825
Fuel Generation.....	69,616,221	74,515,997	88,408,066	106,672,396	115,918,433	133,740,736
Purchased Energy (including inter- change).....	6,793,357	13,530,397	19,330,636	41,860,127	56,662,305	50,558,765
Other Power Supply Expenses.....	732,477	1,229,019	1,808,747	3,573,083	4,493,910	5,315,285
Total Cost of Electric Energy Generated and Purchased.....	\$ 77,648,238	\$ 90,239,612	\$ 110,116,518	\$ 152,683,495	\$ 177,683,806	\$ 190,366,611
Cost of Gas Sold:						
Gas Produced and Purchased:						
Wisconsin Gas Company.....	—	—	—	—	—	\$ 2,975,065
Michigan Consolidated Gas Co. Michigan Fields.....	\$ 4,514,471	\$ 4,628,947	\$ 4,591,473	\$ 3,457,574	\$ 6,238,777	10,462,385
Marysville Reforming Plant.....	—	—	—	—	—	10,724,540
Trunkline Gas Company.....	56,692,976	70,399,538	80,393,575	91,690,210	100,583,943	9,932,312
Mississippi River Transmission Corp.....	—	—	—	—	—	93,635,385
Michigan Gas Storage Company	35,951,837	37,170,023	39,465,259	40,770,482	47,502,774	1,395,547
Total Cost of Gas Produced and Purchased.....	\$ 97,159,284	\$ 112,198,808	\$ 124,450,307	\$ 135,918,266	\$ 154,325,494	\$ 175,064,009
Net (to) from Storage.....	(2,303,455)	(4,413,756)	(5,320,212)	(4,466,597)	2,891,134	(2,379,432)
Compressor Station and Other Use.....	(926,811)	(896,939)	(1,255,232)	(1,041,007)	(978,398)	(1,882,441)
Total Cost of Gas Sold.....	\$ 93,929,018	\$ 106,888,113	\$ 117,874,863	\$ 130,410,662	\$ 156,238,230	\$ 170,802,136
Electric Revenue:						
Residential.....	\$ 109,988,430	\$ 119,298,937	\$ 133,131,798	\$ 141,106,619	\$ 158,414,916	\$ 177,386,131
Commercial.....	69,952,596	76,246,495	87,727,018	95,839,344	106,268,572	124,276,637
Industrial.....	91,018,176	98,132,472	102,501,526	118,617,428	131,708,824	160,610,981
Interdepartmental and Other.....	4,849,742	5,320,222	6,101,768	6,561,662	7,374,312	8,129,033
Total Sales to Ultimate Consumer.....	\$ 275,808,944	\$ 298,998,126	\$ 329,462,110	\$ 362,125,053	\$ 403,766,624	\$ 470,402,782
Power Pool.....	2,504,458	—	—	—	—	—
Other Resale.....	4,912,924	5,567,956	6,661,084	7,778,805	9,004,411	14,460,368
Total Electric Sales Reve- nue.....	\$ 283,226,326	\$ 304,566,082	\$ 336,123,194	\$ 369,903,858	\$ 412,771,035	\$ 484,863,150
Reserve for Possible Refund.....	—	—	(5,929,745)	(9,367,949)	(116,203)	—
Net Electric Sales Revenue.....	\$ 283,226,326	\$ 304,566,082	\$ 330,193,449	\$ 360,535,909	\$ 412,654,832	\$ 484,863,150
Miscellaneous Electric Revenue.....	3,019,298	3,433,596	4,710,705	3,693,861	4,339,234	4,737,981
Total Electric Revenue.....	\$ 286,245,624	\$ 307,999,678	\$ 334,904,154	\$ 364,229,770	\$ 416,994,066	\$ 489,601,131
Gas Revenue:						
Residential—Home Heating.....	\$ 123,150,734	\$ 133,776,482	\$ 150,050,985	\$ 154,419,444	\$ 174,891,712	\$ 172,483,782
Other Residential.....	6,329,202	6,097,784	6,614,752	5,906,707	6,211,764	5,995,700
Industrial and Commercial.....	83,103,782	93,716,797	108,666,729	121,435,319	141,761,585	153,131,875
Interdepartmental.....	325,558	3,079,358	8,094,531	6,944,951	6,413,403	5,066,268
Total Sales to Ultimate Consumers.....	\$ 212,909,276	\$ 236,670,421	\$ 273,426,997	\$ 288,706,421	\$ 329,278,464	\$ 336,677,625
Resale.....	1,337,476	796,401	456,805	375,958	—	—
Total Gas Sales Revenue.....	\$ 214,246,752	\$ 237,466,822	\$ 273,883,802	\$ 289,082,379	\$ 329,278,464	\$ 336,677,625
Reserve for Possible Refund.....	—	—	(3,258,764)	(5,603,017)	(266,955)	—
Net Gas Sales Revenue.....	\$ 214,246,752	\$ 237,466,822	\$ 270,625,038	\$ 283,479,362	\$ 329,011,509	\$ 336,677,625
Miscellaneous Gas Revenue.....	3,435,100	3,068,960	3,248,642	2,612,093	3,074,019	2,587,149
Total Gas Revenue.....	\$ 217,681,852	\$ 240,535,782	\$ 273,873,680	\$ 286,091,455	\$ 332,085,528	\$ 339,264,774
Steam Revenue.....	\$ 1,191,514	\$ 1,239,386	\$ 1,211,671	\$ 1,295,582	\$ 1,373,540	\$ 1,340,583
Total Operating Revenue.....	\$ 505,118,990	\$ 549,774,846	\$ 609,989,505	\$ 651,616,807	\$ 750,453,134	\$ 830,206,488
Net Operating Income before State and Federal Income Taxes:						
Electric.....	\$ 101,739,514	\$ 100,424,652	\$ 92,746,462	\$ 75,249,390	\$ 84,627,334	\$ 128,825,347
Gas.....	\$ 51,583,268	\$ 54,297,237	\$ 65,377,230	\$ 64,106,732	\$ 68,953,534	\$ 54,555,382
Electric Customers (end of period).....	1,031,917	1,057,735	1,082,442	1,112,607	1,147,507	1,177,027
Gas Customers (end of period).....	798,331	830,011	854,117	879,535	910,513	931,315
Steam Customers (end of period).....	415	386	318	220	125	121
Kilowatt hours per Residential Customer —Average.....	5,609	5,954	6,222	6,467	6,780	6,850

EXPERTS

The Financial Statements as of December 31, 1972 and for the five years then ended including the Statement of Income for the five years then ended set forth in this Official Statement have been examined by Arthur Andersen & Co., independent public accountants, as indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in accounting and auditing in giving such report.

Statements under "Regulation" as to matters of law and legal conclusions, have been reviewed by Harold P. Graves, Esq., General Counsel for the Company, and all such statements are made on his authority as an expert.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Consumers Power Company:

We have examined the balance sheet of CONSUMERS POWER COMPANY (a Michigan corporation) as of December 31, 1972, and related statements of income (included on page A-3), retained earnings, capital in excess of par value and source of funds for gross property additions for the five years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Consumers Power Company as of December 31, 1972, and the results of its operations and the source of funds for gross property additions for the periods stated, in conformity with generally accepted accounting principles applied on a consistent basis during the periods.

ARTHUR ANDERSEN & CO.

Detroit, Michigan,
June 20, 1973.

CONSUMERS POWER COMPANY

STATEMENT OF SOURCE OF FUNDS FOR GROSS PROPERTY ADDITIONS

	Year Ended December 31					Twelve Months Ended November 30, 1973
	1968	1969	1970	1971	1972	(Unaudited)
	Thousands of Dollars					
Source of Funds for Gross Property Additions:						
Funds generated from operations:						
Net income after dividends on preferred stock	\$ 59,009	\$ 63,426	\$ 69,315	\$ 64,672	\$ 66,927	\$ 70,771
Principal noncash items—						
Depreciation and amortization (Notes 8 and 17)—						
Per statement of income.....	48,825	51,381	55,608	58,210	62,937	71,404
Charged to other accounts	4,460	5,200	6,162	6,403	11,472	15,550
Deferred income taxes, net.....	9,901	10,962	10,222	14,300	18,972	24,823
Investment tax credit, net	3,396	3,416	448	5,751	5,960	14,894
Common equity component of the allowance for funds used during construction.....	(2,210)	(3,360)	(5,470)	(7,060)	(8,040)	(6,608)
Undistributed earnings of subsidiaries.....	—	—	—	—	—	(2,256)
	<u>\$123,381</u>	<u>\$131,525</u>	<u>\$136,285</u>	<u>\$142,276</u>	<u>\$158,228</u>	<u>\$188,578</u>
Less—						
Dividends declared on common stock	43,138	32,446*	46,803	48,068	49,168	52,467
Retirement of long-term debt and preferred stock	6,688	7,788	9,438	10,538	11,738	12,938
	<u>\$ 73,555</u>	<u>\$ 91,291</u>	<u>\$ 80,044</u>	<u>\$ 83,670</u>	<u>\$ 97,322</u>	<u>\$123,173</u>
Funds obtained from new financing:						
Issuance of common stock.....	\$ —	\$ —	\$ 33,661	\$ —	\$ 59,620	\$ —
Issuance of preferred stock	—	—	—	70,000	70,000	130,000
Issuance of first mortgage bonds.....	110,000	105,000	110,000	120,000	120,000	75,000
Net proceeds from installment sales contracts payable.....	—	—	—	—	—	30,601
Increase (decrease) in other long-term debt	—	—	12,730	(4,239)	(4,418)	(4,027)
Increase (decrease) in notes payable	12,000	6,900	12,600	(36,500)	6,500	13,000
	<u>\$122,000</u>	<u>\$111,900</u>	<u>\$168,991</u>	<u>\$149,261</u>	<u>\$251,702</u>	<u>\$244,574</u>
Funds obtained from other sources:						
Common equity component of the allowance for funds used during construction	\$ 2,210	\$ 3,360	\$ 5,470	\$ 7,060	\$ 8,040	\$ 6,608
Increase in reserve for possible rate refunds (Note 6)	—	—	4,406	7,278	184	—
Increase in contributions in aid of construction	2,505	2,530	2,142	3,496	6,293	6,915
Change in net current assets and current liabilities**	5,862	(2,171)	(15,140)	7,018	9,020	9,153
(Increase) decrease in investment in Northern Michigan Exploration Company.....	—	(2,000)	(4,000)	(4,000)	4,000	(5,100)
Other, net	2,139	193	33	62	2,850	(3,466)
	<u>\$ 12,716</u>	<u>\$ 1,912</u>	<u>\$ (7,089)</u>	<u>\$ 20,914</u>	<u>\$ 30,387</u>	<u>\$ 14,110</u>
Gross Property Additions	<u>\$208,271</u>	<u>\$205,103</u>	<u>\$241,946</u>	<u>\$253,845</u>	<u>\$379,411</u>	<u>\$381,857</u>

* See Note to "Statement of Retained Earnings".

** The changes in the individual accounts classified as current assets and current liabilities are not material in relation to gross property additions.

The Notes to Financial Statements are an integral part of this statement.

CONSUMERS POWER COMPANY

BALANCE SHEET

ASSETS

	December 31, 1972	November 30, 1973
	(Unaudited)	
	Thousands of Dollars	
Utility Plant, at original cost:		
Plant in service and held for future use—		
Electric	\$1,646,947	\$1,649,978
Gas	784,423	784,032
Steam	3,265	3,266
Common to all departments	70,106	70,451
	<u>\$2,504,741</u>	<u>\$2,507,727</u>
Less—Provision for accrued depreciation	591,475	654,860
	<u>\$1,913,266</u>	<u>\$1,852,867</u>
Construction work in progress (Note 3)	410,183	719,665
	<u>\$2,323,449</u>	<u>\$2,572,532</u>
Other Physical Property:		
At cost or less	\$ 2,848	\$ 2,828
Less—Provision for accrued depreciation	37	37
	<u>\$ 2,811</u>	<u>\$ 2,791</u>
Investments:		
Wholly-owned subsidiaries—		
Michigan Gas Storage Company	\$ 16,205	\$ 16,205
Equity in Undistributed Net Earnings of Michigan Gas Storage Company (Note 1)	—	4,682
Northern Michigan Exploration Company (Note 4)	6,000	19,500
Equity in Undistributed Net Earnings of Northern Michigan Exploration Company (Note 1)	—	1,933
Other, at cost or less	828	890
	<u>\$ 23,033</u>	<u>\$ 43,210</u>
Current Asset		
Cash (Note 14)	\$ 12,549	\$ 11,497
Accounts receivable, less reserves of \$858,000 and \$693,000, respectively (includes \$72,000 and \$149,000, respectively due from subsidiaries)	66,805	52,308
Materials and supplies, at average cost	42,541	49,783
Gas in underground storage, at average cost	25,704	35,485
Property taxes—future period, net	24,068	2,513
Prepayments and other	4,313	1,366
	<u>\$ 175,980</u>	<u>\$ 152,952</u>
Deferred Debits	\$ 5,319	\$ 11,978
	<u>\$2,530,592</u>	<u>\$2,783,463</u>

The Notes to Financial Statements are an integral part of this statement.

CONSUMERS POWER COMPANY

BALANCE SHEET

STOCKHOLDERS' INVESTMENT AND LIABILITIES

	December 31, 1972	November 30, 1973
	(Unaudited)	
	Thousands of Dollars	
Capitalization:		
Common stockholders' equity—		
Common stock, \$10 par value, authorized 32,500,000 shares, outstanding 26,233,838 shares (Note 5)	\$ 262,338	\$ 262,338
Capital in excess of par value (Note 5)	246,788	247,070
Retained earnings (Note 10)	213,358	227,973
	<u>\$ 722,484</u>	<u>\$ 737,381</u>
Less—Capital stock expense	6,060	6,912
Total common stockholders' equity	\$ 716,424	\$ 730,469
Preferred stock, cumulative, \$100 par value, authorized 3,500,000 shares (Note 11)	217,934	347,534
Total stockholders' investment	\$ 934,358	\$1,078,003
Long-term debt (Note 12)	1,132,540	1,221,413
Total capitalization	<u>\$2,066,898</u>	<u>\$2,299,416</u>
Notes Payable, due within one year (Notes 2 and 14)		
To banks (average interest rate of 5.75% and 9.62%, respective- ly)	\$ 19,000	\$ 21,000
Commercial paper (average interest rate of 5.55% and 9.35%, respectively)	6,500	10,000
	<u>\$ 25,500</u>	<u>\$ 31,000</u>
Current Liabilities (excluding notes payable due within one year):		
Current maturities and sinking fund on long-term debt (Note 12)	\$ 16,845	\$ 17,404
Accounts payable (includes \$5,431,000 and \$9,433,000, respec- tively due to subsidiaries)	92,510	46,617
Accrued taxes	58,078	64,804
Accrued interest	17,579	22,440
Other	18,864	22,126
	<u>\$ 203,876</u>	<u>\$ 173,391</u>
Deferred Credits:		
Investment tax credit, being amortized over life of the related property	\$ 33,880	\$ 49,307
Other	7,364	8,148
	<u>\$ 41,244</u>	<u>\$ 57,455</u>
Reserves:		
Deferred income taxes (Note 16)	\$ 148,544	\$ 171,887
Other (Note 6)	13,273	13,111
	<u>\$ 161,817</u>	<u>\$ 184,998</u>
Contributions in Aid of Construction	\$ 31,257	\$ 37,203
Construction Commitments (Note 9)		
	<u>\$2,530,592</u>	<u>\$2,783,463</u>

The Notes to Financial Statements are an integral part of this statement.

CONSUMERS POWER COMPANY

STATEMENT OF RETAINED EARNINGS

	Year Ended December 31					Twelve Months Ended November 30, 1973 (Unaudited)
	1968	1969	1970	1971	1972	
	Thousands of Dollars					
Balance Beginning of Period	\$109,632	\$125,503	\$156,483	\$178,995	\$195,599	\$205,310
Add:						
Net income	62,557	66,960	72,832	71,780	78,178	87,673
Equity in undistributed earnings of subsidiaries at December 31, 1972 (Note 1)	—	—	—	—	—	4,359
	<u>\$172,189</u>	<u>\$192,463</u>	<u>\$229,315</u>	<u>\$250,775</u>	<u>\$273,777</u>	<u>\$297,342</u>
Deduct:						
Cash dividends on preferred stock	\$ 3,548	\$ 3,534	\$ 3,517	\$ 7,108	\$ 11,251	\$ 16,902
Cash dividends on common stock declared in the amounts of \$1.90 per share in 1968, \$1.425 per share in 1969 and \$2.00 per share in 1970, 1971, 1972 and the twelve months ended November 30, 1973	43,138	32,446*	46,803	48,068	49,168	52,467
	<u>\$ 46,686</u>	<u>\$ 35,980</u>	<u>\$ 50,320</u>	<u>\$ 55,176</u>	<u>\$ 60,419</u>	<u>\$ 69,369</u>
Balance End of Period (Note 10)	<u>\$125,503</u>	<u>\$156,483</u>	<u>\$178,995</u>	<u>\$195,599</u>	<u>\$213,358</u>	<u>\$227,973</u>

* The quarterly dividend on common stock formerly declared in December was declared in January starting in 1970. Therefore, the dividends declared in 1969 only include three quarterly dividend declarations. Dividend payments have continued to be made in the months of February, May, August and November.

STATEMENT OF CAPITAL IN EXCESS OF PAR VALUE

	Year Ended December 31					Twelve Months Ended November 30, 1973 (Unaudited)
	1968	1969	1970	1971	1972	
	Thousands of Dollars					
Balance Beginning of Period	\$ — *	\$187,654	\$187,756	\$208,905	\$209,038	\$246,788
Add:						
Transfer from capital stock accounts in connection with change from no par value to par value capital stock	184,007	—	—	—	—	—
Excess over par value of common stock sold (Note 5)	—	—	21,012	—	37,620	—
Excess over par value of preferred stock sold	—	—	—	—	—	156
Excess of fair market value over par value of 130,830 shares of common stock issued in connection with acquisition of the minority interest in Michigan Gas Storage Company	3,647	—	—	—	—	—
Net gain on reacquisition of preferred stock	—	102	137	133	130	126
Balance End of Period	<u>\$187,654</u>	<u>\$187,756</u>	<u>\$208,905</u>	<u>\$209,038</u>	<u>\$246,788</u>	<u>\$247,070</u>

* No transactions in this account prior to 1968.

The Notes to Financial Statements are an integral part of these statements.

CONSUMERS POWER COMPANY

NOTES TO FINANCIAL STATEMENTS (Including Notes Related to Unaudited Financial Statements)

1. SIGNIFICANT ACCOUNTING POLICIES

The Company's wholly-owned subsidiaries, Michigan Gas Storage Company and Northern Michigan Exploration Company, have not been consolidated as they are not significant and there is no significant difference between recorded cost and the underlying net book value of the subsidiaries. Effective January 1, 1973, the Company, pursuant to Federal Power Commission Order No. 469, adopted the equity method of accounting for the investment in subsidiaries. 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. Prior years, which include dividends paid by one of the subsidiaries, have not been restated for this change in accounting since the effect was not material; however, retained earnings have been credited with the undistributed earnings of the subsidiaries at December 31, 1972 in the amount of \$4,359,272.

The Company provides depreciation on the basis of straight-line rates approved by the Michigan Public Service Commission (See Note 8).

Operating revenue is recognized at the time of monthly billings on a cycle basis for electric and gas service.

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 7).

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 (See Notes 15 and 16).

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 as ordered by the Michigan Public Service Commission (See Note 15).

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.

Reference is made to Note (f) to the Statement of Income for information regarding the allowance for funds used during construction.

2. FINANCING

Reference is made to "Business—Construction" for information regarding financing.

3. NUCLEAR GENERATING PLANTS

Construction work in progress includes \$68,846,000 at December 31, 1972 and \$97,431,000 at November 30, 1973 related to the Midland Nuclear Plant. The issuance of construction permits by the Atomic Energy Commission (AEC) in December 1972 was upheld by an Appeal Board of the AEC in May 1973 but is subject to judicial review. 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. The Company has responded to the order to show cause by motion to dismiss and an answer noting that the most recent AEC inspection has found the Company to be in compliance with all AEC quality assurance regulations. Also, in December 1973 certain intervenors petitioned the AEC to revoke the construction permits.

In December 1972, the cost of the Palisades Nuclear Plant including fuel (\$176,294,000) was transferred to plant in service. Operations were significantly restricted throughout 1972 by the AEC and, accordingly, the Company capitalized an allowance for funds used during construction (\$5,600,000) and other costs normally charged to operations (\$2,000,000) on a pro rata basis reflecting actual output of the plant during the year. Reference is made to the suspension of operations of the Palisades Plant as set forth in Note (b) to the Statement of Income.

CONSUMERS POWER COMPANY

NOTES TO FINANCIAL STATEMENTS— (Continued) (Including Notes Related to Unaudited Financial Statements)

4. 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 investment in Northern consisted of \$6,000,000 in common stock at December 31, 1972 and \$14,000,000 in common stock and \$5,500,000 in notes at November 30, 1973. 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.

5. COMMON STOCK ISSUE

In October 1972, the Company sold 2,200,000 shares of its common stock at a net price of \$27.10 per share. In connection with this transaction, \$22,000,000, representing the par value of the shares issued, was credited to the common stock account and \$37,620,000 was credited to capital in excess of par value.

6. RATE MATTERS

Reference is made to Note (a) to the Statement of Income for information relating to electric and gas rate matters.

7. 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 \$6,749,000 in 1968, \$7,386,000 in 1969, \$9,195,000 in 1970, \$10,575,000 in 1971, \$13,066,000 in 1972 and \$14,366,000 for the twelve months ended November 30, 1973. Of these amounts, \$5,115,000 in 1968, \$5,722,000 in 1969, \$6,945,000 in 1970, \$8,127,000 in 1971, \$9,817,000 in 1972 and \$10,829,000 for the twelve months ended November 30, 1973 were charged directly to expense accounts with the remainder being charged to various construction, clearing and other accounts.

On April 11, 1972 the Company's shareholders approved certain revisions in the pension plan which substantially increased the Company's contributions. Concurrent with the revisions to the pension plan, the Company changed two of its actuarial assumptions and increased the period of amortization of unfunded prior service costs from approximately 13 years to 25 years. The assumed rate of return was increased from 3¾% to 4½% and the method of reflecting unrealized appreciation was changed from the "appreciation account" method to the "assumed growth rate" method. The change in the actuarial assumptions and increase in the period of amortization of prior service costs had the effect of reducing the impact of the revisions to the plan on net income and earnings per share of common stock for the year 1972 by approximately \$1,140,000 and \$.05, respectively.

The unfunded prior service cost at January 1, 1973, the date of the most recent actuary's report, amounted to approximately \$22,071,000.

8. DEPRECIATION

Composite depreciation rates were approximately 2.85% for electric plant and 3.20% for gas plant for the two years ended December 31, 1969; 2.95% for electric plant and 3.00% for gas plant for the two years ended December 31, 1971; 2.95% for electric plant and 3.01% for gas plant for the year ended December 31, 1972; and 2.90% for electric plant and 3.01% for gas plant for the twelve months ended November 30, 1973. In the opinion of management, the balances in the provision for accrued depreciation at December 31, 1972 and November 30, 1973 are reasonably adequate to cover the requirements for depreciation accrued on the original cost of the depreciable utility plant. At the time properties are retired or otherwise disposed of in the normal course of business, charges are made to the provision for accrued depreciation in

CONSUMERS POWER COMPANY

NOTES TO FINANCIAL STATEMENTS— (Continued) (Including Notes Related to Unaudited Financial Statements)

the amounts of such retirements, less net salvage credits, and no other adjustments of the provision for accrued depreciation are normally made. Depletion rates, established for each producing field based on the total cost of leaseholds divided by the estimated recoverable reserves, are applied to withdrawals from each field to determine the provision for depletion.

9. CONSTRUCTION COMMITMENTS

As of January 3, 1974 capital expenditures for property additions in 1974 are estimated to total approximately \$409,500,000. Total construction expenditures over the five years ending December 31, 1978, are presently estimated to be approximately \$3,000,000,000. Substantial commitments have been made with respect to capital expenditures in future years.

Reference is made to "Business—Construction" for additional information regarding the Company's construction program.

10. LIMITATION ON DIVIDENDS

At December 31, 1972 and November 30, 1973 retained earnings in the amount of \$16,345,000 and \$26,065,035, respectively, (equivalent to \$7.50 per share of Preferred Stock then outstanding) were not available for payment of cash dividends on common stock under provisions of the Articles of Incorporation of the Company. There are also other restrictions as to the payment of dividends on common stock, which, however, are presently less restrictive than the limitation mentioned above.

11. PREFERRED STOCK

Preferred stock is represented by:

	Redemption Price Per Share	December 31, 1972	November 30, 1973 (Unaudited) Thousands of Dollars
\$4.50—547,788 Shares Outstanding	\$110.00	\$ 54,779	\$ 54,779
\$4.52—131,550 Shares Outstanding (less 4,000 shares purchased for retirement in 1973)	104.725	13,155	12,755
\$4.16—100,000 Shares Outstanding	103.25	10,000	10,000
\$7.45—700,000 Shares Outstanding	108.00	70,000	70,000
\$7.72—700,000 Shares Outstanding	108.00	70,000	70,000
\$7.76—750,000 Shares Outstanding	109.19	—	75,000
\$7.68—550,000 Shares Outstanding	108.00	—	55,000
Total preferred stock		<u>\$217,934</u>	<u>\$347,534</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 \$4.52 preferred stock at a price per share not to exceed \$102.725 plus accrued dividends.

CONSUMERS POWER COMPANY

NOTES TO FINANCIAL STATEMENTS— (Continued) (Including Notes Related to Unaudited Financial Statements)

12. LONG-TERM DEBT

Long-term debt is represented by:

	December 31, 1972	November 30, 1973
		(Unaudited)
	Thousands of Dollars	
First Mortgage Bonds secured by a mortgage and lien on substantially all property—		
2½% Series due 1975.....	\$ 86,324	\$ 86,324
8¼% Series due 1976.....	60,000	60,000
2½% Series due 1977.....	24,010	24,010
3½% Series due 1981.....	39,000	39,000
3% Series due 1984.....	24,075	24,075
4% Series due 1986.....	34,245	33,255
3¼% Series due 1987.....	25,000	25,000
4¼% Series due 1987.....	223	210
4½% Series due 1988.....	36,046	34,326
4½% Series due 1989.....	30,577	28,630
3¼% Series due 1990.....	30,000	30,000
4½% Series due 1990.....	31,188	29,572
4½% Series due 1991.....	37,441	31,889
5½% Series due 1996.....	59,000	59,000
6% Series due 1997.....	78,550	78,550
6½% Series due 1998.....	55,000	55,000
6½% Series due 1998.....	55,000	55,000
7½% Series due 1999.....	50,000	50,000
8¼% Series due 1999.....	55,000	55,000
8½% Series due 2000.....	50,000	50,000
8½% Series due 2001.....	60,000	60,000
7½% Series due 2001.....	60,000	60,000
7½% Series due 2002.....	70,000	70,000
7½% Series due 2002.....	50,000	50,000
8½% Series due 2003.....	—	75,000
Total First Mortgage Bonds.....	\$1,100,779	\$1,163,841
Installment Sales Contracts Payable (net of \$2,399,000 held by Trustee).....	—	30,601
Sinking Fund Debentures, 4½%, due 1994.....	38,200	37,600
Other.....	8,511	4,605
Unamortized Net Debt Premium (not material by individual issue).....	1,895	2,170
	<u>\$1,149,385</u>	<u>\$1,238,817</u>
Deduct—		
Current Maturities and Sinking Fund Included in Current Liabilities—		
First Mortgage Bonds.....	\$ 11,938	\$ 12,688
Sinking Fund Debentures.....	600	600
Other.....	4,307	4,116
	<u>\$ 16,845</u>	<u>\$ 17,404</u>
Total Long-Term Debt.....	<u>\$1,132,540</u>	<u>\$1,221,413</u>

CONSUMERS POWER COMPANY

NOTES TO FINANCIAL STATEMENTS—(Continued) (Including Notes Related to Unaudited Financial Statements)

Under the terms of the Indenture securing the First Mortgage Bonds, the Company is required, on or before October 1 of each year, to deposit with the Trustee, cash and/or bonds in an amount equal to 1% of the aggregate principal amount of bonds of all series, other than refunding series, authenticated prior to January 1 of the year of deposit. With respect to all series which have been issued through December 31, 1972 and November 30, 1973, the annual sinking fund requirement is \$11,938,000 and \$12,688,000, respectively. In addition, an annual \$600,000 sinking fund deposit is due on the 4% Sinking Fund Debentures on or before September 1 of each year. The major portion of other long-term debt is due in equal annual installments through 1974.

13. MAINTENANCE

It is the practice of the Company to charge to maintenance the cost of repairs of property and replacements and renewals of items determined to be less than units of property, except for such costs as are charged to transportation expenses, stores expenses or other clearing accounts and redistributed from these accounts, together with other charges, to various operating, construction and other accounts. The latter amounts so charged are not considered significant and are not readily determinable. Costs of replacements and renewals of items considered to be units of property are charged to the utility plant accounts and charges for the units of property replaced are made to the provision for accrued depreciation and removed from utility plant accounts. Property additions are charged to the utility plant accounts.

14. COMPENSATING BALANCES AND NOTES PAYABLE

The Company has agreements with banks providing for short-term borrowings of up to \$92,000,000 which require the Company 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 ledger records after adjustment for uncollected funds.

Average short-term borrowings outstanding during the twelve months ended November 30, 1973 amounted to \$27,603,000, the maximum amount outstanding at any one time during the period was \$82,000,000 and the weighted average interest rate during the period was 7.53%, excluding the effect of compensating balances.

In addition, the Company issued commercial paper from time to time on a short-term basis, generally for periods of less than one month. The maximum amount of commercial paper outstanding at any one time during the twelve months ended November 30, 1973 amounted to \$19,900,000, the average amount outstanding during the period was \$3,258,000, and the weighted average interest rate during the year was 7.63%.

CONSUMERS POWER COMPANY

NOTES TO FINANCIAL STATEMENTS— (Continued) (Including Notes Related to Unaudited Financial Statements)

15. INCOME TAX EXPENSE

Income tax expense is made up of the following components:

	Year Ended December 31					Twelve Months Ended November 30, 1973 (Unaudited)
	1968	1969	1970	1971	1972	
	Thousands of Dollars					
Charged to utility operations—						
Federal income taxes.....	\$49,260	\$41,023	\$38,824	\$14,469	\$11,371	\$ 8,839
State income taxes	4,859	4,071	4,787	3,065	3,216	3,981
Deferred federal income taxes, net.....	8,827	9,753	8,936	12,337	15,929	20,929
Deferred state income taxes, net.....	1,074	1,209	1,286	1,963	3,043	3,894
Charge equivalent to investment tax credit, net.....	3,396	3,416	448	5,751	5,960	14,894
Total—see Statement of Income.....	\$67,416	\$59,472	\$54,281	\$37,585	\$39,519	\$52,537
Charged to nonutility operations.....	598	677	767	536	253	659
Total income tax expense	<u>\$68,014</u>	<u>\$60,149</u>	<u>\$55,048</u>	<u>\$38,121</u>	<u>\$39,772</u>	<u>\$53,196</u>

The Company's effective income tax rate was less than the U.S. Federal income tax statutory rate for the five years ended December 31, 1972 and the twelve months ended November 30, 1973. The reasons for this difference follow:

Federal income tax statutory rate.....	52.8%	52.8%	49.2%	48.0%	48.0%	48.0%
Increase (reduction) in income tax rate resulting from:						
Certain capitalized construction costs, principally interest, deducted currently for income tax purposes for which no deferred taxes are provided in accordance with the requirements of the MPSC.....	(3.7)	(5.4)	(7.8)	(12.8)	(14.0)	(11.5)
State income taxes, net of Federal income tax benefit	2.2	2.0	2.4	2.4	2.8	2.9
Amortization of deferred investment tax credit	(.4)	(.5)	(.6)	(.7)	(.8)	(1.0)
Other miscellaneous items.....	1.2	(1.6)	(.2)	(2.2)	(2.3)	(.6)
Effective income tax rate.....	<u>52.1%</u>	<u>47.3%</u>	<u>43.0%</u>	<u>34.7%</u>	<u>33.7%</u>	<u>37.8%</u>

16. DEFERRED INCOME TAXES

The Company has elected to compute depreciation allowances for income tax purposes on the basis of the accelerated methods permitted by Sections 167 and 168 of the Internal Revenue Code of 1954. The Michigan Public Service Commission has prescribed that, during the period when the annual allowances for tax depreciation are more than the normal tax depreciation, the income tax deferred is to be charged to income with a concurrent credit to a reserve for deferred income taxes. During the period when the annual allowances for tax depreciation are less than the normal tax depreciation, amounts previously deferred are charged to the reserve and credited to income. The provisions for deferred income taxes in 1971, 1972 and for the twelve months ended November 30, 1973 reflect the effect of shortened depreciation lives under a

CONSUMERS POWER COMPANY

NOTES TO FINANCIAL STATEMENTS—(Concluded) (Including Notes Related to Unaudited Financial Statements)

"class life depreciation system" in accordance with liberalized depreciation guide lines under the Revenue Act of 1971. Following is a summary of the provision for deferred income taxes:

	Year Ended December 31					Twelve Months Ended November 30, 1973
	1968	1969	1970	1971	1972	(Unaudited)
	Thousands of Dollars					
Accelerated depreciation—						
Amount deferred during year	\$10,766	\$11,938	\$11,599	\$15,595	\$20,467	\$26,175
Less—Taxes deferred in prior years credited to income	(36)	(302)	(540)	(458)	(658)	(515)
	<u>\$10,730</u>	<u>\$11,636</u>	<u>\$11,059</u>	<u>\$15,137</u>	<u>\$19,809</u>	<u>\$25,660</u>
Accelerated amortization of emergency facilities—						
Taxes deferred in prior years credited to income	(829)	(674)	(837)	(837)	(837)	(837)
Total	<u>\$ 9,901</u>	<u>\$10,962</u>	<u>\$10,222</u>	<u>\$14,300</u>	<u>\$18,972</u>	<u>\$24,823</u>

17. SUPPLEMENTARY INCOME INFORMATION

Maintenance:

The amounts of maintenance, other than those set forth in the Statement of Income, that have been charged to clearing accounts and redistributed are not significant.

Depreciation, depletion and amortization:

In addition to the amounts set forth in the Statement of Income, depreciation of transportation and other equipment was charged to clearing accounts in the following amounts: \$2,059,000 in 1968, \$2,241,000 in 1969, \$2,851,000 in 1970, \$2,715,000 in 1971, \$3,278,000 in 1972 and \$3,388,000 for the twelve months ended November 30, 1973. Also, depreciation, depletion and amortization was charged to accounts, other than depreciation and amortization, in the Statement of Income in the following amounts: \$2,401,000 in 1968, \$2,959,000 in 1969, \$3,311,000 in 1970, \$3,688,000 in 1971, \$8,194,000 in 1972 and \$12,162,000 for the twelve months ended November 30, 1973.

Taxes, other than income taxes, including those charged to clearing and other accounts follow:

	Year Ended December 31					Twelve Months Ended November 30, 1973
	1968	1969	1970	1971	1972	(Unaudited)
	Thousands of Dollars					
Real and personal property taxes	\$27,677	\$31,548	\$34,773	\$38,703	\$42,548	\$46,427
Payroll taxes	3,637	4,059	4,433	5,182	6,052	7,730
Michigan State franchise fee	2,030	3,277	2,469	3,515	3,942	4,613
Other taxes	497	630	724	618	631	585
	<u>\$33,841</u>	<u>\$39,514</u>	<u>\$42,399</u>	<u>\$48,018</u>	<u>\$53,173</u>	<u>\$59,355</u>
Charged to:						
General taxes—see Statement of Income	\$31,768	\$37,058	\$39,062	\$43,873	\$48,204	\$53,780
Utility plant	956	1,318	2,011	2,788	3,265	3,211
Other income	405	388	434	366	483	366
Clearing and other accounts	712	750	892	991	1,221	1,998
	<u>\$33,841</u>	<u>\$39,514</u>	<u>\$42,399</u>	<u>\$48,018</u>	<u>\$53,173</u>	<u>\$59,355</u>

PRELIMINARY PROSPECTUS

Issued May 3, 1974

1,500,000 Shares

Consumers Power Company

COMMON STOCK

(\$10 par value)

The Company's Common Stock is listed on the New York, Detroit and Midwest Stock Exchanges.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Price to Public—The public offering price of the shares offered hereby will be a fixed price determined by agreement between Morgan Stanley & Co. Incorporated and the Company. Such public offering price will not be higher than the last reported sale (regular way) or the last reported asked price of the Common Stock of the Company on the New York Stock Exchange immediately prior to such determination, whichever is higher, plus \$.50. The last reported sale on April 24, 1974 on the New York Stock Exchange was at a price of \$19¾.

Underwriting Discounts and Commissions—The underwriting discounts and commissions will be an amount per share determined by agreement between Morgan Stanley & Co. Incorporated and the Company, not in excess of % of the public offering price. The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

Proceeds to Company—The purchase price per share to be paid by the several Underwriters to the Company will be an amount equal to the public offering price less the underwriting discounts and commissions.

These shares are offered, subject to prior sale, when, as and if accepted by the Underwriters named herein, and subject to approval of certain legal matters by Simpson Thacher & Bartlett, counsel for the Underwriters, and certain other conditions. It is expected that delivery of the certificates for the shares will be made on or about May 16, 1974, at the office of Morgan Stanley & Co. Incorporated, 140 Broadway, New York, N. Y., against payment therefor in New York funds.

MORGAN STANLEY & CO.

Incorporated

May , 1974

A registration statement relating to these securities has been filed with the Securities and Exchange Commission. It has not yet become effective. Information contained herein is subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

Consumers Power Company (the "Company") is subject to the informational requirements of the Securities Exchange Act of 1934 and, in accordance therewith, files reports and other information with the Securities and Exchange Commission. Information, as of particular dates, concerning directors and officers, their remuneration, the principal holders of securities of the Company and any material interest of such persons in transactions with the Company, as of particular dates, is disclosed in proxy statements distributed to shareholders of the Company and filed with the Commission. Such reports, proxy statements and other information can be inspected at the office of the Commission at Room 6101, 1100 L Street, N. W., Washington, D. C., where copies can be obtained from the Commission at prescribed rates. In addition, reports, proxy statements and other information concerning the Company can be inspected at the offices of the New York Stock Exchange, the Detroit Stock Exchange and the Midwest Stock Exchange. The Company's executive offices are located at 212 West Michigan Avenue, Jackson, Michigan 49201 (telephone number: 517-788-1030).

No person is authorized to give any information or to make any representations other than those contained in this Prospectus in connection with the offer contained in this Prospectus and, if given or made, any such information or representation must not be relied upon as having been authorized by the Company or any Underwriter. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof. Unless otherwise noted, statistics herein are as of December 31, 1973.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALL LOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK, DETROIT OR MIDWEST STOCK EXCHANGES OR IN THE OVER-THE-COUNTER MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE COMPANY

Consumers Power Company was incorporated in Michigan in 1968 and is the successor to a corporation of the same name which was organized in Maine in 1910 and which did business in Michigan from 1915 to 1968.

The Company is a public utility engaged in the generation, purchase, distribution and sale of electricity, and in the purchase, production, storage, distribution and sale of natural gas, in the Lower Peninsula of the State of Michigan. The Company also supplies steam service in one community. The population of the territory served is estimated to exceed 5,200,000. The Company's utility operating revenues were derived about 59% from electric service and 41% from gas service for the year ended December 31, 1973.

The industries in the territory served by the Company include automobile and automobile equipment, primary metals, chemicals, fabricated metal products, pharmaceuticals, machinery, oil refining, paper and paper products, food products and a diversified list of other industries.

DIVIDENDS AND PRICE RANGE OF COMMON STOCK

The Company or its predecessor company has paid cash dividends on its Common Stock in each year since 1913. Quarterly cash dividends on Common Stock were paid at the rate of 47½¢ per share from February 1966 through 1969 and have been paid at the rate of 50¢ per share since February 1970. The dividends have been paid on or about the 20th of February, May, August and November to holders of record approximately 30 days prior thereto. The dividend payable May 20, 1974 will not be payable on the Common Stock offered hereby. Future dividends will depend upon the Company's earnings, capital requirements, financial condition and other factors. Reference is made to "Statement of Income" including the related notes and comments regarding earnings and operations and to "Description of Common Stock" regarding limitations upon payment of dividends on Common Stock.

The following table indicates the high and low sale prices of the Common Stock of the Company on the New York Stock Exchange during the periods indicated as reported by *The Commercial and Financial Chronicle*.

<u>Year</u>	<u>High</u>	<u>Low</u>	<u>Year</u>	<u>High</u>	<u>Low</u>
1969.....	45	31½	1973 First Quarter	30¾	28
1970.....	39	27¾	Second Quarter	28¾	26¾
1971.....	37¾	28¾	Third Quarter	28½	25
1972.....	33	26¾	Fourth Quarter	27¼	21
1973.....	30¾	21	1974 First Quarter	24¾	22¾
1974 (through April 24).	24¾	19½	Second Quarter	23	19½
			(through April 24)		

The reported closing price of the Common Stock on the New York Stock Exchange on April 24, 1974 was \$19¾.

USE OF PROCEEDS

The net proceeds from this sale of Common Stock will be used to finance in part the Company's construction program and to repay short-term borrowings made and to be made in connection with interim financing of the construction program. It is estimated that just prior to this sale of Common Stock, short-term borrowings will aggregate approximately \$70,000,000.

The Company estimates that its construction program for the years 1974 through 1978 will require expenditures of approximately \$3 billion. In order to finance this program and to meet First Mortgage Bond maturities of \$170,334,000 during this period, it will be necessary for the Company to sell substantial additional securities, the amounts and types of which have not been determined, except that the Company proposes to issue not more than \$100,000,000 of First Mortgage Bonds in the summer of 1974. The sale of certain securities may be restricted as set forth under "Statement of Income".

CONSTRUCTION EXPENDITURES

As of February 20, 1974 the Company has made or proposed to make capital expenditures for property additions in 1974 in an estimated amount of \$410,602,700. The 1974 program as projected includes \$225,141,000 of expenditures towards the construction of five major projects as follows:

<u>Project and Location</u>	<u>Features</u>	<u>Estimated Year of Operation</u>	<u>Estimated Total Cost to Company (a)</u>
Palisades Plant (Van Buren County, Michigan)	Nuclear fueled with initial full capacity of about 700,000 kilowatts and ultimate capacity of about 773,000 kilowatts	(b)	\$ 188,600,000
Midland Plant (Near Midland, Michigan)	Two nuclear fueled units with aggregate capacity of about 1,300,000 kilowatts and 4,000,000 pounds per hour of process steam (b)(c)	First unit in 1979, second unit in 1980	\$ 940,000,000
D. E. Karn Plant, Units 3 and 4 (Near Essexville, Michigan)	Two oil fired units at existing plant to add approximately 1,307,000 kilowatts of capacity (d)	Unit 3 in 1974, Unit 4 in 1975	\$ 234,000,000
Quanicassee Plant, Units 1 and 2 (Near Bay City, Michigan)	Two nuclear fueled units with aggregate capacity of about 2,300,000 kilowatts	Unit 1 in 1982, Unit 2 in 1984	\$1,400,000,000
J. H. Campbell Plant, Unit 3 (Ottawa County, Michigan)	Coal fired unit at existing plant to add about 800,000 kilowatts of capacity	1978	\$ 270,000,000

(a) Expenditures have been made or are scheduled to be made as follows:

	<u>Prior to 1974</u>	<u>1974</u>	<u>After 1974</u>
Palisades Plant.....	\$180,048,000	\$ 8,141,000	\$ 411,000
Midland Plant.....	\$104,073,000	\$101,000,000	\$ 734,927,000
D. E. Karn Plant.....	\$ 92,578,000	\$ 88,000,000	\$ 53,422,000
Quanicassee Plant.....	\$ 7,120,000	\$ 14,000,000	\$1,378,880,000
J. H. Campbell Plant.....	\$ 882,000	\$ 14,000,000	\$ 255,118,000

(b) Reference is made to "Atomic Energy Commission" under "Regulation".

The Company's Palisades Plant (which began operation in 1971 and reached a capacity of 700,000 kilowatts in April 1973) was shut down in August 1973 for repairs to certain reactor vessel internal components and the steam generators of the plant. Repairs have been completed and the plant is expected to be returned to service in May 1974.

(c) The steam will be furnished to The Dow Chemical Company for industrial processes.

(d) In connection with the construction of the two oil fired units and the conversion of other units to burn oil, the Company has a purchase agreement with a Canadian supplier to import oil from Canada. See "Business—Electric Fuel Supply".

The 1974 construction program includes \$185,461,700 for other facilities, including other electric production facilities, power supply projects, electric transmission and distribution facilities, gas supply lines, gas production, transmission and distribution facilities, steam additions and general and miscellaneous additions. Of this amount, it is estimated \$132,613,800 will be expended for electric additions, \$40,614,000 for gas additions and \$12,233,900 for general, miscellaneous and steam additions.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of December 31, 1973 (excluding current portions of long-term debt) and as adjusted to reflect the execution of \$34,700,000 principal amount of Installment Sales Contracts with the City of Marysville and the Charter Township of Hampton, Michigan, in February 1974, the balance of the \$39,000,000 principal amount of Installment Sales Contracts with Covert Township and the City of Luna Pier, Michigan executed in August 1973, the authorization of an additional 1,500,000 shares of Preferred Stock and the creation of 5,000,000 shares of Preference Stock at the April 9, 1974 shareholders meeting, and to reflect the Common Stock offered hereby.

<u>Title of Class</u>	<u>Outstanding December 31, 1973</u>	<u>As Adjusted</u>	<u>% of Capitalization As Adjusted</u>
	<u>Thousands of Dollars</u>		
Long-term debt(1)			
First mortgage bonds.....	\$1,151,153	\$1,151,153	
Installment sales contracts payable.....	31,744	73,700	
4% Sinking fund debentures due 1994.....	37,000	37,000	
Other long-term debt.....	289	289	
Unamortized net debt premium.....	2,154	2,154	
Total long-term debt.....	<u>\$1,222,340</u>	<u>\$1,264,296</u>	%
Preferred stock, cumulative, \$100 par value, authorized 3,500,000 shares at December 31, 1973 and 5,000,000 shares as adjusted(1), outstanding 3,475,338 shares	<u>\$ 347,534</u>	<u>\$ 347,534</u>	
Preference stock, cumulative, \$1 par value, authorized 5,000,000 shares as adjusted, outstanding none(1).....	<u>\$ —</u>	<u>\$ —</u>	
Common stockholders' equity			
Common stock, \$10 par value, authorized 32,500,000 shares, outstanding 26,233,838 shares at December 31, 1973 and 27,733,838 shares as adjusted	\$ 262,338	\$ 277,338	
Capital in excess of par value.....	247,070		
Retained earnings(1).....	228,397	228,397	
Less—Capital stock expense	(6,975)	(7,115)(2)	
Total common stockholders' equity.....	<u>\$ 730,830</u>	<u>\$</u>	
Total capitalization(3)	<u><u>\$2,300,704</u></u>	<u><u>\$</u></u>	<u>100%</u>

(1) Reference is made to Notes to Financial Statements.

(2) This amount gives effect to estimated expenses payable by the Company.

(3) The Company has been authorized by the Federal Power Commission to incur short-term borrowings of up to \$300,000,000. The Company has agreements with banks providing for short-term borrowings of up to \$92,000,000. As of December 31, 1973 short-term borrowings amounted to \$44,800,000 and the current sinking fund requirements on long-term debt amounted to \$13,288,000. See "Use of Proceeds."

CONSUMERS POWER COMPANY

STATEMENT OF INCOME

The following Statement of Income of Consumers Power Company for the five years ended December 31, 1973 has been examined by Arthur Andersen & Co., independent public accountants, as set forth in their report elsewhere in this Prospectus. This statement should be read in conjunction with the Financial Statements and related notes appearing elsewhere in this Prospectus.

	Year Ended December 31				
	1969	1970	1971	1972	1973
	Thousands of Dollars				
Operating Revenue: (a)					
Electric	\$308,000	\$334,904	\$364,230	\$416,994	\$495,723
Gas	240,536	273,874	286,091	332,085	337,906
Steam	1,239	1,212	1,296	1,374	1,325
Total operating revenue	\$549,775	\$609,990	\$651,617	\$750,453	\$834,954
Operating Expenses and Taxes:					
Operation (b)(c)(d)	\$280,384	\$324,789	\$378,987	\$444,489	\$493,755
Maintenance	26,121	32,818	31,512	41,187	44,263
Depreciation and amortization	51,881	55,608	58,210	62,937	73,428
General taxes	37,058	39,062	43,873	48,204	54,160
Income taxes (e)	59,472	54,281	37,585	39,519	44,633
Total operating expenses and taxes	\$454,916	\$506,558	\$550,167	\$636,336	\$710,239
Net operating income	\$ 94,859	\$103,432	\$101,450	\$114,117	\$124,715
Other Income:					
Allowance for funds used during construction (f)	\$ 8,421	\$ 14,108	\$ 21,862	\$ 25,455	\$ 23,223
Income of Subsidiaries	1,350	1,650	1,897	1,920	3,341
Gain on reacquisition of long-term debt	769	1,074	1,260	1,418	1,609
Other, net	282	530	889	526	1,990
Net other income	\$ 10,822	\$ 17,362	\$ 25,908	\$ 29,319	\$ 30,163
Interest Charges:					
Interest on long-term debt	\$ 35,867	\$ 44,774	\$ 53,829	\$ 63,754	\$ 71,322
Other interest charges	2,854	3,188	1,749	1,504	2,663
Total interest charges	\$ 38,721	\$ 47,962	\$ 55,578	\$ 65,258	\$ 73,985
Net Income	\$ 66,960	\$ 72,832	\$ 71,780	\$ 78,178	\$ 80,893
Dividends on Preferred Stock	3,534	3,517	7,108	11,251	17,746
Net Income After Dividends on Preferred Stock	\$ 63,426	\$ 69,315	\$ 64,672	\$ 66,927	\$ 63,147
Earnings Per Share of Common Stock (g)	\$ 2.79	\$ 2.95	\$ 2.69	\$ 2.72	\$ 2.41
Cash Dividends Declared Per Share of Common Stock (h)	\$ 1.425	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00

NOTES:

(a) On January 18, 1974, the Michigan Public Service Commission ("MPSC") authorized increases in the Company's electric and gas rates of \$31,000,000 and \$46,600,000, respectively, on an annual basis. The rate increases included interim increases aggregating \$50,000,000 divided equally between electric and gas rates which were placed in effect November 10, 1973. Of the authorized gas rate increase, approximately \$14,571,000 became effective on April 20, 1974 after the second unit of the Marysville Gas Reforming Plant became fully and commercially operable. In response to requests by the Michigan Attorney General and others for a rehearing on the authorized rate increases, the MPSC on March 27, 1974, reaffirmed the rate increases granted on January 18, 1974. In addition, the MPSC noted that the authorized rate schedules were based on capital expenditures relating to the Marysville Gas Reforming Plant in the amount of \$119,700,000, which amount represented estimated costs at the time of the Company's rate application, and that consideration for rate purposes of subsequent additional costs estimated to aggregate \$35,300,000 is to be delayed pending completion of a performance audit with respect to the Marysville Gas Reforming Plant conducted under the auspices of the Commission's Staff.

In April 1974 the Company submitted an application to the MPSC to increase its electric rates by not less than \$72,159,000 annually and at the same time requested partial and interim relief in the amount of \$54,659,000 annually. It is not expected that the MPSC will act upon the application or the request for partial and interim relief until later in 1974 following hearings and other investigation of the requests.

Litigation is pending in the Ingham County Circuit Court 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 1970, the Court issued a temporary injunction permitting the Company to collect the rates without adjustment for the subsequent reduction and elimination of the income tax surcharge, subject to possible refund, with interest, of a portion of the amounts collected. As a result of further authorizations by the MPSC in December 1971 to increase electric and gas rates effective December 14 and December 23, 1971, respectively, the Company believes that there are no refund obligations with respect to service rendered subsequent to these dates. On March 29, 1974, the Court ruled in favor of the MPSC with respect to the income tax surcharge issue and ordered the Company to refund \$24,542,632 to its electric and gas customers. The Company has established a reserve stated net of related income taxes in the amount of \$11,867,818, and believes that the amount of such reserve is adequate to cover the refund obligation, exclusive of interest charges which are presently not capable of determination. The Company is preparing to seek judicial review of the Court order of March 29, 1974, including a request for a stay of the refund pending further judicial action. 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, for which no reserve has been provided.

(b) Throughout 1972 operations of the Palisades Nuclear Plant were significantly restricted by the Atomic Energy Commission ("AEC") and, accordingly, the Company capitalized an allowance for funds used during construction (\$5,600,000) and other costs normally charged to operations (\$2,000,000) on a pro rata basis reflecting actual output of the plant during the year. In December 1972, the cost of the plant including fuel (\$176,294,000) was transferred to plant in service.

In August 1973, the operations of the plant were suspended as set forth in Note (b) under "Construction Expenditures." The net cost of replacement power, through December 31, 1973, amounting to \$7,221,000 net of related income taxes (\$.27 per share of common stock), has been charged to income in 1973. The plant is expected to be returned to service in May 1974.

(c) The Company receives a portion of its gas supply from its wholly-owned subsidiaries and, accordingly, operation expense includes approximately, \$37,170,000 in 1969, \$39,465,000 in 1970, \$40,770,000 in 1971, \$47,953,000 in 1972 and \$49,213,000 in 1973, relating to the cost of gas purchased from these subsidiaries.

(d) Reference is made to Note 6 to Financial Statements for information relating to the Company's pension plan.

(e) Reference is made to Notes 14 and 15 to Financial Statements for information relating to income taxes.

(f) The allowance for funds used during construction, included in other income, is defined in the applicable regulatory systems of accounts as the net cost, during the period of construction, of borrowed funds used for construction and a reasonable rate on other funds when so used. 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.

The composite rate used by the Company to capitalize the cost of funds devoted to construction was 6.8%, 7.6%, 8.0%, 7.5% and 7.5% in the years 1969 through 1973, respectively. The amount capitalized has increased since 1969 principally as a result of substantial increases in construction work in progress and in the costs of capital.

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 of the periods, the estimated common equity component of the allowance for funds used during construction amounted to

5.3%, 7.9%, 10.9%, 12.0% and 9.6% of net income available for common stock for the years 1969 through 1973, respectively.

(g) Earnings per share of common stock are computed based on the average number of shares outstanding during the periods shown as follows: 22,768,900 shares in 1969, 23,506,780 shares in 1970, 24,033,838 shares in 1971, 24,583,838 shares in 1972 and 26,233,838 shares in 1973.

(h) The quarterly dividend on common stock formerly declared in December was declared in January starting in 1970. Therefore, the dividends declared in 1969 only include three quarterly dividend declarations. Dividend payments have continued to be made in the months of February, May, August and November.

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. 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 these formulae, the pro forma coverages for the year ended December 31, 1973 would be, respectively, not less than 2.39 times as compared with the requirement of at least two times and not less than 1.44 times as compared with the requirement of at least one and one-half times. The amounts of additional First Mortgage Bonds and Preferred Stock which can be issued in future years will be contingent upon increases in earnings through rate increases or otherwise.

The decreases in net income and earnings per share of Common Stock in 1971 are principally the result of inadequate levels of electric and gas rates in relation to continuing increases in operating costs (principally purchased power, fuel and gas) and interest costs and increased dividends due to the issuance of additional Preferred Stock and to a larger average number of shares of Common Stock outstanding. The decrease in earnings per share of Common Stock in 1973 is principally the result of cost of replacement power during the Palisades Nuclear Plant shutdown, continuing inflation, increased dividends due to the issuance of additional Preferred Stock and a larger number of shares of Common Stock outstanding.

Total operating revenue, net income and earnings per share of Common Stock for the twelve months ended March 31, 1974 and for the three months ended March 31, 1974 and 1973 are set forth below:

	12 Months Ended March 31	3 Months Ended March 31	
	1974	1974	1973
Total Operating Revenue	\$872,261,235	\$289,735,773	\$252,428,224
Net Income	73,582,970	24,103,467	31,413,484
Earnings per share of Common Stock.....	2.03	.69	1.06

These amounts are unaudited but in the opinion of the Company include all adjustments (which include only normal recurring adjustments) necessary to a fair statement of such amounts.

The pro forma application of the net proceeds from the sale of Common Stock to the payment of short-term borrowings made in connection with interim financing of the Company's construction program would not have had a significant effect on earnings per share of Common Stock for the year ended December 31, 1973 or the 12 months ended March 31, 1974.

The decreases in net income and earnings per share of Common Stock for the twelve months ended March 31, 1974 from the twelve months ended December 31, 1973 and the three months ended March 31, 1974 from the three months ended March 31, 1973 are principally the result of continued cost of replacement power during the Palisades Nuclear Plant shutdown, continuing inflation and a flattening demand for electricity and gas. For the three months ended March 31, 1974, the net cost of replacement power because of the Palisades outage amounted to approximately \$5,986,000 net of related income taxes (\$.23 per share of Common Stock). In the first three months of 1974, compared with the same three months in 1973, sales of electricity and gas declined slightly in volume. The Company believes that the

most significant factors accounting for the decline in electric energy sales were energy conservation measures and reduced business activity, particularly in the automobile and automobile equipment industries. With respect to gas sales, the Company believes that the decline was due in large part to warmer than normal weather and the curtailment of sales to seasonal customers as well as conservation measures and reduced business activity.

The foregoing adverse factors are continuing and if not offset by proportionate increases in operating revenues, including periodic rate relief, or otherwise, will continue to adversely affect earnings.

BUSINESS

Electric Service

The Company renders electric service in an area of approximately 27,800 square miles, having a population of approximately 3,300,000. Principal cities served are Battle Creek, Bay City, Flint, Grand Rapids, Jackson, Kalamazoo, Muskegon, Pontiac and Saginaw.

The Company owns and operates electric generating plants with aggregate capacity of 5,363,100(a) kilowatts and, as shown under "Construction Expenditures" above, is constructing additional plants which will add substantially to the Company's generating capacity. The capacity of the present and proposed generating plants as of December 31, 1973 was as follows:

	Kilowatts	
	Present Plants	Plants Proposed or Under Construction
Fossil fuel steam-electric plants (6 at present, 3 units under construction)		
Coal	2,400,000	800,000
Oil	542,000	1,307,000
Nuclear steam-electric plants (2 at present, 2 under construction)	771,000(a)	3,600,000
Pumped storage plant(1)	994,500(b)	—
Hydroelectric plants(13)	133,600	—
Gas turbine plants(7)	522,000	—
Total.....	<u>5,363,100(a)</u>	<u>5,707,000</u>

(a) This includes 700,000 kilowatts for the Palisades Nuclear Plant. See "Atomic Energy Commission" under "Regulation" and Note (b) under "Construction Expenditures" above.

(b) This represents the Company's share of the capacity of the Ludington Pumped Storage Plant. The Company and The Detroit Edison Company have 51% and 49% undivided ownership, respectively, in the plant and the capacity of the plant is shared accordingly. Agreements are in effect providing for the purchase by Commonwealth Edison Company of one-third of the capacity from the plant until early August 1983 and one-sixth of the capacity from the plant thereafter until early August 1988.

The Company's electric generating plants are interconnected by a transmission system operating at from 138,000 to 345,000 volts.

The Company has an electric coordination agreement with The Detroit Edison Company providing for coordination of planning, design, construction and operation of the electric systems of the parties, the rendering of mutual assistance during emergencies and the effecting of the maximum practical economy in providing the electric power requirements of each system. There are four 138,000 volt and four 345,000 volt interconnections between the systems. These interconnections permit a sharing of the reserve capacity of the two systems and a substantial reduction in investment in plant facilities for each company. The Company and The Detroit Edison Company have filed a joint petition with the MPSC for approval of certain emergency procedures to be invoked, if necessary, in the event of anticipated or predictable energy shortages in the electric service areas of the two companies. In January 1974 the MPSC authorized on an interim basis emergency electrical procedures to be followed by the two companies and a proceeding is currently pending before the MPSC to determine whether the procedures should be permanently adopted.

The Company has an agreement with The Detroit Edison Company and Ontario Hydro for interconnections linking the power systems of the Company and Detroit Edison with the power system of Ontario Hydro and also providing for mutual assistance during emergencies, improved reliability of bulk power supply and the effecting of economies by coordinated development and exchange of power. Two 230,000 volt and one 345,000 volt interconnections have been established under the agreement.

The Company has agreements with several other major electric utilities operating in Michigan, Ohio, Indiana and Illinois providing for interconnection services and other transactions. The Company also maintains interconnections with the Michigan Municipals and Cooperatives Power Pool, the Cities of Lansing and Holland and interchanges power with the Edison Sault Electric Company.

The maximum net demonstrated capability for the summer of 1974 of the Company's interconnected system including supplemental purchases is 5,323,000 kilowatts to serve a projected maximum demand of 4,330,000 kilowatts. The net maximum demand on the interconnected system through December 31, 1973 was 4,394,295 kilowatts on August 27, 1973.

Electric Fuel Supply

In addition to substantial and continuing increases in fuel costs, the Company is also experiencing limitations and restrictions on the availability of fuel.

For the year 1973 approximately 57% of the Company's kilowatt-hour requirements were obtained from coal-fired generation, 11% from nuclear, 5% from oil, 3% from peaking units (oil and gas), 1% from hydro (including net pumped storage generation) and 23% from purchased and interchanged power.

Approximately 55% of the Company's owned generating capability (excluding pumped storage) is dependent upon coal as a source of fuel which requires approximately 6.5 million tons of coal annually. The Company has long-term coal contracts which provide for the delivery of approximately 90% of its coal requirements in 1974. These long-term contracts have expiration dates from 1976 through 1982. The Company is presently negotiating new contracts to replace those expiring in 1976. The sulfur content of the contract coal ranges from 0.6% to 4.0% by weight, the majority of which falls between 2.0% and 3.0% sulfur. Approximately 900,000 tons of low-sulfur coal per year is under long-term contract from mines located in eastern Kentucky. 3.7 million tons annually of high sulfur coal under long-term contracts is from mines located in Ohio. The remaining long-term contract coal supplies are from mines in northern West Virginia, Indiana and western Kentucky. Due to shortages of railroad cars, enforcement of the Federal 1969 Mine Health and Safety Act in mines serving the Company, equipment breakdowns at mines and breakdowns of coal-handling facilities at the Company's plants, as much as 10% of the long-term contract coal may not be available in 1974. The balance of the Company's coal requirements not under long-term contract and that quantity of coal under long-term contracts which cannot be delivered must be supplied through short-term agreements or spot purchases at prices substantially higher than coal obtained under long-term contracts. At present the price for such spot purchases of coal with less than 1% sulfur ranges from \$25 to \$35 per ton as compared to long-term contract prices of from \$13 to \$18 per ton.

The Company has been notified by one supplier that it will terminate its long-term contract for 400,000 annual tons of coal, amounting to 6% of the Company's 1974 coal requirements on May 29, 1974. While the Company believes such action is not supported by nor in accordance with terms of the contract, the underlying situation is typical of several where there are not escalation clauses which have kept pace with coal mining cost increases. The Company believes such contracts, where required, can be modified and that coal supplied from such sources will be substantially below present open market prices for coal of comparable quality.

As of April 1, 1974 the Company's coal inventory amounted to approximately 72 days' supply. The Company is undertaking a program to maintain or improve coal inventories to a level equal to or above normal seasonal levels because of the expiration in November 1974 of the labor agreement between the United Mine Workers and the mine owners. Future changes in governmental requirements pertaining to the coal industry could adversely affect cost and availability of coal supplies. See "Regulation—Compliance with Environmental Requirements" for matters pertaining to meeting EPA regulations on coal-fired generating units.

The Company is negotiating for supplies of low-sulfur coal from two or more new mines which are to become operational from 1976 to 1978. These new sources are intended to supply low-sulfur coal to the

new unit at the J. H. Campbell Plant currently under construction (see "Construction Expenditures"), to supplement existing long-term contracts and to possibly replace the existing fuel supplies at one or more existing generating units. Although there is no assurance that the Company will complete such negotiations, the Company believes that any successful completion of current negotiations for new coal supplies will require the Company's participation in partial or total ownership of the coal mines.

In connection with generating units which burn crude oil and the construction of new oil-burning generating units, the Company expects to import approximately 2,700,000 barrels in 1974, increasing to an annual rate of approximately 11,000,000 barrels beginning in November 1975. As a result of taxes and other increases in cost, imported low-sulfur crude oil from Canada has increased to \$11.15 per barrel in April 1974 as compared to less than \$4.00 per barrel a year earlier. The Company expects to recover substantially all of such additional expense through the operation of fuel adjustment clauses included in its rate schedules for electric service. For additional information see "Gas Service" below.

The Federal Energy Office (FEO) has adopted mandatory fuel allocation regulations, under which volumes of middle distillates, residual and crude oils are to be allocated. The Company is to be allocated 100% of its 1972 volume of middle distillate oil, or as otherwise determined by the FEO, but not less than 100% of current requirements for nuclear plants, start-up, testing, and flame stability of coal-fired plants (except for peaking uses). Crude and residual oils used as fuel for electric generation are to be allocated among utilities using such fuel on the basis of the amount available and the recommendations of the Federal Power Commission (FPC) so that, if necessary, each utility "within appropriate groupings" will absorb an equal percentage cutback of power generation to the extent possible. While the Company is not assured of receiving its required allocations, and the failure to receive the same could have an adverse effect upon its supplies of oil and the Company's generation, to date such supplies have been adequate to meet the Company's requirements.

The Company's overall average cost of fuel burned has increased substantially, as shown below, and further increases are expected for the foreseeable future.

	Cents per Million Btu Fuel Consumed					Percentage of Total Fuel Consumed				
	1973	1972	1971	1970	1969	1973	1972	1971	1970	1969
	¢	¢	¢	¢	¢	%	%	%	%	%
Coal.....	48.9	44.0	42.9	36.6	31.2	70.1	75.5	85.0	86.2	92.9
Oil.....	85.4	77.8	79.9	84.1	82.7	9.7	5.0	2.7	.3	.2
Gas.....	66.4	54.8	45.4	43.0	41.1	5.3	7.7	10.1	11.3	4.4
Nuclear.....	24.1	24.3	27.8	36.0	33.9	14.9	11.8	2.2	2.2	2.5
All Fuels.....	<u>49.6</u>	<u>44.2</u>	<u>43.8</u>	<u>37.4</u>	<u>31.8</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

The Company's present nuclear fuel requirements are for the Big Rock Point Plant and the Palisades Nuclear Plant. The Company has contracts for each of these plants providing for the supply of all segments of the nuclear fuel supply chain, including uranium ore concentrates and the conversion to uranium hexafluoride; enrichment of the uranium hexafluoride; fabrication of nuclear fuel assemblies; and transportation, reprocessing and reconversion of the "spent" nuclear fuel assemblies. The contracts cover requirements for a minimum of the next five years. These agreements are with major private industrial suppliers of nuclear fuel and related services and with the United States government.

The Company also has contracts for several but not all segments of the nuclear fuel cycle for the Midland Plant and the Quanicassee Plant. These include contracts for the supply of uranium ore concentrates and conversion to uranium hexafluoride for the Midland Plant initial cores and contracts for fabrication of nuclear fuel assemblies for the initial cores for the Midland and the Quanicassee Plants.

Gas Service

The Company renders gas service in an area of approximately 12,900 square miles having a population of approximately 3,800,000. Principal cities served are Bay City, Flint, Jackson, Kalamazoo, Lansing, Pontiac, Royal Oak, Saginaw, Warren and a number of suburban communities near Detroit.

The Company owns gas transmission and distribution mains and other gas lines, compressor stations and facilities, and storage rights, wells and gathering facilities in several fields in Michigan. The Company and Michigan Gas Storage Company ("Storage Company"), a wholly-owned subsidiary of the Company, store a portion of its gas supply in the warmer months of the year for use in the colder months of the year.

For the year 1973, approximately 57% of the Company's gas supply was obtained from Trunkline Gas Company ("Trunkline"), 26% from Storage Company, 8% from Michigan fields, 2% from Marysville Gas Reforming Plant and 7% from miscellaneous spot purchases.

Gas is furnished by Trunkline to the Company pursuant to a contract providing for the delivery of approximately 255 billion cubic feet of natural gas per year. Storage Company presently has a contract with Panhandle Eastern Pipe Line Company ("Panhandle") providing for the delivery of 92 billion cubic feet of gas per year. Since 1971 the Company has experienced curtailments from its pipeline suppliers and is currently experiencing additional curtailments which are expected to continue for an indefinite period. These curtailments aggregated approximately 64 billion cubic feet of gas in 1973 and are expected to be 94 billion cubic feet in 1974 and could increase to a higher level in the future. The curtailments imposed by the pipeline companies are the subject of pending proceedings before the FPC, and orders issued in such proceedings will determine the curtailment procedures ultimately to be placed into effect by the pipeline companies.

The maximum daily sendout of natural gas for the Company through December 31, 1973 was 2,283 million cubic feet on January 16, 1972. Of this total, 691 million cubic feet were purchased from Storage Company, 897 million cubic feet were delivered from the Company's storage fields, 649 million cubic feet were purchased from Trunkline and 46 million cubic feet were obtained from producing Michigan fields. The peak-day system capacity is in excess of 2,800 million cubic feet.

As a consequence of the national gas shortage and in order to protect service to its existing customers and to limit new customer requirements to the gas supply available, since May 1973 the Company has issued permits only to new residential and home heating customers. The Company is unable to predict whether it will be required in 1974 and later years to cease adding residential customers or to curtail gas service to any of its customers other than seasonal customers or when it will be able to commence attaching additional nonresidential load. Such actions are dependent upon the extent of future curtailments on the part of the Company's pipeline suppliers referred to above and the receipt of additional gas supplies from the sources of supply hereinafter described, including the Marysville Gas Reforming Plant. The Company has filed a petition, which is pending, with the MPSC for approval of a curtailment program for firm gas customers, to be invoked if it becomes necessary.

The Company has initiated several programs to provide it with additional supplies of gas. Northern Michigan Exploration Company ("Northern"), a wholly-owned subsidiary of the Company, has carried on a gas exploration program in the northern part of the Lower Peninsula of Michigan for the past several years, and has varying interests in oil and gas leases on lands covering approximately 500,000 acres in that area. Such leases authorize exploration for oil and gas with the right to retain a portion of any oil or gas produced thereunder. Northern owns part of the working interest in 40 oil or gas wells in several fields in northern Michigan. Further drilling and development will be required to determine the size of the fields in which these wells are located, and additional geophysical surveys and exploratory wells are planned in northern Michigan.

Northern is also participating with others in the exploration and development of 97,600 acres in offshore Louisiana in 21 tracts and Northern's net ownership therein is 10,900 acres. Four production platforms have been set on three of these tracts; development drilling is in progress on two of the platforms and has been completed on one platform. Delivery to the Company of Northern's share of gas from this development is not expected before the end of 1974 and will be subject to the receipt of regulatory approvals, which is not assured.

The Company's geologists and petroleum engineers estimate that Northern presently holds working interests which amount to approximately 12 million barrels of proven oil reserves and approximately 2

million barrels of probable oil reserves as well as approximately 135 billion cubic feet of proven gas reserves and approximately 40 billion cubic feet of probable gas reserves. Reference is made to Note 4 to the Financial Statements for further information relating to Northern.

The Company has gas purchase contracts with several producers in the northern Michigan area and has placed in service pipelines to transport gas purchased in this area to its integrated gas transmission system. By the end of 1973 the Company was receiving approximately 35 million cubic feet of natural gas per day from this northern Michigan area and deliveries are expected to increase to 60 million cubic feet by the latter part of 1974. The Company also is engaged in a gas exploration program in the southern part of the Lower Peninsula of Michigan.

The Company has been receiving gas from producers near Mason, Michigan. Purchases from this source amounted to approximately 15 million cubic feet of gas per day at the end of 1973. During 1973 the Company also made spot purchases of gas aggregating approximately 22 billion cubic feet and expects to make further purchases in 1974.

The Company in April 1974 completed the construction of a gas reforming plant at Marysville, Michigan for converting natural gas liquids into gas. Such liquids are imported from Canada under a purchase agreement expiring in 1988, which provides for delivery to the Company of up to 50,000 barrels per day. The plant began production at an average rate of approximately 100 million cubic feet of gas per day in September 1973, and production up to 200 million cubic feet of gas per day commenced in April 1974. The cost to the Company of such gas, including overhead, fixed charges, import fees and taxes hereinafter referred to, is and will be substantially in excess of the present cost of other gas now received by the Company from interstate pipelines and other sources and has resulted and will result in a substantial increase in the cost of service to the Company's gas customers. In connection with the natural gas liquids to be converted into gas by the reforming plant, as a result of taxes and other increased costs, the feed stock is expected to cost about \$10.36 per barrel in May 1974 as compared to less than \$4.00 per barrel a year earlier. The Company expects to recover substantially all of such additional expense through the operation of cost of gas sold clauses contained in its rate schedules for gas service. The impact of the Canadian tax in future years is unknown because it is based upon the difference between the price of foreign crude oil (other than Canadian) in eastern Canada, and Canadian crude oil, with the aim being to have the export price of Canadian crude oil at least equal to the price of foreign crude oil in eastern Canada. Future policies of the Canadian government regarding the levy of such a tax are uncertain. The Canadian export licenses and the United States import licenses are required to be renewed from time to time. The receipt of such licenses is not necessarily assured.

In connection with the natural gas liquids to be converted into gas by the reforming plant, the FEO granted the Company an interim determination in February 1974 exempting such liquids from certain propane allocation regulations pending further analysis of the circumstances by the FEO. If the Company should ultimately fail to receive a favorable determination under, or exemption from, the FEO propane allocation regulations with respect to such natural gas liquids, the Company's ability to produce gas at the Marysville Gas Reforming Plant, the cost of producing reformed gas, and the Company's ability to serve its gas customers would be substantially adversely affected.

Employees

The Company has approximately 11,500 employees, of whom about 5,200 operating, maintenance and construction employees are represented by the Utility Workers Union of America, AFL-CIO. The current working agreement between the Company and the Union was reached on August 31, 1971 and expires August 31, 1974. Pursuant to the agreement increases in wages were made on June 18, 1973, in addition to cost of living increases. The wage increases, together with wage increases placed in effect for office and technical employees, resulted in additional costs (before income taxes) in 1973 of approximately \$3,661,000 of which approximately \$2,770,000 was charged to operations.

of applicable air quality standards, the compliance schedules provide that the Company must then submit to the Commission sulfur dioxide control strategies and time schedules for the implementation thereof as expeditiously as practicable. The Company has submitted the compliance schedules to EPA for approval. Should EPA's approval be secured, the requirements of the new EPA regulations will be replaced by said compliance schedules. In a proposed rulemaking published in February 1974, EPA solicited public comment as to whether the compliance schedules should be approved.

EPA gave public notice in July 1973 that it intends to issue regulations setting up a mechanism for preventing "significant deterioration" of air quality in areas where air pollution levels are below the national ambient air quality standards. In announcing that it proposed to consider four alternative proposals for defining and preventing "significant deterioration", EPA stated that any policy adopted will have a substantial impact on the nature, extent and location of future industrial, commercial and residential development throughout the United States and could affect a number of economically and socially important matters, including the cost of producing and transporting electricity. The Company is unable to forecast the ultimate regulations that will be adopted by EPA in this matter, but it is likely that any such regulations will materially affect the Company's operating expenses and power resources.

Applications for water discharge permits for various of the Company's existing and proposed plants and facilities are currently pending under the Federal Water Pollution Control Act Amendments of 1972 (the "1972 Amendments"). In October 1973, the EPA delegated to an agency of the State of Michigan responsibility for processing the applications under the 1972 Amendments and applicable standards. With respect to existing facilities and plants, the 1972 Amendments require achievement of effluent limitations that necessitate the application of the "best practicable control technology currently available" by July 1, 1977 and the "best available technology economically achievable" by July 1, 1983. They also require that the standards for cooling water intake structures must reflect the "best technology available for minimizing adverse environmental impact." With respect to future steam electric power plants, standards of performance required to be established by the 1972 Amendments will require achievement of effluent limitations that necessitate the application of the "best available demonstrated control technology," including, where practicable, a standard permitting no discharge of pollutants. Proposed guidelines for effluent limitations have been issued by EPA for public comment. The Company is not presently able to evaluate the effect of any standard or guideline ultimately to be adopted, although such effect may be substantially adverse to the Company's operations.

The Federal government issued regulations effective December 7, 1973 establishing priorities for use of certain low sulfur petroleum products. The regulations are to be in effect for a maximum period of one year. The intent of the regulations is to prevent coal-to-oil fuel conversions and to delay shifts to lower sulfur content fuel oils than are in use as of the effective date of the regulations, except where such actions are required to achieve primary ambient air quality standards under the Federal Clean Air Act or to comply with EPA new source performance standards. Because the oil which the Company has arranged to purchase to fuel the D. E. Karn Unit 3, a 660,000 kw generating unit scheduled to commence operation in 1974, may be of lower sulfur content than required by primary ambient air quality standards, the Company may be required to apply for an exception from the regulations. Receipt of such an exception is not assured, and the failure to receive the same could adversely affect the Company's cost of generating electricity with the unit and/or the Company's ability to obtain an adequate supply of fuel to operate the unit.

Michigan Public Service Commission

The Company is subject to the jurisdiction of the MPSC, which has general power of supervision and regulation of public utilities in Michigan with respect to rates, accounting, services, certain facilities, ascertainment of values, the issuance of securities, and various other matters.

Adjustment clauses authorized by the MPSC in August and October 1973, provide for reflecting in the Company's residential gas and electric rates certain changes in fuel cost and cost of gas sold. Similar clauses had theretofore been in effect covering industrial and commercial rates. Together they permit recovery of nearly 100% of fuel cost increases after billing lags up to 60 days in the case of electric service and up to 30 days in the case of gas service.

REGULATION

Compliance With Environmental Requirements

The Company and its subsidiaries, North and Storage Company, are subject to regulation with regard to environmental quality, including air and water quality (including thermal discharges) and other matters, by various Federal, State and local authorities and are also subject to zoning and other regulation by local authorities. The Company and its subsidiaries are attempting to insure that their facilities meet applicable environmental regulations and standards. However, it is not presently possible to forecast the ultimate effect of environmental quality regulations upon the existing and proposed facilities and operations of the Company and its subsidiaries. Moreover, developments in these and other areas may require the Company or its subsidiaries to modify, supplement, replace or cease operating equipment and facilities, and may delay or impede construction and operation of new facilities, at costs which could be substantial.

For many years the Company has followed an environmental protection program which included reforestation along Michigan rivers and the siting of electric generating plants and transmission lines with consideration for the impact of such facilities upon the environment. In more recent years the program has included installation of electrostatic precipitators to remove particulates from smoke emission at electric generating plants and conversion of electric generating units to burn cleaner fuels. The program through 1978 includes, among other things, installation of new precipitators and adding new controls and modifying previously installed precipitators at existing plants; utilization of coal with a lower sulfur content; construction of new smoke stacks at generating plants designed to reduce ground level concentrations of sulfur dioxide due to "downwash" conditions; and construction of ponds or towers to cool water at new generating plants before it is returned to its source. The Company made capital expenditures of \$41,000,000 in 1973 and estimates that it will make capital expenditures of more than \$320,000,000 during the five years 1974-1978 for environmental protection.

Regulations promulgated by the United States Environmental Protection Agency ("EPA") in August 1973 will require, unless other measures are adopted by the State of Michigan and approved by EPA, that various steps be taken by the Company to reduce emissions of sulfur dioxide at the J. H. Campbell Plant, Units 1 and 2; the D. E. Karn Plant, Units 1 and 2; the B. C. Cobb Plant and the J. C. Weadock Plant, Units 7 and 8. Such generating facilities have an aggregate generating capability of over 2,000 megawatts. Specifically, the new regulations required that the Company should have notified EPA no later than October 1, 1973 of its intention to either (i) utilize fuel with a sulfur content of not more than 1½ percent or (ii) install stack gas desulfurization equipment to reduce emissions to an equivalent amount, not later than July 1, 1975. The new regulations further required that the Company notify EPA not later than January 31, 1974 of its intention to either (i) utilize fuel with a sulfur content of not more than 1 percent or (ii) install stack gas desulfurization equipment to reduce emissions to an equivalent amount, not later than July 1, 1978. Dates are also specified in the regulations for various increments of progress to be met in achieving the lowered sulfur dioxide emissions by July 1, 1975 and July 1, 1978. The Company believes that adequate amounts of low sulfur fuel may not be available to permit conversion of such plants to low sulfur fuel. Moreover, the Company believes that stack gas desulfurization technology is not adequately developed to assure that any such equipment would allow satisfactory operation of its plants. In September 1973, the Company instituted suit in the U. S. Court of Appeals for the Sixth Circuit against EPA for review of the regulations which would require the Company to take immediate steps toward the reduction of sulfur dioxide emissions at the generating plants mentioned above. A stay of the regulations was issued by the Court. The matter is pending before the Court. The Company has entered into performance contracts ("compliance schedules") with the Michigan Air Pollution Control Commission regarding the four plants, under which compliance schedules the Company would be required to submit to the Commission by January 1, 1977 sulfur dioxide control strategies and time schedules for the implementation of the same not later than January 1, 1980. The compliance schedules also require the Company to monitor air quality in the vicinity of the four plants and to periodically report the results thereof to the Commission. Should the data secured by such monitoring at any time fail to substantiate that emissions from such plants are not causing or contributing to ambient levels of sulfur dioxide in excess

In March 1973 the Company submitted applications to the MPSC to increase its electric rates by approximately \$59,000,000 annually and its gas rates by approximately \$83,000,000 annually. At the same time the Company requested interim gas rate relief of approximately \$55,600,000 annually pending the outcome of that rate case. In April 1973 the MPSC dismissed the applications without hearing (and without prejudice to the filing of new applications) principally on the grounds that the rate relief requested was excessive and contrary to criteria for public utility rate increases established in January 1973 by the Federal Cost of Living Council pursuant to the Federal Economic Stabilization Act of 1970, as amended, and contrary to similar criteria established under rules of the MPSC adopted in May 1972 pursuant to the aforesaid Federal Act. In May 1973, the Company petitioned the MPSC to reconsider such dismissal order, which petition is pending. In addition, in April 1973 the Company submitted new applications to the MPSC for authorization to increase its electric rates by approximately \$36,100,000 annually and its gas rates by approximately \$50,400,000 annually. In filing the new applications, the Company acted without prejudice to and with specific reservation of its legal rights to further challenge the MPSC's dismissal order of April 1973. In November 1973 the MPSC authorized interim rate increases, effective November 10, 1973, aggregating \$50,000,000, divided equally between the pending electric and gas rate proceedings, subject to refund, pending the final determination of the Commission and directed its Staff to cause an investigation to be made as to the planning and construction of the Marysville Gas Reforming Plant to determine whether the feasibility of the plant and its cost of construction were justified. In December 1973 the Attorney General of the State of Michigan instituted judicial review of the interim rate orders, including a request for a temporary injunction staying their effectiveness, which request has not been acted upon by the Court. On January 18, 1974, the MPSC authorized increases in the Company's electric and gas rates of \$31,000,000 and \$46,600,000, respectively, on an annual basis. The rate increases included the interim increases aggregating \$50,000,000 which were placed in effect November 10, 1973. Of the authorized gas rate increase, approximately \$14,571,000 became effective on April 20, 1974 after the second unit of the Marysville Gas Reforming Plant became fully and commercially operable. In response to requests for a rehearing on the authorized rate increases, including such a request by the Attorney General of Michigan, on March 27, 1974 the MPSC reaffirmed the electric rate increase granted on January 18, 1974, and on its own motion ordered a partial rehearing with respect to the gas rate increase. Such rehearing is to be limited to a review of the portion of the gas decision which allocates between residential, commercial and industrial customers the amount of revenues previously authorized and a consideration of the manner in which the cost of gas sold adjustment clauses of the rates operate to pass through increases in the cost of gas to the Company's various classes of customers. The MPSC also announced its decision to delay recognition of costs of the Marysville Gas Reforming Plant in excess of \$119,700,000 (which costs are estimated to presently aggregate \$155,000,000) pending completion of a performance audit conducted under the auspices of the MPSC Staff to be completed by September 1, 1974. Further, the MPSC also strongly urged the Company not to file any new gas rate application during the pendency of the limited rehearing which it directed to be completed by September 1, 1974.

In April 1974 the Company submitted an application to the MPSC to increase its electric rates by not less than \$72,159,000 annually and at the same time requested partial and interim relief in the amount of \$54,659,000 annually. It is not expected that the MPSC will act upon the application or the request for partial and interim relief until later in 1974 following hearings and other investigation of the requests.

In September 1969 the MPSC authorized increases in the Company's electric and gas rates of \$16,514,000 and \$21,308,000, respectively, on an annual basis. Litigation is pending in a State Court with respect to such increases, which became effective in 1969 and which are subject to refund relating to the reduction and elimination of the Federal income tax surcharge then in effect. The MPSC order authorizing the increases required that the rates be reduced to reflect any subsequent reduction in or expiration of the Federal income tax surcharge. However, in February 1970, the Court granted a temporary injunction permitting the Company to continue to collect the rates without adjustment for the later reduction and elimination of the income tax surcharge, subject to possible refund, with interest, of the amounts collected if the MPSC order with respect to the income tax surcharge had not been stayed by the Court. As a result of further authorizations by the MPSC in 1971 to increase electric and gas rates effective December 14 and December 23, 1971, respectively, the Company believes that there are no refund obligations with respect to service rendered subsequent to these dates. On March 29, 1974, the Court ruled in favor of the MPSC

with respect to the issue of the income tax surcharge and ordered the Company to refund \$24,542,632 to its electric and gas customers. In connection with this litigation, the Company has established a reserve stated net of related income taxes in the amount of \$11,867,818. The Company believes that the amount of such reserve is adequate to cover the refund obligation, exclusive of interest charges which are presently not capable of determination but which may be substantial in amount. The Company is preparing to seek judicial review of the Court order of March 29, 1974, including a request for a stay of the refund pending further judicial action. The pending litigation, which also involves appeals taken by the Company as well as by parties opposing the rate increases, includes, among other things, a claim for refunds to customers amounting to approximately \$7,763,000, plus interest, for which no reserve has been provided. This claim is based upon the circumstance that the electric rates were placed in effect by the Court's order on October 22, 1969, but the MPSC did not issue an order approving such rates until April 20, 1970.

In the opinion of the General Counsel for the Company, Storage Company and Northern are not public utilities under the laws of Michigan.

Federal Power Commission

The FPC has jurisdiction over Storage Company as a natural gas company within the meaning of the Natural Gas Act, which jurisdiction relates, among other things, to the acquisition and operation of assets and facilities and to rates charged by Storage Company. If the Company obtains from Northern deliveries of gas produced in offshore Louisiana, as described under "Business—Gas Service", Northern will be subject to FPC's jurisdiction as a natural gas company within the meaning of the Natural Gas Act. In instances of shortage of supply, the FPC has entered orders curtailing deliveries of natural gas transmitted by interstate pipelines to various users to amounts less than provided in their gas sales contracts. Under certain circumstances, the FPC also has the power under the Natural Gas Act to modify gas sales contracts of interstate pipeline companies. The FPC has adopted an end-use priority system for pipeline curtailments and is now considering adoption of a proposed rule which would make the end-use priority system also applicable to certificate proceedings for transmission of additional gas supplies. The end-use priority system places residential and small commercial service in the highest priority and interruptible service in the lowest priority. As natural gas companies under the Natural Gas Act, Panhandle, Trunkline and Storage Company, which provide the major portion of the Company's gas supply, are subject to the FPC's regulations. The effect of FPC regulations, present or future, upon the Company's gas supply and operations cannot be determined although such effect may be materially adverse.

The Company has accepted licenses under Part I of the Federal Power Act for a number of its constructed hydroelectric projects. The Company and The Detroit Edison Company have accepted a license extending to the year 2019 from the FPC to construct, operate and maintain the Ludington Pumped Storage Plant. As a licensee, certain of the Company's operations are subject to regulation by the FPC, including compliance with the FPC's rules and regulations respecting accounting applicable to licensees. The Act provides that if a new license for a hydroelectric project is not issued to the original licensee upon expiration of the original license, a new license may be issued to a new licensee, or the United States may take over the project, upon paying severance damages, if any, and the amount of the original licensee's "net investment" in the project but not in excess of the fair value thereof.

By reason of the interconnections linking the electric system of the Company with the systems of companies in other states, the Company is a "public utility" under Part II of the Federal Power Act and certain of the Company's operations are subject to regulation by the FPC, including compliance with the FPC's rules and regulations respecting accounting applicable to "public utilities", the transmission of electric energy in interstate commerce and the rates and charges for the sale of such energy at wholesale, as provided by the Federal Power Act. The Company is also subject to the general supervision and regulation of the MPSC as described above, including the fixing of almost all retail rates and charges for the sale of electricity and gas.

In November 1972, the Company tendered for filing with the FPC proposed increases in its wholesale electric rates so as to increase the Company's wholesale electric revenues approximately \$1,500,000 on an

annual basis. The increased rates became effective in June 1973, subject to refund, pending FPC determination as to their reasonableness. A number of municipal electric systems and rural electric cooperatives have intervened in the proceeding and seek to obtain the rejection of the proposed increases on economic grounds and because the Company allegedly has engaged in unlawful and anti-competitive practices. Alternatively, the intervenors have requested that the filing be conditioned upon the Company's compliance with certain requirements, including among other things, that the Company coordinate bulk power supply with any of the intervenors desiring so to do, that the Company wheel power across its transmission facilities, and that the Company provide power to the intervenors on terms comparable to those prevailing between the Company and certain other electric systems. The intervenors' filed case supports a rate increase of approximately \$376,000 subject to the aforementioned conditions. The staff of the FPC has recommended an increase of approximately \$875,000. Hearings upon the Company's application and related issues have been held in abeyance pending settlement discussions, now in progress involving the Company, the intervenors and the FPC staff.

Atomic Energy Commission

In 1967 the AEC granted the Company a permit to construct the Palisades Nuclear Plant, described under "Construction Expenditures" above. In March 1970, the AEC gave public notice of its proposed issuance of a provisional operating license for the plant. Thereafter, a number of organizations and individuals intervened in the proceedings before the AEC and opposed the licensing of the plant. In view of the crucial importance of getting the plant in operation at the earliest possible date, and faced with indefinite delays in completion of the AEC hearing, the Company reached an agreement with the intervenors in March 1971 whereby the Company would install cooling towers to substantially eliminate thermal discharges into Lake Michigan and other equipment to eliminate release of virtually all radioactive materials in liquid discharges and, subject to certain conditions, the intervenors agreed to withdraw their opposition to a full-power operating license. The additional facilities, which cost an estimated \$30,000,000 to construct, are expected to result in additional annual costs in excess of \$5,000,000 attributable to reduced thermal efficiency of the plant, some curtailment of generating capability and increased operating and maintenance expenses, as well as fixed charges on the invested capital.

The Palisades Nuclear Plant has been out of service for the reasons described in Note (b) under "Construction Expenditures" above. The operating license issued by the AEC for the plant is provisional in nature and was scheduled to expire in March 1974, but was automatically extended pending AEC action on the Company's application for a full-term, 40-year operating license. The application will be subject to the right of any person whose interest may be affected by the proceeding to intervene and request a public hearing on the application.

In 1971, the AEC announced that it was reviewing the adequacy of emergency core cooling systems in light-water power reactors, and thereafter held a public rule-making hearing with respect to new regulations covering the design of such emergency core cooling systems. In December 1973, the AEC announced its new regulations which provide that licensees, including the Company, must submit to the AEC by early August 1974, a plan detailing how compliance with the new rules will be achieved for each of the nuclear plants affected. The effect of the new rules upon the Company's plants has not yet been determined, but it may be necessary to modify the designs of the Big Rock Point Plant, the Palisades Nuclear Plant and the Midland Plant (referred to below) and it may be necessary to derate the Big Rock Point Plant and/or the Palisades Nuclear Plant. The cost of such potential modifications and deratings cannot be estimated at this time but could be substantial. Intervenors in the AEC rule-making proceeding have taken an appeal to the U. S. Court of Appeals for the District of Columbia Circuit (Docket No. RM50-1) from the AEC regulations issued in December 1973.

In May 1973 a suit was commenced against the AEC for a declaratory judgment and injunctive relief. The suit sought to compel the revocation of operating licenses heretofore issued by the AEC for 20 nuclear generating units, including the Palisades Nuclear Plant. The basis for the suit was that operation of these units in accordance with certain AEC interim criteria for emergency core cooling systems allegedly constitutes a threat to the public health and safety. The court dismissed the suit. In July 1973 the plaintiffs in such suit petitioned the AEC to revoke immediately the operating licenses of the 20 nuclear generating

units on the same grounds alleged in the lawsuit. The petition was denied and an appeal from the denial is now pending before the U. S. Court of Appeals for the District of Columbia Circuit (Docket No. 73-1872).

In 1969 the Company applied to the AEC for permits to construct the Midland Plant, described under "Construction Expenditures" above. Various organizations and individuals intervened in the proceeding and objected to the granting of such permits. After extended hearings the AEC issued construction permits for the Midland Plant in December 1972. Thereafter the intervenors appealed the granting of the permits and in May 1973 an Atomic Safety and Licensing Appeal Board of the AEC affirmed the issuance of the construction permits, subject to conditions imposing several new reporting requirements with respect to quality assurance matters. Construction on the site, which was halted in November 1970, was resumed in June 1973. In the summer of 1973, the intervenors instituted appeals to the U. S. Court of Appeals for the District of Columbia Circuit (Docket Nos. 73-1776 and 73-1867) from the action of the AEC in granting the construction permits and such appeals are pending. In May 1972 some of the intervenors began suit in a Federal Court to prevent construction of the Midland Plant, contending that the AEC had not complied with the National Environmental Policy Act of 1969 in the proceedings for issuance of the construction permits for the plant. The Company and the AEC have moved to dismiss the suit. In March 1973 another intervenor began suit in a State Court in Jackson County, Michigan, seeking damages and to prevent construction and operation of the plant on the grounds that it constitutes a nuisance. The case has been transferred to Midland County, Michigan, and the Company has filed a motion to dismiss. Following AEC inspections of the implementation of the quality assurance program at the Midland construction site, the AEC's Director of Regulation issued an order in December 1973 for the Company to show cause why all activities under the construction permits for the Midland Plant 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. The Company responded to the order to show cause by a motion to dismiss and an answer noting that the most recent AEC inspection had found the Company to be in compliance with AEC quality assurance regulations. Certain of the intervenors in the construction permit proceeding requested a hearing on the order to show cause. Also, in December 1973, the same intervenors petitioned the AEC to revoke the construction permits for the Midland Plant. The AEC, in January 1974, denied the petition to revoke the construction permits, denied the Company's motion to dismiss the order to show cause, and granted the intervenors' requests for a public hearing. A hearing on the show cause order is scheduled to commence in late June 1974. If the Atomic Safety and Licensing Board appointed to conduct the hearing decides that the Company is not implementing its quality assurance program in compliance with AEC regulations, or that there is not reasonable assurance that such implementation will continue throughout the construction process, it will determine whether the construction permits for the Midland Plant shall be modified, suspended or revoked, or whether other action is warranted by the record. The Company is unable to predict the outcome of these proceedings before the AEC, as well as the outcome of the litigation described in this paragraph and the immediately preceding paragraph. However, if the Company is not successful in the AEC proceedings or the litigation, the effect upon the Company's operating expenses and its power resources could be materially adverse.

In January and February 1974, certain individuals reported to the AEC and publicly charged that the Company and certain of its employees had, in 1972 and early 1973, willfully and wrongfully withheld information from the AEC, and falsified information submitted to the AEC, about malfunctioning of the waste gas decay system and other occurrences at the Company's Palisades Nuclear Plant. AEC representatives have investigated the charges and have cited the Company for several license violations in connection with the charges. The U. S. Attorney General has been requested to investigate the matter, and an organization has petitioned the AEC to issue a show cause order or to hold a hearing on whether the operating license of the Palisades Nuclear Plant should be revoked, suspended or modified or other penalties imposed in connection with the charges. The entire matter is pending and the Company is presently unable to predict the outcome.

Under amendments to the Atomic Energy Act which became effective in December 1970, applications to construct commercial nuclear reactors are subject to review to determine whether the activities under the license would create or maintain a situation inconsistent with the Federal antitrust laws and the AEC is required to refer such applications to the Attorney General of the United States for his advice. In June

1971, the Attorney General advised the AEC that the granting of authorization to construct the Midland Plant "may maintain a situation inconsistent with the antitrust laws" and recommended that the AEC conduct a hearing to determine whether there is any factual basis to so find. A number of municipal electric systems and generating and transmission cooperatives have intervened in the proceeding. The AEC is authorized to issue or refuse to issue any license applied for or to issue a license with such conditions as it deems appropriate, and if it finds there are adverse antitrust aspects involved in any license applications, it is also to consider, in determining whether a license shall be issued, such other factors as in its judgment it deems necessary to protect the public interest, including the need for power in the affected area. The Attorney General has indicated an intention to seek conditions in any license for the Midland Plant which would among other things, require the Company to interconnect and share reserves with any utility engaged or proposing to engage in the generation of electric power, require the Company to engage in coordinated operations, development and electric plant construction with any such other electric utility, and to wheel power across the Company's transmission system. An AEC hearing with respect to the antitrust issues began in late 1973 and is continuing.

In December 1972 the AEC amended the Big Rock Point Plant operating license to authorize the use of a full core loading of nuclear fuel containing plutonium as well as uranium. The transition to the use of such fuel will extend over a period of several years, with a few fuel assemblies having been installed in 1973 and with greater use of such fuel to occur in 1974 and later years. The use at the Big Rock Point Plant of developmental fuel assemblies and fuel rods containing plutonium had been authorized and carried out since 1969. In March 1973 an organization began suit in the U. S. District Court for Western Michigan (Docket No. 50-155) to prevent the use of such plutonium fuel at the Big Rock Point Plant. A temporary injunction against the 1973 fuel loading was refused by the Court. The lawsuit is pending and is opposed by the Company as well as by the AEC. In April 1973 the AEC offered an opportunity for public hearing on the December 1972 license amendment and the organization opposing the use of plutonium fuel at the plant has been granted the right to intervene and to have a public hearing. The matter is pending.

In March 1974 the AEC published a notice that a public hearing will be held by an Atomic Safety and Licensing Board to consider the Company's application for construction permits for the proposed Quanicassee Units 1 and 2 reactors.

Under the Price-Anderson amendments to the Atomic Energy Act, the Company maintains private insurance and agreements of indemnity with the AEC to cover public liability for the consequences of nuclear incidents which might occur at the Company's nuclear power plants. Such nuclear insurance and indemnity coverage does not include coverage of the plant facilities themselves. To cover possible damage to these facilities, the Company maintains property damage insurance from Nuclear Mutual Limited, a Bermuda mutual insurance company of which the Company is a member, in the maximum amount available from such insurer, which is presently \$100,000,000, or the insurable value of the facility, whichever is less. Except for the Company's Big Rock Point Plant, such insurance does not equal in amount the sums invested or to be invested in the Company's nuclear plants. The Company is therefore a self-insurer for any loss to its nuclear plant facilities to the extent its investment in them exceeds \$100,000,000 at any location. The Company regards this risk to be acceptable because of the very low probabilities of occurrence believed to be associated with incidents which could give rise to losses in excess of the insurance. The Company's practice in this regard is consistent with that of other utilities similarly situated.

Equal Employment Opportunity Commission

In January 1972 the U. S. Equal Employment Opportunity Commission ("EEOC") charged the Company and the Utility Workers of America with violation of Title VII of the 1964 Civil Rights Act, alleging discrimination against Negroes and females in matters of hiring, promotion, training, compensation, membership, referral representation and other terms and conditions of employment. An investigation was conducted and an *ex parte* decision was rendered by the EEOC finding reasonable cause to believe that the Company discriminated against females and that the Union failed to equally represent females. EEOC has proposed a conciliation agreement be negotiated with the Company as a means of correcting the alleged discrimination, but no such agreement has yet been entered into.

OPERATING STATISTICS

Year Ended December 31

	1969	1970	1971	1972	1973
Electric Energy Generated, Purchased and Sold (Thousands of Kwh):					
Generated—after station loss and use:					
Fossil Fuel	17,517,548	17,701,285	17,465,481	17,379,239	17,360,718
Nuclear	401,049	362,430	368,988	2,125,281	2,834,049
Hydro	495,628	438,625	438,635	410,287	1,422,871
Purchased (including interchange)	1,848,148	2,268,680	4,118,538	4,404,300	6,112,898
Less energy for pumping	—	—	—	(11,622)	(1,380,519)
Total Electric Energy Generated and Purchased	20,262,383	20,771,020	22,391,642	24,307,485	26,350,017
Lost, unaccounted for and used by Company	(1,783,020)	(1,964,343)	(1,895,889)	(2,229,011)	(2,248,017)
Total Energy Sold	18,479,363	18,806,677	20,495,753	22,078,474	24,102,000
Electric Sales (Thousands of Kwh):					
Residential	5,546,263	5,931,840	6,328,749	6,841,221	7,090,854
Commercial	3,673,709	4,027,215	4,349,075	4,699,559	5,160,245
Industrial	8,578,389	8,073,913	8,972,723	9,575,919	10,773,530
Interdepartmental and Other	191,951	208,526	223,849	235,871	239,152
Total Sales to Ultimate Consumers	17,990,312	18,241,494	19,874,396	21,352,570	23,263,781
Power Pool	—	—	—	—	—
Other Resale	489,051	565,183	621,357	725,904	838,219
Total Electric Sales	18,479,363	18,806,677	20,495,753	22,078,474	24,102,000
Gas Produced, Purchased and Sold (1,000 cubic feet):					
Gas Produced and Purchased:					
Marysville Reforming Plant	—	—	—	—	8,285,680
Michigan Fields	16,600,080	17,196,639	13,194,067	18,905,307	26,266,614
Trunkline Gas Company	197,825,691	226,111,937	247,445,052	231,889,872	193,031,460
Michigan Gas Storage Company	87,821,500	90,697,573	88,327,683	95,612,848	88,973,946
Other purchases	—	—	—	—	21,989,179
Total Gas Produced and Purchased	302,247,271	334,006,149	348,966,802	346,408,027	338,546,879
Net (to) from Storage	(10,937,194)	(13,896,516)	(9,882,117)	15,550,365	1,633,498
Compressor Station and Other Use	(2,724,061)	(3,604,715)	(2,871,811)	(2,455,853)	(2,835,560)
Lost, unaccounted for and used by Company	(6,824,203)	(6,160,960)	(2,339,363)	(6,239,695)	(7,585,417)
Total Gas Sold	281,761,813	310,343,958	333,873,511	353,262,844	329,759,400
Gas Sales (1,000 cubic feet):					
Residential—Home Heating	129,060,276	134,435,759	138,223,553	150,602,418	136,323,024
Other Residential	3,997,083	3,733,980	3,225,088	3,313,156	3,016,273
Industrial and Commercial	139,497,140	152,704,824	176,350,317	187,916,368	183,124,071
Interdepartmental	7,214,920	18,507,064	15,262,159	11,430,902	7,296,032
Total Sales to Ultimate Consumers	279,769,419	309,381,627	333,061,117	353,262,844	329,759,400
Resale	1,992,394	962,331	812,394	—	—
Total Gas Sales	281,761,813	310,343,958	333,873,511	353,262,844	329,759,400
Sales of Steam (1,000 pounds)	847,854	814,225	742,650	682,412	655,895

OPERATING STATISTICS

Year Ended December 31

	1969	1970	1971	1972	1973
Cost of Electric Energy Generated and Purchased:					
Generated.....	\$ 75,480,196	\$ 88,977,135	\$107,250,285	\$ 5,527,591	\$133,170,016
Purchased (including interchange).....	13,530,397	19,330,636	41,860,127	1,662,305	70,005,649
Other Power Supply Expenses.....	1,229,012	1,808,747	3,573,083	4,493,910	2,182,207
Total Cost of Electric Energy Generated and Purchased.....	\$ 90,239,612	\$110,116,518	\$152,683,495	\$17,683,806	\$205,357,872
Average Fuel Cost per KWH Generated (mills).....	3.30	3.95	4.72	4.72	5.22
Cost of Gas Sold:					
Gas Produced and Purchased:					
Michigan Fields.....	\$ 4,628,947	\$ 4,591,473	\$ 3,457,574	\$ 6,238,777	\$ 11,183,615
Marysville Reforming Plant.....	—	—	—	—	13,387,838
Trunkline Gas Company.....	70,399,838	80,393,575	91,690,210	100,583,943	93,418,386
Michigan Gas Storage Company.....	37,170,023	39,465,259	40,770,482	47,502,774	47,746,032
Other purchases.....	—	—	—	—	17,793,924
Total Cost of Gas Produced and Purchased.....	\$112,198,808	\$124,450,307	\$135,918,266	\$154,325,494	\$183,529,795
Net (to) from Storage.....	(4,413,756)	(5,320,212)	(4,466,597)	2,891,134	(6,130,724)
Compressor Station and Other Use.....	(896,939)	(1,255,232)	(1,041,007)	(978,398)	(2,213,618)
Total Cost of Gas Sold.....	\$106,888,113	\$117,874,863	\$130,410,662	\$156,238,230	\$175,185,453
Electric Revenue:					
Residential.....	\$119,298,937	\$133,131,798	\$141,106,619	\$158,414,916	\$179,025,208
Commercial.....	76,246,495	87,727,018	95,839,344	106,268,572	125,615,891
Industrial.....	98,132,472	102,501,526	118,617,428	131,708,824	162,914,439
Interdepartmental and Other.....	5,320,222	6,101,768	6,561,662	7,374,312	8,165,332
Total Sales to Ultimate Consumers.....	\$298,998,126	\$329,462,110	\$362,125,053	\$403,766,624	\$475,720,870
Power Pool.....	—	—	—	—	—
Other Resale.....	5,567,956	6,661,084	7,778,805	9,004,411	15,406,962
Total Electric Sales Revenue.....	\$304,566,082	\$336,123,194	\$369,903,858	\$412,771,035	\$491,127,832
Reserve for Possible Refund.....	—	(5,929,745)	(9,367,949)	(116,203)	—
Net Electric Sales Revenue.....	\$304,566,082	\$330,193,449	\$360,535,909	\$412,654,832	\$491,127,832
Miscellaneous Electric Revenue.....	3,433,596	4,710,705	3,693,861	4,339,234	4,994,728
Total Electric Revenue.....	\$307,999,678	\$334,904,154	\$364,229,770	\$416,994,066	\$496,122,560
Gas Revenue:					
Residential—Home Heating.....	\$133,776,482	\$150,050,985	\$154,419,444	\$174,891,712	\$172,040,351
Other Residential.....	6,097,784	6,614,752	5,906,707	6,211,764	5,947,518
Industrial and Commercial.....	93,716,797	108,666,729	121,435,319	141,761,585	152,543,621
Interdepartmental.....	3,079,358	8,094,531	6,944,951	6,413,403	5,056,497
Total Sales to Ultimate Consumers.....	\$236,670,421	\$273,426,997	\$288,706,421	\$329,278,464	\$335,587,987
Resale.....	796,401	456,805	375,958	—	—
Total Gas Sales Revenue.....	\$237,466,822	\$273,883,802	\$289,082,379	\$329,278,464	\$335,587,987
Reserve for Possible Refund.....	—	(3,258,764)	(5,603,017)	(266,955)	—
Net Gas Sales Revenue.....	\$237,466,822	\$270,625,038	\$283,479,362	\$329,011,509	\$335,587,987
Miscellaneous Gas Revenue.....	3,068,960	3,248,642	2,612,093	3,074,019	2,318,350
Total Gas Revenue.....	\$240,535,782	\$273,873,680	\$286,091,455	\$332,085,528	\$337,906,337
Steam Revenue.....	\$ 1,239,386	\$ 1,211,671	\$ 1,295,582	\$ 1,373,540	\$ 1,324,788
Total Operating Revenue.....	\$549,774,846	\$609,989,505	\$651,616,807	\$750,453,134	\$834,953,685
Net Operating Income before State and Federal Income Taxes:					
Electric.....	\$100,424,652	\$ 92,746,462	\$ 75,249,390	\$ 84,627,334	\$121,195,636
Gas.....	\$ 54,297,237	\$ 65,377,230	\$ 64,106,732	\$ 68,953,534	\$ 48,083,242
Electric Customers (end of period).....	1,057,735	1,082,442	1,112,607	1,147,507	1,180,846
Gas Customers (end of period).....	830,011	854,117	879,535	910,513	936,323
Steam Customers (end of period).....	386	318	220	125	121
Kilowatt hours per Residential Customer—Average....	5,954	6,222	6,467	6,780	6,816

DESCRIPTION OF COMMON STOCK

General

The outstanding Common Stock of the Company is listed on the New York, Detroit and Midwest Stock Exchanges. Applications have been made for the listing of the Common Stock offered hereby on these three Exchanges.

The Common Stock offered hereby will not be subject to further calls or to assessment by the Company.

The Company acts as its own transfer agent in Jackson, Michigan, and Bankers Trust Company acts as such in New York City. The registrars are The National Bank of Jackson, in Jackson, Michigan and Bankers Trust Company in New York City.

The following outline of certain provisions of Article X of the Company's Articles of Incorporation, as amended (the "Charter"), and Section 7.15 of its Indenture dated as of September 1, 1945, to First National City Bank, as Trustee, copies of which are filed as exhibits to the registration statement, does not purport to be complete and is qualified in its entirety by express reference thereto.

The Charter authorizes the issuance of Preferred Stock in series of equal rank and Preference Stock (none of which has been issued) in series of equal rank, having such dividend rates, redemption prices, amounts payable on liquidation, conversion rights and sinking or purchase fund provisions as the Board of Directors may determine. The shares of Preference Stock are subordinate to the Preferred Stock but have preference over the Common Stock as to dividends and assets of the Company.

Dividend Rights

Subject to the following limitations and after the payment of full dividends on the Preferred Stock and the Preference Stock, dividends may be paid on the Common Stock when and as declared by the Board of Directors.

The Charter, in effect, prohibits the payment of cash dividends on Preference Stock or Common Stock, if, immediately after such dividends, there shall not remain to the credit of retained earnings at least \$7.50 per share on all then outstanding Preferred Stock. Reference is made to Note 9 to Financial Statements.

The Charter, in effect, also restricts the payment of cash dividends on Common Stock to 75% of net income available for Common Stock dividends if the percentage of Common Stock equity to total capitalization, as defined, is 20% or more but less than 25%, and to 50% of such net income if such percentage is less than 20%. It also prohibits the payment of cash dividends on Preference Stock and Common Stock if the Company is in default (which the Company is not) under the purchase fund for the \$4.52 Preferred Stock. Such purchase fund requires the Company, to the extent that net income after dividends on Preferred Stock is available therefor, to endeavor to purchase annually for retirement 4,000 shares of \$4.52 Preferred Stock at not more than \$102.725 per share plus accrued dividends.

The Indenture in effect prohibits the payment of cash dividends on Common Stock except out of retained earnings accumulated after September 30, 1945 and unless after such payment there remains of such retained earnings an amount equivalent to the amount by which the charges to income or retained earnings since December 31, 1945 for repairs, maintenance and depreciation shall have been less than the maintenance and replacement requirement computed in accordance with the provisions of the Indenture.

Voting Rights

Each holder of Common Stock and of Preferred Stock is entitled to one vote for each share held and to cumulative voting in the election of directors. However, if four quarterly dividends on any series of Preferred Stock should be in default, the Preferred Stock of all series would have the right, voting as a single class, to elect a majority of the directors of the Company and the Common Stock, voting as a class, would have the right to elect the remaining directors. The Preference Stock has no voting rights in the

election of directors, except that if six quarterly dividends on the Preference Stock should be in default, the Preference Stock of all series would have the right, voting as a single class, to elect two directors (subject to the rights of the Preferred Stock above set forth) and the Common Stock, voting as a class, would have the right to elect the remaining directors. In addition, the Company must secure the approval of the holders of certain percentages of Preferred Stock and Preference Stock prior to effecting various changes in its capital structure and prior to effecting certain other transactions.

Liquidation Rights

After payment to the holders of Preferred Stock of the full preferential amounts to which they are entitled, the remaining assets to be distributed, if any, upon dissolution, liquidation or winding up shall be distributed to the holders of Preference Stock and, after payment to the holders of the Preference Stock of the full preferential amounts to which they are entitled, to the holders of Common Stock.

Preemptive Rights

Holders of Common Stock have no preemptive rights.

EXPERTS

The Financial Statements including the Statement of Income for the five years ended December 31, 1973 set forth in this Prospectus have been examined by Arthur Andersen & Co., independent public accountants, as indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in auditing and accounting in giving such report.

Statements under "Regulation" and "Description of Common Stock", as to matters of law and legal conclusions, have been reviewed by Harold P. Graves, Esq., General Counsel for the Company, and all such statements are made on his authority as an expert.

LEGAL OPINIONS

The legality of the securities offered hereby will be passed upon for the Company by Harold P. Graves, Esq., or James B. Falahee, Esq., Jackson, Michigan. General Counsel and General Attorney, respectively, for the Company, and by Messrs. Winthrop, Stimson, Putnam & Roberts, New York, N. Y., and for the Underwriters by Messrs. Simpson Thacher & Bartlett, New York, N. Y.

As of December 31, 1973, 806 shares of common stock of the Company were credited to Harold P. Graves' account in the Employees' Savings Plan. He and his wife own as joint tenants 189 shares of common stock of the Company. Mr. Graves is an officer of the Company and a director and/or an officer of each of its subsidiaries.

As of December 31, 1973, 263 shares of common stock of the Company were credited to James B. Falahee's account in the Employees' Savings Plan. He and his wife own as joint tenants 75 shares of common stock of the Company. Mr. Falahee is employed by the Company as General Attorney.

UNDERWRITERS

Under the terms of and subject to the conditions contained in an Underwriting Agreement dated May , 1974, the Underwriters named below have severally agreed to purchase, and the Company has agreed to sell to each Underwriter, severally, the respective numbers of shares of Common Stock set forth below.

Name	Number of Shares	Name	Number of Shares
Morgan Stanley & Co. Incorporated	173,100	Gradison & Company Incorporated	3,000
Abraham & Co. Inc.	4,800	Gruntal & Co.	1,500
Advest Co.	7,200	Halsey, Stuart & Co. Inc.	24,600
American Securities Corporation	7,200	Harris, Upham & Co. Incorporated	15,000
A. E. Ames & Co. Incorporated	4,800	Harrison & Company	1,500
Arnhold and S. Bleichroeder, Inc.	7,200	Hayden Stone Inc.	15,000
Ashton & Co.	3,000	Herzfeld & Stern	4,800
Bacon, Waspale & Co.	7,200	J.J.B. Hilliard, W. L. Lyons, Inc.	3,000
Robert W. Baird & Co. Incorporated	7,200	Hoppin, Watson Inc.	3,000
Bateman Eichler, Hill Richards Incorporated	7,200	Hornblower & Weeks-Hemphill, Noyes Incorporated	24,600
Bear, Stearns & Co.	15,000	Howard, Weil, Labouisse, Friedrichs Incorporated	3,000
A. G. Becker & Co. Incorporated	15,000	Howe, Barnes & Johnson, Inc.	1,500
Birr, Wilson & Co., Inc.	1,500	E. F. Hutton & Company Inc.	24,600
William Blair & Company	7,200	W. E. Hutton & Co.	15,000
Blunt Ellis & Simmons Incorporated	7,200	The Illinois Company Incorporated	3,000
Blyth Eastman Dillon & Co. Incorporated	24,600	Interstate Securities Corporation	3,000
Boettcher & Company	4,800	Investment Corporation of Virginia	3,000
Bosworth, Sullivan & Company, Inc.	3,000	Janney Montgomery Scott Inc.	3,000
J. C. Bradford & Co. Incorporated	7,200	Josephthal & Co.	3,000
Alex. Brown & Sons	15,000	Kidder, Peabody & Co. Incorporated	24,600
Bruns, Nordeman, Rea & Co.	4,800	Kuhn, Loeb & Co.	24,600
Butcher & Singer	4,800	Lamson Bros. & Co.	1,500
Jack V. Butterfield Investment Co.	1,500	Lazard Freres & Co.	24,600
Buys, MacGregor & Co.	3,000	Legg Mason/Wood Walker	
The Chicago Corporation	4,800	Div. of First Regional Securities, Inc.	4,800
B. C. Christopher & Company	1,500	Lehman Brothers Incorporated	24,600
City Securities Corporation	3,000	Lepercq, de Neuffize & Co. Incorporated	3,000
Clark, Dodge & Co. Incorporated	15,000	Loeb, Rhoades & Co.	24,600
Colin, Hochstin Co.	3,000	Loewi & Co. Incorporated	4,800
Cowen & Company	3,000	MacNaughton-Greenawalt & Co., Inc.	3,000
Craigie, Mason-Hagan, Inc.	3,000	Manley, Bennett, McDonald & Co.	15,000
Crowell, Weedon & Co.	4,800	A. E. Masten & Co. Incorporated	1,500
Dain, Kalman & Quail, Incorporated	7,200	McCormick & Co., Incorporated	3,000
Davenport & Co. of Virginia, Inc.	1,500	McDonald & Company	7,200
Davis, Skaggs & Co., Inc.	3,000	Merrill Lynch, Pierce, Fenner & Smith Incorporated	30,000
Doft & Co., Inc.	3,000	The Milwaukee Company	4,800
Drexel Burnham & Co. Incorporated	24,600	Model, Roland & Co., Inc.	4,800
A. G. Edwards & Sons, Inc.	7,200	Moore, Leonard & Lynch, Incorporated	4,800
Edwards & Hanly	7,200	Moore & Schley, Cameron & Co.	3,000
Elkins, Morris, Stroud & Co.	4,800	Moseley, Hallgarten & Estabrook Inc.	15,000
Eppler, Guerin & Turner, Inc.	4,800	Mullaney, Wells & Company	1,500
Equitable Securities Corporation	3,000	Murch & Co., Inc.	3,000
Fahnestock & Co.	7,200	Nauman, VanderVoort, Inc.	4,800
Faulkner, Dawkins & Sullivan Securities Corp.	7,200	Newhard, Cook & Co. Incorporated	3,000
Ferris & Company, Incorporated	3,000	The Ohio Company	4,800
First Albany Corporation	1,500	Olde & Co. Incorporated	4,800
The First Boston Corporation	30,000	Oppenheimer & Co.	7,200
First Heritage Corporation	1,500	Paine, Webber, Jackson & Curtis Incorporated	24,600
First of Michigan Corporation	15,000	Charles A. Parcels & Co.	7,200
Fitzgerald and Company, Inc.	1,500	Parker/Hunter Incorporated	3,000
Folger Nolan Fleming Douglas Incorporated	7,200	H. O. Peet & Co. Inc.	1,500
Freehling & Co.	3,000	Piper, Jaffray & Hopwood Incorporated	7,200
Fulton, Reid & Staples, Inc.	4,800		
Goldman, Sachs & Co.	24,600		

<u>Name</u>	<u>Number of Shares</u>	<u>Name</u>	<u>Number of Shares</u>
Prescott, Ball & Turben	7,200	Smith, Barney & Co. Incorporated	24,600
Pressman, Frohlich & Frost Incorporated	1,500	Smith, Hague & Co., Incorporated	4,800
R. W. Pressprich & Co. Incorporated	15,000	SoGen-Swiss International Corporation	15,000
Primus Investment Company	3,000	Steiner, Rouse & Co., Inc.	3,000
Raffensperger, Hughes & Co., Inc.	1,500	Stern Brothers & Co.	3,000
Rauscher Pierce Securities Corporation	7,200	Stern, Frank, Meyer & Fox, Incorporated	3,000
W. H. Reaves & Co., Inc.	1,500	Stifel, Nicolaus & Company, Incorporated	3,000
Reinholdt & Gardner	7,200	Stone & Webster Securities Corporation	24,600
Reynolds Securities Inc.	24,600	Sutro & Co. Incorporated	4,800
Roberts, Scott & Co., Inc.	1,500	Thomson & McKinnon Auchincloss	
The Robinson-Humphrey Company, Inc.	7,200	Kehlmeyer Inc.	15,000
Rodman & Renshaw, Inc.	1,500	Spencer Trask & Co. Incorporated	15,000
Wm. C. Roney & Co.	15,000	Tucker, Anthony & R. L. Day	7,200
Roose, Wade & Company	3,000	Underwood, Neuhaus & Co., Incorporated	4,800
Rotan Mosle Inc.	4,800	Vercoe & Company, Inc.	1,500
L. F. Rothschild & Co.	15,000	Wagenseller & Durst, Inc.	3,000
R. Rowland & Co. Incorporated	4,800	G. H. Walker, Laird Incorporated	15,000
J. N. Russell Inc.	3,000	Warburg-Paribas, Inc.	15,000
Salomon Brothers	24,600	Watling, Lerchen & Co. Incorporated	15,000
Scherck, Stein & Franc, Inc.	4,800	Weeden & Co. Incorporated	7,200
Seidler, Arnett, Spillane & Harris		Wertheim & Co., Inc.	24,600
Incorporated	3,000	Wheat, First Securities, Inc.	7,200
H. B. Shaine & Co. Inc.	3,000	Hudson White & Company	1,500
Shearson, Hammill & Co. Incorporated	24,600	White, Weld & Co. Incorporated	24,600
Shields Securities Corporation	15,000	Dean Witter & Co. Incorporated	24,600
Shuman, Agnew & Co., Inc.	7,200	Wood, Struthers & Winthrop Inc.	15,000
		Total	1,500,000

The Underwriting Agreement provides that the several obligations of the Underwriters are subject to the approval of certain legal matters by counsel and to the conditions that no stop order suspending the effectiveness of the Registration Statement is in effect and no proceedings for such purpose are pending before or threatened by the Securities and Exchange Commission, that an appropriate order of the MPSC is in effect and that there has been no material adverse change (not in the ordinary course of business) in the condition of the Company from that set forth in or contemplated by the Registration Statement. The nature of the Underwriters' obligation is such that they are committed to take and pay for all of the shares of Common Stock if any are taken.

The Underwriters propose to offer part of the shares of Common Stock directly to the public at the public offering price set forth on the cover page hereof and part to dealers at a price which represents a concession, not in excess of ¢ a share under the public offering price, and any Underwriter may offer shares of Common Stock to certain dealers who are either a parent or a subsidiary of such Underwriter at not less than such price to dealers. The Underwriters may allow and such dealers may realow a concession, not in excess of ¢ a share, to certain other dealers.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Consumers Power Company:

We have examined the balance sheet of CONSUMERS POWER COMPANY (a Michigan corporation) as of December 31, 1973, and the related statements of income, retained earnings, capital in excess of par value and source of funds for gross property additions for the five years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Consumers Power Company as of December 31, 1973, and the results of its operations and the source of funds for gross property additions for the periods stated, in conformity with generally accepted accounting principles applied on a consistent basis during the periods.

ARTHUR ANDERSEN & CO.

Detroit, Michigan,
April 25, 1974.

CONSUMERS POWER COMPANY

BALANCE SHEET

December 31, 1973

ASSETS

	<u>Thousands of Dollars</u>
Utility Plant, at original cost:	
Plant in service and held for future use—	
Electric	\$1,909,907
Gas	913,069
Steam.....	3,280
Common to all departments.....	71,481
	<u>\$2,897,737</u>
Less—Provision for accrued depreciation	652,685
	<u>\$2,245,052</u>
Construction work in progress (Note 3)	359,548
	<u>\$2,604,600</u>
Other Physical Property:	
At cost or less	\$ 2,764
Less—Provision for accrued depreciation	37
	<u>\$ 2,727</u>
Investments:	
Wholly-owned subsidiaries—	
Michigan Gas Storage Company	\$ 16,205
Equity in undistributed net earnings of Michigan Gas Storage Company (Note 1)	3,906
Northern Michigan Exploration Company (Note 4)	14,600
Equity in undistributed net earnings of Northern Michigan Exploration Com- pany (Note 1)	2,031
Other, at cost or less	922
	<u>\$ 37,664</u>
Current Assets:	
Cash (Note 13)	\$ 12,243
Accounts receivable, less reserves of \$674,000 (includes \$85,000 due from subsid- iaries)	67,295
Materials and supplies, at average cost	52,483
Gas in underground storage, at average cost	31,931
Property taxes—future period, net	27,903
Prepayments and other	1,076
	<u>\$ 192,931</u>
Deferred Debits	\$ 6,926
	<u>\$2,844,848</u>

The Notes to Financial Statements are an integral part of this statement.

CONSUMERS POWER COMPANY

BALANCE SHEET

December 31, 1973

STOCKHOLDERS' INVESTMENT AND LIABILITIES

	Thousands of Dollars
Capitalization:	
Common stockholders' equity—	
Common stock, \$10 par value, authorized 32,500,000 shares, outstanding 26,233,838 shares	\$ 262,338
Capital in excess of par value	247,070
Retained earnings (Note 9)	228,397
	\$ 737,805
Less—Capital stock expense	6,975
Total common stockholders' equity	\$ 730,830
Preferred stock, cumulative, \$100 par value, authorized 3,500,000 shares (Note 10) ..	347,534
Total stockholders' investment	\$1,078,364
Long-term debt (Note 11)	1,222,340
Total capitalization	\$2,300,704
Notes Payable, due within one year (Notes 2 and 13):	
To banks (average interest rate of 9.80%)	\$ 43,000
Commercial paper (average interest rate of 9.62%)	1,800
	\$ 44,800
Current Liabilities (excluding notes payable due within one year):	
Current maturities and sinking fund on long-term debt (Note 11)	\$ 17,309
Accounts payable (includes \$6,981,000 due to subsidiaries)	100,311
Accrued taxes	57,831
Accrued interest	20,787
Other	22,893
	\$ 219,131
Deferred Credits:	
Investment tax credit (Note 14)	\$ 47,938
Other	6,213
	\$ 54,151
Reserves:	
Deferred income taxes (Note 15)	\$ 173,616
Other (Note 5)	13,395
	\$ 187,011
Contributions in Aid of Construction	\$ 39,051
Construction Commitments (Note 8)	
	\$2,844,848

The Notes to Financial Statements are an integral part of this statement.

CONSUMERS POWER COMPANY

STATEMENT OF RETAINED EARNINGS

	Year Ended December 31				
	1969	1970	1971	1972	1973
	Thousands of Dollars				
Balance Beginning of Period	\$125,503	\$156,483	\$178,995	\$195,599	\$213,358
Add:					
Net income.....	66,960	72,832	71,780	78,178	80,893
Equity in undistributed earnings of subsidiaries at December 31, 1972 (Note 1)	—	—	—	—	4,359
	<u>\$192,463</u>	<u>\$229,315</u>	<u>\$250,775</u>	<u>\$273,777</u>	<u>\$298,610</u>
Deduct:					
Cash dividends on preferred stock.....	\$ 3,534	\$ 3,517	\$ 7,108	\$ 11,251	\$ 17,746
Cash dividends on common stock declared in the amounts of \$1.42 per share in 1969 and \$2.00 per share in 1970, 1971, 1972 and 1973.....	32,446*	46,803	48,068	49,168	52,467
	<u>\$ 35,980</u>	<u>\$ 50,320</u>	<u>\$ 55,176</u>	<u>\$ 60,419</u>	<u>\$ 70,213</u>
Balance End of Period (Note 9)	<u>\$156,483</u>	<u>\$178,995</u>	<u>\$195,599</u>	<u>\$213,358</u>	<u>\$228,397</u>

* The quarterly dividend on common stock formerly declared in December was declared in January starting in 1970. Therefore, the dividends declared in 1969 only include three quarterly dividend declarations. Dividend payments have continued to be made in the months of February, May, August and November.

STATEMENT OF CAPITAL IN EXCESS OF PAR VALUE

	Year Ended December 31				
	1969	1970	1971	1972	1973
	Thousands of Dollars				
Balance Beginning of Period	\$187,654	\$187,756	\$208,905	\$209,038	\$246,788
Add:					
Excess over par value of common stock sold.....	—	21,012	—	37,620	—
Excess over par value of preferred stock sold.....	—	—	—	—	156
Net gain on reacquisition of preferred stock	102	137	133	130	126
Balance End of Period	<u>\$187,756</u>	<u>\$208,905</u>	<u>\$209,038</u>	<u>\$246,788</u>	<u>\$247,070</u>

The Notes to Financial Statements are an integral part of these statements.

CONSUMERS POWER COMPANY

STATEMENT OF SOURCE OF FUNDS FOR GROSS PROPERTY ADDITIONS

	Year Ended December 31				
	1969	1970	1971	1972	1973
	Thousands of Dollars				
Source of Funds for Gross Property Additions:					
Funds generated from operations:					
Net income after dividends on preferred stock.....	\$ 53,426	\$ 69,315	\$ 64,672	\$ 66,927	\$ 63,147
Principal noncash items—					
Depreciation and amortization (Notes 7 and 6)—					
Per statement of income.....	51,881	55,608	58,210	62,937	73,428
Charged to other accounts.....	5,200	6,162	6,403	11,472	13,616
Deferred income taxes, net.....	10,962	10,222	14,300	18,972	25,072
Investment tax credit, net.....	3,416	448	5,751	5,960	14,057
Common equity component of the allowance for funds used during construction.....	(3,360)	(5,470)	(7,060)	(8,040)	(6,038)
Undistributed earnings of subsidiaries (Note 1) ..	—	—	—	—	(1,541)
	<u>\$131,525</u>	<u>\$136,285</u>	<u>\$142,276</u>	<u>\$158,228</u>	<u>\$181,741</u>
Less—					
Dividends declared on common stock.....	32,446*	46,803	48,068	49,168	52,467
Retirement of long-term debt and preferred stock.....	7,788	9,438	10,538	11,738	12,938
	<u>\$ 91,291</u>	<u>\$ 80,044</u>	<u>\$ 83,670</u>	<u>\$ 97,322</u>	<u>\$116,336</u>
Funds obtained from new financing:					
Issuance of common stock.....	\$ —	\$ 33,661	\$ —	\$ 59,620	\$ —
Issuance of preferred stock.....	—	—	70,000	70,000	130,000
Issuance of first mortgage bonds.....	105,000	110,000	120,000	120,000	75,000
Net proceeds from installment sales contracts payable	—	—	—	—	31,744
Increase (decrease) in other long-term debt.....	—	12,730	(4,239)	(4,418)	(3,915)
Increase (decrease) in notes payable.....	6,900	12,600	(36,500)	6,500	19,300
	<u>\$111,900</u>	<u>\$168,991</u>	<u>\$149,261</u>	<u>\$251,702</u>	<u>\$252,129</u>
Funds obtained from other sources:					
Common equity component of the allowance for funds used during construction.....	\$ 3,360	\$ 5,470	\$ 7,060	\$ 8,040	\$ 6,038
Increase in reserve for possible rate refunds (Note 5) ..	—	4,406	7,278	184	—
Increase in contributions in aid of construction.....	2,530	2,142	3,496	6,293	7,793
Change in net current assets and current liabilities** ..	(2,171)	(15,140)	7,018	9,020	(1,696)
(Increase) decrease in investment in Northern Michigan Exploration Company (Note 4) ..	(2,000)	(4,000)	(4,000)	4,000	(8,600)
Other, net.....	193	33	62	2,850	(3,332)
	<u>\$ 1,912</u>	<u>\$ (7,089)</u>	<u>\$ 20,914</u>	<u>\$ 30,387</u>	<u>\$ 203</u>
Gross Property Additions	<u>\$205,103</u>	<u>\$241,946</u>	<u>\$253,845</u>	<u>\$379,411</u>	<u>\$368,668</u>

* See Note to "Statement of Retained Earnings".

** The changes in the individual accounts classified as current assets and current liabilities are not material in relation to gross property additions.

The Notes to Financial Statements are an integral part of this statement.

CONSUMERS POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The Company's wholly-owned subsidiaries, Michigan Gas Storage Company and Northern Michigan Exploration Company, have not been consolidated as they are not significant and there is no significant difference between recorded cost and the underlying net book value of the subsidiaries. Effective January 1, 1973, the Company, pursuant to Federal Power Commission Order No. 469, adopted the equity method of accounting for the investment in subsidiaries. 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. Prior years, which include dividends paid by one of the subsidiaries, have not been restated for this change in accounting since the effect was not material; however, retained earnings have been credited with the undistributed earnings of the subsidiaries at December 31, 1972 in the amount of \$4,359,272.

The Company provides depreciation on the basis of straight-line rates approved by the Michigan Public Service Commission (See Note 7).

Operating revenue is recognized at the time of monthly billings on a cycle basis for electric and gas service.

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 6).

Reference is made to Notes 14 and 15 for information regarding income taxes.

Reference is made to Note (f) to the Statement of Income for information regarding the allowance for funds used during construction.

2. FINANCING

Reference is made to "Use of Proceeds" for information regarding financing.

3. NUCLEAR GENERATING PLANTS

Construction work in progress includes \$103,932,000 at December 31, 1973 related to the Midland Plant. The issuance of construction permits by the Atomic Energy Commission (AEC) in December 1972 was upheld by an Appeal Board of the AEC in May 1973 but is subject to judicial review. 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. An AEC hearing on the show cause order is scheduled to commence in late June 1974.

Reference is made to Note (b) to the Statement of Income for information relating to the Palisades Nuclear Plant.

4. 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. At December 31, 1973, the Company's investment in Northern consisted of \$14,600,000 in common stock. 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.

5. RATE MATTERS

Reference is made to Note (a) to the Statement of Income for information relating to electric and gas rate matters.

CONSUMERS POWER COMPANY

NOTES TO FINANCIAL STATEMENTS— (Continued)

6. 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 \$7,386,000 in 1969, \$9,195,000 in 1970, \$10,575,000 in 1971, \$13,066,000 in 1972 and \$14,607,000 in 1973. Of these amounts, \$5,722,000 in 1969, \$6,945,000 in 1970, \$8,127,000 in 1971, \$9,817,000 in 1972 and \$10,968,000 in 1973 were charged directly to expense accounts with the remainder being charged to various construction, clearing and other accounts.

On April 11, 1972 the Company's shareholders approved certain revisions in the pension plan which substantially increased the Company's contributions. Concurrent with the revisions to the pension plan, the Company changed two of its actuarial assumptions and increased the period of amortization of unfunded prior service costs from approximately 13 years to 25 years. The assumed rate of return was increased from 3¾% to 4½% and the method of reflecting unrealized appreciation was changed from the "appreciation account" method to the "assumed growth rate" method. The change in the actuarial assumptions and increase in the period of amortization of prior service costs had the effect of reducing the impact of the revisions to the plan on net income and earnings per share of common stock for the year 1972 by approximately \$1,140,000 and \$.05, respectively.

The unfunded prior service cost at January 1, 1973, the date of the most recent actuary's report, amounted to approximately \$22,071,000.

7. DEPRECIATION

Composite depreciation rates were approximately 2.85% for electric plant and 3.20% for gas plant for the year ended December 31, 1969; 2.95% for electric plant and 3.00% for gas plant for the two years ended December 31, 1971; 2.95% for electric plant and 3.01% for gas plant for the year ended December 31, 1972; and 2.92% for electric plant and 3.01% for gas plant for the year ended December 31, 1973. In the opinion of management, the balance in the provision for accrued depreciation at December 31, 1973 is reasonably adequate to cover the requirements for depreciation accrued on the original cost of the depreciable utility plant. At the time properties are retired or otherwise disposed of in the normal course of business, charges are made to the provision for accrued depreciation in the amounts of such retirements, less net salvage credits, and no other adjustments of the provision for accrued depreciation are normally made. Depletion rates, established for each producing field based on the total cost of leaseholds divided by the estimated recoverable reserves, are applied to withdrawals from each field to determine the provision for depletion.

8. CONSTRUCTION COMMITMENTS AND FINANCING RESTRICTIONS

Capital expenditures for property additions in 1974 are estimated to total \$410,603,000. Total construction expenditures over the five years ending December 31, 1978, are presently estimated to approximate \$3,000,000,000. Substantial commitments have been made with respect to capital expenditures in future years.

In order to finance this construction program and to meet first mortgage bond maturities of \$170,334,000 during the five years ending December 31, 1978, it will be necessary for the Company to sell substantial additional securities, the amounts, timing and nature of which have not yet been determined.

The sale of certain securities may be restricted as set forth under "Statement of Income".

Reference is made to "Construction Expenditures" for additional information regarding the Company's construction program.

CONSUMERS POWER COMPANY

NOTES TO FINANCIAL STATEMENTS—(Continued)

9. LIMITATION ON DIVIDENDS

At December 31, 1973 retained earnings in the amount of \$26,065,035 (equivalent to \$7.50 per share of preferred stock then outstanding) are not available for payment of cash dividends on common stock under provisions of the Articles of Incorporation of the Company. There are also other restrictions as to the payment of dividends on common stock, which, however, are presently less restrictive than the limitation mentioned above.

10. PREFERRED STOCK AND PREFERENCE STOCK

Preferred stock at December 31, 1973 is represented by:

	Redemption Price Per Share	Thousands of Dollars
\$4.50—547,788 Shares Outstanding.....	\$110.00	\$ 54,779
\$4.52—127,550 Shares Outstanding.....	104.725	12,755
\$4.16—100,000 Shares Outstanding.....	103.25	10,000
\$7.45—700,000 Shares Outstanding.....	108.00	70,000
\$7.72—700,000 Shares Outstanding.....	108.00	70,000
\$7.76—750,000 Shares Outstanding.....	109.19	75,000
\$7.68—550,000 Shares Outstanding.....	108.00	55,000
Total preferred stock.....		<u>\$347,534</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.

On April 9, 1974 the Company's shareholders approved an increase of 1,500,000 shares in the authorized preferred stock.

On April 9, 1974 the Company's shareholders approved a revision in the Company's Articles of Incorporation which authorizes 5,000,000 shares of cumulative \$1 par value Preference Stock. There are no shares of this new class of stock outstanding.

CONSUMERS POWER COMPANY

NOTES TO FINANCIAL STATEMENTS—(Continued)

11. LONG-TERM DEBT

Long-term debt at December 31, 1973 is represented by:

	Thousands of Dollars
First Mortgage Bonds secured by a mortgage and lien on substantially all property—	
2½% Series due 1975	\$ 86,324
8¼% Series due 1976	60,000
2½% Series due 1977	24,010
3½% Series due 1981	39,000
3% Series due 1984	24,075
4% Series due 1986	33,255
3¼% Series due 1987	25,000
4¼% Series due 1987	210
4½% Series due 1988	34,326
4½% Series due 1989	28,630
3¼% Series due 1990	30,000
4½% Series due 1990	29,572
4½% Series due 1991	31,889
5½% Series due 1996	59,000
6% Series due 1997	78,550
6½% Series due 1998	55,000
6½% Series due 1998	55,000
7½% Series due 1999	50,000
8¼% Series due 1999	55,000
8½% Series due 2000	50,000
8½% Series due 2001	60,000
7½% Series due 2001	60,000
7½% Series due 2002	70,000
7½% Series due 2002	50,000
6½% Series due 2003	75,000
Total First Mortgage Bonds	<u>\$1,163,841</u>
Installment Sales Contracts Payable (Net of \$7,256,000 held in trust pending completion of construction)	31,744
Sinking Fund Debentures, 4½%, due 1994	37,600
Other	4,310
Unamortized Net Debt Premium (not material by individual issue)	2,154
	<u>\$1,239,649</u>
Deduct—	
Current Maturities and Sinking Fund Included in Current Liabilities—	
First Mortgage Bonds	\$ 12,688
Sinking Fund Debentures	600
Other	4,021
	<u>\$ 17,309</u>
Total Long-Term Debt	<u>\$1,222,340</u>

In addition to the long-term debt outstanding at December 31, 1973, in February 1974 the Company executed \$34,700,000 principal amount of Installment Sales Contracts.

CONSUMERS POWER COMPANY

NOTES TO FINANCIAL STATEMENTS—(Continued)

Under the terms of the Indenture securing the First Mortgage Bonds, the Company is required, on or before October 1 of each year, to deposit with the Trustee, cash and/or bonds in an amount equal to 1% of the aggregate principal amount of bonds of all series, other than refunding series, authenticated prior to January 1 of the year of deposit. With respect to all series which have been issued through December 31, 1973, the annual sinking fund requirement is \$12,688,000. In addition, an annual \$600,000 sinking fund deposit is due on the 4% Sinking Fund Debentures on or before September 1 of each year.

12. MAINTENANCE

It is the practice of the Company to charge to maintenance the cost of repairs of property and replacements and renewals of items determined to be less than units of property, except for such costs as are charged to transportation expenses, stores expenses or other clearing accounts and redistributed from these accounts, together with other charges, to various operating, construction and other accounts. The latter amounts so charged are not considered significant and are not readily determinable. Costs of replacements and renewals of items considered to be units of property are charged to the utility plant accounts and charges for the units of property replaced are made to the provision for accrued depreciation and removed from utility plant accounts. Property additions are charged to the utility plant accounts.

13. COMPENSATING BALANCES AND NOTES PAYABLE

The Company has agreements with banks providing for short-term borrowings of up to \$92,000,000. In connection with these agreements the Company is 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 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 during 1973 amounted to \$31,809,000, the maximum amount outstanding at any one time during the year was \$82,000,000 and the weighted average interest rate during the year was 7.85%, excluding the effect of compensating balances.

14. INCOME TAX EXPENSE

Income tax expense is made up of the following components:

	Year Ended December 31				
	1969	1970	1971	1972	1973
	Thousands of Dollars				
Charged to utility operations—					
Federal income taxes.....	\$41,023	\$38,824	\$14,469	\$11,371	\$ 2,718
State income taxes.....	4,071	4,787	3,065	3,216	2,786
Deferred federal income taxes, net.....	9,753	8,936	12,337	15,929	21,133
Deferred state income taxes, net.....	1,209	1,286	1,963	3,043	3,939
Charge equivalent to investment tax credit, net.....	3,416	448	5,751	5,960	14,057
Total—see Statement of Income.....	\$59,472	\$54,281	\$37,585	\$39,519	\$44,633
Charged to nonutility operations.....	677	767	536	253	1,091
Total income tax expense.....	<u>\$60,149</u>	<u>\$55,048</u>	<u>\$38,121</u>	<u>\$39,772</u>	<u>\$45,724</u>

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. (See Note 15)

CONSUMERS POWER COMPANY

NOTES TO FINANCIAL STATEMENTS— (Continued)

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.

The following schedule reconciles the statutory Federal income tax rate to the effective income tax rates for the five years ending December 31, 1973.

	Year Ended December 31				
	1969	1970	1971	1972	1973
Federal income tax statutory rate.....	52.8%	49.2%	48.0%	48.0%	48.0%
Increase (reduction) in income tax rate resulting from:					
Certain capitalized construction costs, principally interest, deducted currently for income tax purposes for which no deferred taxes are provided in accordance with the requirements of the MPSC.....	(5.4)	(7.8)	(12.8)	(14.0)	(12.3)
State income taxes, net of Federal income tax benefit.....	2.0	2.4	2.4	2.8	2.8
Amortization of deferred investment tax credit.....	(.5)	(.6)	(.7)	(.8)	(1.0)
Other miscellaneous items.....	(1.6)	(.2)	(2.2)	(2.3)	(1.4)
Effective income tax rate.....	<u>47.3%</u>	<u>43.0%</u>	<u>34.7%</u>	<u>33.7%</u>	<u>36.1%</u>

15. DEFERRED INCOME TAXES

The Company has elected to compute depreciation allowances for income tax purposes on the basis of the accelerated methods permitted by Sections 167 and 168 of the Internal Revenue Code of 1954. The Michigan Public Service Commission has prescribed that, during the period when the annual allowances for tax depreciation are more than the normal tax depreciation, the income tax deferred is to be charged to income with a concurrent credit to a reserve for deferred income taxes. During the period when the annual allowances for tax depreciation are less than the normal tax depreciation, amounts previously deferred are charged to the reserve and credited to income. The provisions for deferred income taxes in 1971, 1972 and 1973 reflect the effect of shortened depreciation lives under a "class life depreciation system" in accordance with liberalized depreciation guide lines under the Revenue Act of 1971. Following is a summary of the provision for deferred income taxes:

	Year Ended December 31				
	1969	1970	1971	1972	1973
	Thousands of Dollars				
Accelerated depreciation—					
Amount deferred during year.....	\$11,938	\$11,599	\$15,595	\$20,467	\$26,656
Less—Taxes deferred in prior years credited to income.....	(302)	(540)	(458)	(658)	(747)
	<u>\$11,636</u>	<u>\$11,059</u>	<u>\$15,137</u>	<u>\$19,809</u>	<u>\$25,909</u>
Accelerated amortization of emergency facilities—					
Taxes deferred in prior years credited to income.....	674)	(837)	(837)	(837)	(837)
Total.....	<u>\$10,962</u>	<u>\$10,222</u>	<u>\$14,300</u>	<u>\$18,972</u>	<u>\$25,072</u>

Accounts Receivable

Accounts in Arrears - Current Bill Only

	<u>April 1974 Arrears</u>	<u>% of Accounts Receivable As Of April 30, 1974</u>	<u>April 1973 Arrears</u>	<u>% of Accounts Receivable As Of April 30, 1973</u>
Residential	\$5,054,899	7.2928%	\$4,358,767	7.6058%
Commercial	1,795,419	2.5927	1,720,253	3.0017
Industrial	271,748	0.3924	218,402	0.3811
Other	3,647	0.0053	3,199	0.0056
Steam Heating	<u>4,428</u>	<u>0.0064</u>	<u>573</u>	<u>0.0010</u>
Total	\$7,130,140	10.2966%	\$6,301,193	10.9952%

	<u>April 1974</u>	<u>April 1973</u>
Accounts Receivable April 30, 1974 and April 30, 1973	\$69,247,558	\$57,308,600

Accounts Receivable

Accounts in Arrears - More Than Current Bill

	<u>April 1974 Arrears</u>	<u>% of Accounts Receivable As April 30, 1974</u>	<u>April 1973 Arrears</u>	<u>% of Accounts Receivable As Of April 30, 1973</u>
Residential	\$5,390,034	7.7837%	\$3,867,041	6.7477%
Commercial	541,055	0.7814	878,920	1.5337
Industrial	225,210	0.3252	236,005	0.4118
Other	564	0.0008	3,593	0.0063
Steam Heating	<u>992</u>	<u>0.0014</u>	<u>-</u>	<u>-</u>
Total	\$6,157,855	8.8925%	\$4,985,559	8.6995%

Accounts Receivable

Disconnected Service Accounts Not Charged Off

	<u>April 1974 Arrears</u>	<u>% of Accounts Receivable As Of April 30, 1974</u>	<u>April 1973 Arrears</u>	<u>% of Accounts Receivable As Of April 30, 1973</u>
Residential	\$1,407,838	2.0331%	\$1,002,801	1.7498%
Commercial	199,594	0.2882	171,074	0.2985
Industrial	31,506	0.0455	33,438	0.0584
Other	-0-	-	-0-	-
Steam Heating	<u>-0-</u>	<u>-</u>	<u>-0-</u>	<u>-</u>
Total	\$1,638,938	2.3668%	\$1,207,312	2.1067%

Accounts Receivable

Total Service Accounts in Arrears

	<u>April 1974 Arrears</u>	<u>% of Accounts Receivable As Of April 30, 1974</u>	<u>April 1973 Arrears</u>	<u>% of Accounts Receivable As Of April 30, 1973</u>
Residential	\$11,852,770	17.1165%	\$ 9,228,608	16.1034%
Commercial	2,536,067	3.6623	2,770,247	4.8339
Industrial	528,464	0.7632	487,846	0.8513
Other	4,211	0.0061	6,792	0.0118
Steam Heating	<u>5,420</u>	<u>0.0078</u>	<u>573</u>	<u>0.0010</u>
Total	\$14,926,932	21.5559%	\$12,494,065	21.8014%