

10/4/73

UNITED STATES OF AMERICA
BEFORE THE
ATOMIC ENERGY COMMISSION

In the Matter of)
)
Consumers Power Company)
(Midland Units 1 and 2))
)

Docket Nos. 50-329A
50-330A

MOTION TO COMPEL

THIS DOCUMENT CONTAINS
POOR QUALITY PAGES

We have not yet received permission from Wald, Harkrader & Ross to see the documents ordered to be sampled by us pursuant to the Board's September 25, 1973 Order. We ask the Board's help in aiding us to resolve this problem.

As the Board knows, it is with deep concern that we find ourselves precluded from even a cursory examination of the 15,000 pages of documents withheld as allegedly irresponsible or irrelevant.

We enclose herewith copies of documents from the files of Traverse City, Michigan. There is no question that these should have been supplied in response to the Joint Document Requests. If the enclosed documents are an example of what is possibly being withheld we would consider ourselves foreclosed from fully developing our case before this Board. We cannot understand the reluctance of Mr. Ross

RETURN TO LEGISLATIVE CENTRAL FILE
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to permit us to at least determine from the face of any document whether or not we might be able to convince the Board in a motion that the document should be furnished. Clearly, this burden is ours. However, if we can only examine 1/5 of the documents we shall never know whether or not an important document has been withheld without any basis. In my discussion with Mr. Watson concerning the mechanics of the examination, I offered to use any index or other organization by which the contents of the documents could be identified which he could provide. Mr. Watson was not inclined to permit this because he maintains such materials to be work-product.

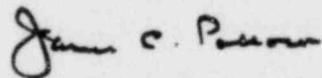
My other suggestion was to select 300 of the documents by looking only at the face of each of the 1500 documents to see if the documents were letters, reports, etc., and their authors and recipients. In this way the documents could be identified sufficiently to make a selection. After selection, I would read those 300 documents selected.^{*/} It would then be my responsibility to file a motion to obtain those specific documents which I determined to be responsive to the Joint Document Requests describing them in sufficient detail to convince the Board that

^{*/} Of course, should the documents selected demonstrate a sufficient basis, we should be able to move to obtain appropriate relief concerning the remaining documents.

they should be furnished and supplying copies to the Board in camera. Mr. Ross of course could file his opposition and the Board would decide.

It appears to us that if Mr. Ross and Mr. Watson are correct, the examination, or at least a cursory look of all the documents, will not injure this position since we should not find anything to prove otherwise. The enclosed documents which represent only what was obtained in a search of one party, give ample reason to let us test the claims that all of the withheld documents are either not responsive or not relevant.

Respectfully submitted,



James Carl Pollock

Attorney for Intervenors

October 4, 1973

Law Offices Of:

Spiegel & McDiarmid
2600 Virginia Avenue, N. W.
Washington, D. C. 20037

UNITED STATES OF AMERICA
BEFORE THE
ATOMIC ENERGY COMMISSION

In the matter of)
)
Consumers Power Company) Docket Nos. 50-329A
Midland Plants Units 1 and 2) 50-330A
)

A F F I D A V I T

DISTRICT OF COLUMBIA, SS:

James Carl Pollock, being first duly sworn, deposes and says that he is the attorney for Interveners, Traverse City, et al., and that as such he has signed the foregoing Motion to Compel for and on behalf of said parties; that he is authorized so to do; that he has read said Motion and is familiar with the contents thereof; and that the matters and things therein set forth are true and correct to the best of his knowledge, information or belief.

James C. Pollock
James Carl Pollock

Subscribed and sworn to before me

this 4th day of October, 1973

Henry J. [Signature]
Notary Public

My Commission Expires September 30, 1974.

UNITED STATES OF AMERICA
BEFORE THE
ATOMIC ENERGY COMMISSION

In the matter of)
) Docket Nos. 50-329A
Consumers Power Company) 50-330A
(Midland Plant, Units 1 and 2))
)

Certificate of Service

I hereby certify that the foregoing document in the above-captioned matter was served upon the following by deposit in the United States mail, first class or air mail, this 4th day of October, 1973.

Alan S. Rosenthal, Esq., Chairman
Atomic Safety and Licensing
Board Panel
U. S. Atomic Energy Commission
Washington, D. C. 20545

Jerome Garfin 1, Esq., Chairman
Atomic Safety & Licensing Board
U. S. Atomic Energy Commission
Washington, D. C. 20545

Joseph J. Saunders, Esquire
Department of Justice
Antitrust Division
Washington, D. C. 20530

Harold P. Graves, Esquire
General Counsel
Consumers Power Company
212 West Michigan Avenue
Jackson, Michigan 49201

William Warfield Ross, Esquire
Wald, Harkrader & Ross
1320 19th Street, N. W.
Washington, D. C. 20036

Law Offices:
Spiegel & McDiarmid
2600 Virginia Avenue, N.W.
Washington, D. C. 20037

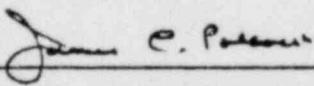
Joseph Rutberg, Esquire
Atomic Energy Commission
7920 Norfolk Avenue
Bethesda, Maryland

Abraham Braitman, Chief
Office of Antitrust and
Indemnity
U.S. Atomic Energy Commission
Washington, D. C. 20545

Mr. Frank W. Karas, Chief
Public Proceedings Branch
Office of the Secretary
Atomic Energy Commission
Washington, D. C. 20545

Wallace Edward Brand, Esquire
Antitrust Public Counsel
Department of Justice
P. O. Box 7513
Washington, D. C. 20044

Dr. J. Venn Leeds, Jr.
P. O. Box 941
Houston, Texas 77001


James Carl Pollock

COPY



CONSUMERS POWER COMPANY

SERVING OVER FOUR MILLION MICHIGAN PEOPLE

NORTHWEST DIVISION
B. D. HILTY, *Division Manager*
TRAVERSE CITY, MICHIGAN 49684

May 28, 1965

To The Mayor, and the City Commissioners,
of the City of Traverse City
City Hall
Traverse City, Michigan

Gentlemen:

In accordance with a request which was made at our last study session with you folks, one of our attorneys has contacted Mr. Roger Watson and discussed with him the right of the City to accumulate a fund for public improvements. Attention was directed to Act 177 of the Public Acts of 1943 (5.2770(1)-5.2770(5) M.S.A.). Attached to this letter is a copy of the Act. In short, the Act authorizes cities to establish a fund for public improvements and provides that money accumulated in the fund shall not be transferred or disposed of except for public improvements.

During the study session some of the members of the Commission felt that it would be possible to more seriously consider acceptance of the lease proposal if it were possible to accumulate, at least in part, funds for public improvements. We certainly hope that Act 177 opens the door for such consideration. We will be most happy to meet with you for any further consideration of our lease proposal.

Sincerely,

B. D. Hilty

BDH/nt
Attach.

CC: City Manager
City Clerk
City Attorney
Traverse City Record Eagle

*Called Ken Kaiser
6/2/65*

PUBLIC IMPROVEMENT OR PUBLIC BUILDING FUNDS

AN ACT to provide for the creation of a fund or funds in political subdivisions for acquiring, constructing, extending, altering, repairing or equipping public improvements or public buildings; to provide for appropriations, credits and transfers to said fund or funds; and to provide for the disbursement thereof.

The People of the State of Michigan enact:

§ 5.2770(1) Authority for creation of fund.] Section 1. The legislative or governing body of any political subdivision is hereby authorized and empowered to create and establish a fund or funds for the purpose of appropriating, providing for, setting aside and accumulating moneys to be used for acquiring, constructing, extending, altering, repairing or equipping public improvements or public buildings, which said political subdivision may by the provisions of its charter or the general law be authorized to acquire, construct, extend, alter, enlarge, equip or repair.

§ 5.2770(2) Use of fund; transfers and credits.] Sec. 2. Notwithstanding the provisions of any law or the charter of any city or village, moneys accumulated in said fund shall not be transferred, encumbered or otherwise disposed of, except for the purpose of acquiring, constructing, extending, altering, repairing or equipping public improvements or public buildings, which a political subdivision may by the provisions of its charter or the general law be authorized to acquire, construct, extend, alter, repair or equip. Funds established and moneys on hand which had been allocated to or appropriated for the making of capital improvements on January 1, 1956, may be transferred to or credited to such reserve fund created under authority of this act and when so transferred or credited shall be governed by the provisions of this act.

§ 5.2770(3) Revenue allocable to fund.] Sec. 3. The legislative or governing body of any political subdivision may allocate to said fund miscellaneous revenues received and credited to the general fund, including revenues received and credited to the subdivision under the provisions of Act No. 155 of the Public Acts of 1937, as amended, being sections 211.351 to 211.364, inclusive, of the Compiled Laws of 1948, and also revenues received from the sale of lands owned by the political subdivision and which are no longer needed for public purpose, if said revenues are not otherwise pledged or encumbered for other purposes.

§ 5.2770(4) Tax limitation not affected.] Sec. 4. Nothing in this act shall be construed so as to authorize any city or village to exceed any tax limitation imposed by law or charter of said city or village.

§ 5.2770(5) Act as additional authority; "political subdivision" defined.] Sec. 5. This act shall be in addition to all powers heretofore granted to political subdivisions by state law, or by any charter thereof.

The term "political subdivision" as used in this act shall be construed to mean any county, city, village, township, school district or other local unit of this state.

February 9, 1965

Mr. Gerrit Elenbaas
Consumers Power Co.
821 Hastings Street
Traverse City, Michigan

Dear Mr. Elenbaas:

Because there is apparently some misunderstanding relative to the disposition of the matter of the City purchasing power from Consumers Power Co., I feel that I should inform you of my understanding of the situation.

Prior to my coming here the City and Consumers Power spent a considerable amount of time evaluating the costs and the requirements for power and joint meetings were held. It is my understanding, and the understanding of the Commission, that the proposal of Consumers Power was thoroughly and adequately considered and that they did not feel this method was the best answer to the situation. For this reason no further action was taken upon the proposal. Because of your recent phone call I have the opinion that you felt this matter was still pending. Actually your proposal was quite thoroughly considered along with other facets to this problem and at the present time no thought is being given to the purchase of power.

I hope this clarifies the status of this matter. I would be pleased to answer any questions that you might have relative to it.

Thank you.

Sincerely,

Lawrence C. Savage
City Manager

les/ps



CONSUMERS POWER COMPANY

SERVING OVER FOUR MILLION MICHIGAN PEOPLE

NORTHWEST DIVISION
B. D. HILTY, *Division Manager*
TRAVERSE CITY, MICHIGAN 49684

February 27, 1965

To The Mayor, and the City Commissioners,
of the City of Traverse City
City Hall
Traverse City, Michigan

Gentlemen:

We read the article published in yesterday's Traverse City Record-Eagle with great interest and were dismayed and disturbed.

There was no knowledge on our part of any official request for an offer from Consumers Power Company to purchase the City electrical system. If the City Commission wishes to evaluate an offer from us, we will be happy to submit a valid and meaningful proposition.

The manner in which our wholesale proposal has been applied is not correct and does not reflect either the proper costs or benefits which would be available to the City.

It seems logical to us that the City should carefully and accurately consider all alternatives before a decision of magnitude is made. I am sure that both the City Commission and Consumers Power Company have a common and compelling interest in assuring the citizens of Traverse City the best possible electrical service at the lowest possible cost now and in the years ahead. To this end we are always willing to work with the City and will do so now. We have attempted to do this in the past and hope that an objective and accurate conclusion to the electric problem can be determined to the satisfaction of the citizens of the City of Traverse City.

Please consider this letter an official communication.

Sincerely,

B. D. Hilty

EDH/nt

CC: City Manager
City Clerk
Traverse City Record-Eagle



CONSUMERS POWER COMPANY
SERVING OVER FOUR MILLION MICHIGAN PEOPLE

NORTHWEST DIVISION
E. D. HILTY, Division Manager
TRAVERSE CITY, MICHIGAN 49684

March 12, 1965

To The Mayor, and the City Commissioners,
of the City of Traverse City
City Hall
Traverse City, Michigan

Gentlemen:

This letter is an official confirmation of the major points of a lease proposal by Consumers Power Company which was discussed with you Monday, March 8, 1965 at a study session. We believe the following proposal provides greater benefits for the people of Traverse City than those offered through expansion of the electric generating plant.

The Company proposes to lease the City's electric system for a period of 30 years at a rental of \$528,000 per year. In addition, the Company would pay real and personal property taxes on the system covered by this lease. Based on present conditions, we estimate that this would amount to \$60,000 annually.

You will readily see, we believe, that under the lease arrangement the City would not only retain ownership of its electric system but would also realize many other advantages, some of which are as follows:

1. The City would receive an assured income of \$528,000 per year, an amount exceeding all financial benefits said to be realized through City operation of the electric system.
2. This money could be used for civic improvements or for the reduction of taxes.
3. There would be no need to bond the City for \$2,500,000 and to use the \$1,000,000 now in hand for expansion of the City plant. The need of additional bond issues for future expansion would be eliminated. The \$1,000,000 could return to the City approximately \$40,000 annually in interest.

#17032
Lease Agreement between the City and Consumers Power for the Light and Power Plant received and placed on file. Proposal to be studied and explained in its full circumstance to the citizens of Traverse City. Regular Meeting. 3/15/65

To The Mayor, and the City Commissioners
City of Traverse City
March 12, 1965

2

4. Traverse City would be assured of ample power for all present and future needs, supplied through the state-wide system of Consumers Power Company and the Michigan power pool.
5. The City would be assured that its electric service would always reflect the technological progress of the electric industry and enjoy the benefits resulting from continuous research and development programs. Nuclear power and improved electric distribution techniques are two of many fields of study.
6. The City's tax base would immediately increase and would continue to increase, through additions made to the electric system by Consumers Power Company during the lease period, benefiting not only the City but also the county and the school district.
7. Electric rates would be under regulation by the Michigan Public Service Commission, as in Grand Rapids, Muskegon, Flint, Saginaw and the many other cities served by Consumers Power Company.
8. Individual employees not retained by the City would be offered employment with the Company, consistent with present work performed and individual capability, at rates that would be more advantageous to the employees than those now paid by the City. Length of service will be recognized in applying Company retirement and other benefit programs.
9. The City Commission and City officials would be relieved of the time-consuming burden of operating and planning for the electric system, and thus would be able to give their full attention to the normal problems of City government.
10. The City's appearance would be improved through the removal of duplicating electric lines.
11. Smoke and fly ash from the City plant would virtually be eliminated, since ample power for the City's needs would normally flow in from the Consumers Power Company system.

To The Mayor, and the City Commissioners
City of Traverse City
March 12, 1965

3

12. The City could recover a part of its investment in the existing electric plant through the sale of unneeded equipment not required by Consumers Power Company and not a part of the lease.
13. Traverse City would have the full cooperation, if so desired, of Consumers Power Company's strong Industrial Development Department, which has contacts with industrialists in all parts of the United States, in bringing to Traverse City the types of industry appropriate to the City's planning.
14. Consumers Power Company specialists in power engineering, lighting, home economics and cooperative promotional programs would be at the service of the people and businesses of Traverse City.

At the end of the lease period the system covered by the lease, namely the electric generating plants and the distribution system in those areas presently served solely or jointly by the City, would revert to the City under the following conditions:

- A. Any facilities presently owned by the City and still in service at the end of the lease period would revert to the City at no cost.
- B. Any additions, improvements or replacements of present City facilities made by the Company during the period of the lease would revert to the City upon payment to the Company of their then appraised value, recognizing depreciation.
- C. Any Company distribution facilities presently in the described area covered by the lease or any additions to or replacements thereof made by the Company during the period of the lease would be sold to the City at their then appraised value, recognizing depreciation.

It is not possible, in a letter of reasonable length, to discuss all the details of a lease and the benefits the people of Traverse City would realize through acceptance of our proposal. We appreciated the opportunity of meeting with you this past Monday. We know that questions will occur to you and look forward to the opportunity for a full discussion at an early date.

Yours very truly,

CONSUMERS POWER COMPANY

B. D. Hilty
B. D. Hilty
Division Manager
Northwest Division

BDH/nt
CC: City Manager
City Clerk
Traverse City Record Eagle

Consumers Details Its Proposal to Lease City Power Department

An offer by Consumers Power company to lease the facilities of the Traverse City light and power department for 30 years for an annual payment of \$528,000, plus taxes estimated at \$60,000 a year, has been made to the city commission, it was announced today by Bob Hilly, division manager for the company.

In addition, the company has offered to hire all light and power department employees who could not be retained by the city if the lease arrangement is accepted.

The company would also pay taxes on any additional facilities added to the system during the lease period.

The city commission received the offer verbally Monday night and has been studying it since.

City officials have indicated that the proposition is of such magnitude and complexity "as to require lengthy investigation and statistical analysis."

City engineers and consultants are presently developing city plans for use of electricity for street lights and other facilities. Since this usage, instead of being furnished by the municipally operated plant, would be paid for if Consumers should take over.

The effects of inflation over the suggested period of time is also being considered, city officials said, as well as a comparison of projected growth if the city remain in the power business.

At present, the commission stands committed to embark on a \$3.5 million expansion program unless petitions asking for a referendum on the issue are filed within 30 days of the February 15 commission decision.

The commission's next regular

meeting is Monday night at which time it would be possible to rescind its previous decision in order to give more time to study the lease offer.

The lease figure suggested by Consumers means that the city would collect \$15,840,000 over the next 30 years, plus taxes. In addition, the city could retain the \$1 million surplus in the light and power department and invest it, or divert it for other purposes.

Essentials of the Consumers Power Company offer follow:

The company proposes to lease the city's electric system for a period of 30 years at a rental of \$528,000 per year. In addition, the company would pay real and personal property taxes on the system covered by this lease. Based on present conditions, we estimate that this would amount to \$60,000 annually.

You will readily see, we believe, that under the lease arrangement the city would not only retain ownership of its electric system but would also realize many other advantages, some of which are as follows:

1. The city would receive an assured income of \$528,000 per year, an amount exceeding all financial benefits said to be realized through city operation of the electric system.

2. This money could be used for civic improvements or for the reduction of taxes.

3. There would be no need to bond the city for \$2,500,000 and to use the \$1,000,000 now in hand for expansion of the city plant. The need of additional bond issues for future expansion would be eliminated. The \$1,000,000 could return to the city approximately \$40,000 annually in interest.

4. Traverse City would be as-

sured of ample power for all present and future needs, supplied through the state-wide system of Consumers Power Company and the Michigan power pool.

5. The city would be assured that its electric service would always reflect the technological progress of the electric industry and enjoy the benefits resulting from continuous research and development programs. Nuclear power and improved electric distribution techniques are two of many fields of study.

6. The city's tax base would immediately increase and would continue to increase, through additions made to the electric system by Consumers Power during the lease period, benefiting not only the city but also the county and the school district.

7. Electric rates would be under regulation by the Michigan Public Service Commission, as in Grand Rapids, Muskegon, Flint, Saginaw and the many other cities served by Consumers Power Company.

8. Individual employees not retained by the city would be offered employment with the company, consistent with present work performed and individual capability, at rates that would be more advantageous to the employees than those now paid by the city. Length of service will be recognized in applying company retirement and other benefit programs.

9. The city commission and city officials would be relieved of the time-consuming burden of operating and planning for the electric system, and thus would be able to give their full attention to the normal problems of city government.

10. The city's appearance would be improved through the removal of duplicating electric lines.

11. Smoke and fly ash from the city plant would virtually be eliminated, since ample power for the city's needs would normally flow in from the Consumer's Power Company system.

12. The city could recover a part of its investment in the existing electric plant through the sale of unneeded equipment not required by Consumers Power Company and not a part of the lease.

sired, of Consumers Power Company's strong industrial development department, which has contacts with industrialists in all parts of the United States, in bringing to Traverse City the types of industry appropriate to the city's planning.

14. Consumers Power Company specialists in power engineering, lighting, home economics and cooperative promotional programs would be at the service of the people and businesses of Traverse City.

At the end of the lease period the system covered by the lease, namely the electric generating plants and the distribution sys-

CONSUMERS . . .

(Continued from Page One)

tem in those areas presently served solely or jointly by the city, would revert to the city under the following conditions:

A. Any facilities presently owned by the city and still in service at the end of the lease period would revert to the city at no cost.

B. Any conditions, improvements or replacements of present city facilities made by the company during the period of the lease would revert to the city upon payment to the company of their then appraised value, recognizing depreciation.

C. Any company distribution facilities presently in the described area covered by the lease or any additions to or replacements thereof made by the company during the period of the lease would be sold to the city at their then appraised value, recognizing depreciation.



CONSUMERS POWER COMPANY

SERVING OVER FOUR MILLION MICHIGAN PEOPLE

NORTHWEST DIVISION
B. D. HILTY, *Division Manager*
TRAVERSE CITY, MICHIGAN

January 22, 1964

Mr. C. A. Miller
Acting City Manager
City Hall
Traverse City, Michigan

Dear Al:

I appreciate your letter requesting what we mean when we state "...we seriously question fuel costs on the new machine and the Btu content of coal..." Attached you will find a calculation we have made based on a 20,000 kw steam-turbine generator operating with 850 psig, 900° F, and 1-1/2 inches Hg. We have used Westinghouse's information concerning steam-turbine generator units for performance, Data No. 1238 C, pages 1 and 2. I believe you will find no problem in running through the calculations.

I believe we should make these comments however: This type of machine is normally designed to operate at 1-1/2 inches Hg. Exhaust pressures may vary either above or below that pressure, however the design characteristics of a machine, in my opinion, should be used for the overall estimated costs of operation. We have been told by the City Staff that an exhaust pressure of less than 1 inch Hg. is possible. We do not doubt this a bit but would like also to point out that problems could be created in this area inasmuch as a refrigeration effect is entirely likely. It is also possible that a machine might operate at 3 inches Hg. under certain conditions.

The other area we would like to comment upon is that coal, in our opinion, delivered at your plant here and as it would be used here would be something less than 13,500 Btu per pound. We believe that this is due to a number of factors,

Mr. C. A. Miller
Traverse City, Michigan
January 22, 1964

2

one of which is the necessity of recognizing moisture content as well as the fact that Hazard No. 4 coal is most difficult to buy on any consistent basis at a price which the City is paying per ton. In the calculations we have used 13,500 Btu per pound assuming a 5% moisture content would result in a 12,825 Btu per pound as fired.

In all of our calculations and comparisons we have attempted to be realistic and not lean either to the optimistic or the pessimistic side of an estimation.

Please let me know if you desire any other information.

Sincerely,



B. D. Hilty

BDH/nt
Attach.

ESTIMATED FUEL COST

20,000 Kw Steam-turbine Generator
850 psig, 900° F, 1-1/2 Inches Hg.

<u>Basic efficiency</u>		.768 ✓
<u>Superheat correction factor</u>		1.028
<u>Corrected basic efficiency</u>	.768 x 1.028 =	.7895
<u>Theoretical steam rate</u>		6.122 lbs per kwh
<u>Basic steam rate</u>	$\frac{6.122}{.7895} =$	7.754 lbs per kwh

Actual steam rates

<u>% Load</u>	<u>Basic Steam Rate</u>	<u>Load Correction Factor</u>	<u>ASR (lbs per kwh)</u>
40	7.754	1.0500	8.142 ✓
60	7.754	1.0035	7.820
80	7.754	.9943	7.710
100	7.754	1.000	7.754

Heat removed by turbine

<u>% Load</u>	<u>Heat at Throttle (Btu/lb)</u>	<u>Heat in Condensate (Btu/lb)</u>	<u>Gross Heat Rate (Btu/Kwh)</u>	<u>Station Auxiliaries</u>	<u>Net Heat Rate (Btu/Kwh)</u>
40	1,453	60	11,342	5%	11,909
60	1,453	60	10,893	5%	11,438
80	1,453	60	10,740	5%	11,277
100	1,453	60	10,801	5%	11,341

Heat Required in Coal (Boiler Eff. at 83%)

<u>% Load</u>	<u>Net Plant Heat Rate (Btu/Kwh)</u>
40	14,348
60	13,781
80	13,587
100	13,664

Fuel Cost

at 35.4¢ per Mil Btu

<u>% Load</u>	<u>¢/Kwh</u>
40	.508
60	.488
80	.481
100	.484

March 18, 1963

"Personal & Confidential"

Dear Bob:

This will acknowledge your letter of March 5th which reflected your interest and concern for the City's welfare for which I am deeply grateful.

You have, indeed, graciously responded to our every request in the study of our power utility expansion problem which has been going on intermittently for five years and in concentration for the past two years.

Submission of your two proposals were very helpful. It was my hope that one of them would open the door to the best solution. This was not to be but we are no less grateful to you and your great organization.

I was glad to note that your letter was "Personal" because this gives us both a chance to let our hair down.

Frankly, I did detect that some of your statements were somewhat charged and, while I understand and appreciate your feelings, I am compelled to say that there is really no need for the alarm you sound for us.

In our own defense, I would have to say that, while we cannot match the experience and talent of your organization in the electric power field, I think we are, nonetheless, quite well supported in experience and talent in public service and, more importantly, in the principles, art and in the mechanics of protecting the public interest and welfare. In all candor, I cannot accept inferences or impressions to the contrary.

At the risk of sounding boastful, I sincerely believe we are nothing short of dedicated public servants. We are fully (and woefully) aware that we are not infallible; that we certainly do not have all of the answers and that even in the fields where we do enjoy a modicum of competence, we certainly do not own a monopoly.

Being public servants of mature and fairly sound judgment, we do not find it at all difficult to recognize our deficiencies and shortcomings, hence our readiness to seek expert counsel and advice and hence our engagement of Albert Kahn as our consultants in the matter of the power utility program.

I think it is a little unfair to state that we compared the dump power arrangement with your proposal. We were not comparing services at all. We were attempting only to determine what the ultimate surplus between income and expense would be to the City under every kind of arrangement available to us.

I think we quite readily acknowledged that our contract with REA was not for firm power as we all understood this to be. We did indicate that it was presently, and had been, working out that way.

To further refresh your memory, you will also recall that I repeatedly posed the question and even thought, then and there, that I might call REA during our meeting to see if they would give us a written statement that our contract was for firm power, knowing full well that, on paper, it was not. I, therefore, fail to understand any reason for anyone being shocked, as you put it. I repeat, our most positive statement on this question was that thus far, in actual practice, it was

virtually a firm power set up. That is all we claimed. I even went so far as to comment that if it were a firm contract with REA, there would not have been the spread between your proposal and theirs three years ago when we first considered an interchange arrangement.

At this point, I feel compelled to also repeat, because of the tone of your letter, that our sworn duty and our responsibility to our superiors and constituents; to their interest and welfare; to their need for improving their standards of activity and to their urgent need to enhance their competitive position, is our prime and only duty, concern and purpose. At least to a degree, I believe our record attests to our dedication to this principle and to its implementation. We are keenly aware of the accepted definition of firm power and its vital need not only by our business and industrial communities, as you point out, but by our domestic community as well.

I believe I have commented on some of your thoughts in paragraph 2, page 2, and would add that I can see no need for anyone to be deeply disturbed because if it is humanly possible, our City Commission and I are here, doing our damndest to protect Traverse City and its people and not to put them in jeopardy. When I reflect on how hard we work and our modest achievements, this inference takes a rather unkind and an unjustifiable cut.

I must disagree with you that Method IV fails to give adequate consideration to the full meaning of firm power. If the largest unit is out of service, we will have a firm capacity of 14,000 KW which is 1,000 less than our present rated capacity. A second unit of equal or greater size is contemplated for 1973 in the preliminary Kahn report, depending on

the rate of increase of our demand. Even the projections in your proposal indicated this, as I remember them.

What is more, the installation of a 90-100 thousand pound boiler instead of a 75 or 165 thousand pound unit, with a 7500 KW generator, would give us the same firm capacity at about one-half the cost of the ultimate program recommended by Kahn.

In answer to your next to the last paragraph, I would say that we have, and are, considering purchased power insofar as, up to this time, you would permit. You recalled in your letter that we requested proposals from you, in the first instance, and it was our hope that the new Kwh rate would be more comparably productive to the plans for expansion now under study. When these proved somewhat discouraging, to me at least, I tried to feel you out as to the possibility of a more favorable rate proposal. I didn't feel that I could bluntly ask for it. The impression I got was that this was it. Because of this firm impression, I did not think it wise to explore the possibility of purchasing our entire power needs.

I am sure that you were aware that an important guide post to us was the comparison of surpluses of income over expense in all plans. I would expect, therefore, that if there were any advantage that would accrue to the City if we were to purchase all of the power we needed, that you would have somehow indicated this to us. Frankly, I was hoping you would come through with a rate comparable to Bay City's whose customer rates are less than ours and yet they earn proportionately as much as, or more than we do.

March 18, 1963

Please let me assure you that you do not want the best for Traverse City and its people any more than we do. This happens to be our direct responsibility. But even so, we cannot hope to attain this, or any goal, in any phase of community life and public service unless we have the help and cooperation of every element and area of interest in the community. Such universal, local cooperation cannot be achieved if we misunderstand each other or if we deliberately depreciate what each of us is, at least, trying conscientiously to do. It is, of course, healthy, necessary and natural to have honest differences of opinion and we heartily welcome this always. But we must not allow these to deteriorate to a point where any of us succumbs to the inherent temptations and motivations induced by selfish interest, if and when these should raise their unwelcome heads.

I am grateful for your assurance that you and your great organization stand ready to be of service to this fine and beautiful City. We urgently need all of the help we can get.

Very truly yours,

N. G. Damoose
City Manager

P.S. The statements herein are solely my own. They do not necessarily reflect the attitude, opinion, position or thoughts of my superiors or any of my associates.

Mr. Robert Hilty
Manager
Consumers Power Co.
Traverse City, Michigan

ngd/ps



CONSUMERS POWER COMPANY

SERVING OVER FOUR MILLION MICHIGAN PEOPLE

NORTHWEST DIVISION
B. D. HILTY, Division Manager
TRAVERSE CITY, MICHIGAN

November 1, 1962

Mr. N. G. Damoose
City Manager
City of Traverse City
Traverse City, Michigan

Dear Mr. Damoose:

On October 24, 1962 we met with you and your associates to outline a proposal for power supply from Consumers Power Company. We hereby confirm our proposal and respectfully submit our suggestions for an economical use of purchased power.

It is our understanding that you have various plans of power supply under consideration at this time. Further, if an inter-connection were made with Consumers, its use would primarily be back-up to your present generating equipment. From your load estimates we understand that the back-up requirements for 1963 would be approximately 4600 kilowatts and would increase each year by an amount equal to your load growth. The 1972 back-up is estimated at near 13,000 kilowatts. It was your thought that any required transformer or substation equipment be supplied by the City, and that you would receive power from Consumers at a high voltage. Based on this information our proposal for supply of electric power is outlined below for your consideration.

- (A) Delivery of energy by Consumers to be at 34,500 volts and at a mutually agreeable location adjacent to the Traverse City Power Plant.
- (B) The City would provide all equipment necessary for receiving power at 34,500 volts including transformation, regulation and distribution.
- (C) The monthly rate to be as follows:

\$1.95 per kva for the first 2200 kva of billing demand,

\$1.75 per kva for all over 2200 kva of billing demand,

0.7¢ per kwh for all kwh.

2 + 3 = 2.10
1.95 - 1.93

Mr. N. G. Damoose
City Manager
Traverse City, Michigan
November 1, 1962

There would be a Fuel Cost Adjustment Charge based on Consumers' average cost of fuel in storage and which is presently a credit of 0.024¢ per kwh.

- (D) All energy delivered would be metered at 34,500 volts.
- (E) A contract demand of 3000 kva will be established, and whenever this contract demand so established is exceeded by the creation of a greater actual demand then this greater demand shall become and remain the contract demand until it is exceeded, and so on.
- (F) The billing demand for each month shall be the maximum demand as created.
- (G) The annual minimum charge shall be \$24 per kva of contract demand. The amount of this annual minimum charge shall be determined by applying one-twelfth of the \$24 annual minimum charge per kva to the contract demand in effect for each month of the twelve-month period covered. When in any contract year the net monthly bills total less than the annual minimum charge, the difference will be paid at the end of such contract year.

Our proposal, as outlined above, we are confident would give you a very economical and flexible operation at a minimum of capital outlay. It provides insurance against breakdown at a reasonable cost, and allows you to purchase kilowatt-hours at your discretion and at a cost comparable with your steam generation operating expenses.

We have, as was discussed with you at our October 24 meeting, taken the liberty of estimating your power supply expenses for two methods of operation that appear to be practical. They are outlined below as Plan I and Plan II, and both provide the insurance or back-up against breakdown that you require. Both plans are projected over a ten-year period.

Plan I assumes that existing generating equipment will be operated to supply all energy requirements up to a generation capability of 14,000 kilowatts at a 50% annual load factor. All energy requirements over this output will be purchased. It is further assumed that there will be one breakdown each year and at the peak load time. Consumers would assist in supplying the system load during this breakdown. The annual amounts of power generated and purchased under this plan are shown on attached Sheet No. 1.

Plan II assumes that only the City's most efficient steam turbine generator will be run. This, we understand, is the 7500 kilowatt Elliott

Mr. N. G. Demoose
City Manager
Traverse City, Michigan
November 1, 1962

3

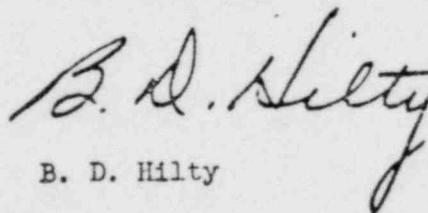
machine; and under this plan it is assumed to carry a maximum load of 7000 kilowatts. This is because the maximum continuous steam output of one of your two good boilers approximates this much power. One boiler would always be held in reserve, and you could, at all time, produce 7000 kilowatts of power. It was also assumed that the maximum annual peak load on the purchased power would be equal to the breakdown requirements. With this in mind, the output of the Elliott machine was held to a 50% annual factor in 1963 and increased proportionally to 80% by 1972. Sheet No. 2 shows generated and purchased power under this plan.

Sheet No. 3 shows the comparison of the two plans for the years 1963 through 1972 using the assumptions mentioned above. There are no fixed costs (such as interest and depreciation) included because the investment under either plan would be the same. However, when comparing with the various other methods of power supply that you have under consideration, you should consider fixed costs under all plans of power supply. In any event, the fixed costs under these two plans will be small when compared to the fixed costs on additional generating capacity. As an example, if you added 10,000 kilowatts to your generating plant, this very likely would run you some \$2,500,000 to \$3,000,000. The fixed costs on this amount of capital outlay would approximate 4% as interest and 3% as depreciation, and would make for a fixed cost of \$175,000 to \$210,000 the first year.

Of the two plans of operation with purchased power that we have considered, we recommend Plan II. It gives you the back-up power that you need for a good system operation and also utilizes that amount of power to the best advantage on the rate offered. It allows you to run only your most efficient generator, and gives you flexibility of operation for scheduling maintenance.

Thank you very much for the opportunity to make this proposal to you. We will be happy, at your convenience, to discuss our proposal further with you. We feel confident that it offers to the City of Traverse City an economical and reliable means for improvement of its electrical supply.

Yours very truly,


B. D. Hilty

BDH/nt
Attach.

6736

PLAN I

Estimated Demands and Kilowatt-Hours

	Total Requirements		Self Generated (Net)		Purchased		
	Kw (annual peak)	Kwh x 10 ⁶	Kw	Kwh x 10 ⁶	Kw (maximum) (A)	(B)	Kwh x 10 ⁶
1963	11,660	53.0	6066	11,660	4,660	-	-
1964	12,350	56.2	6433	12,350	5,350	-	-
1965	13,000	59.6	6822	13,000	6,000	-	-
1966	13,780	63.1	7222	13,780	6,780	-	1.8
1967	14,600	66.9	7658	14,600	7,600	600	5.6
1968	15,500	70.9	8106	14,000	8,500	1,500	9.6
1969	16,400	75.2	8608	14,000	9,400	2,400	13.9
1970	17,400	79.7	9123	14,000	10,400	3,400	18.4
1971	18,500	84.5	9673	14,000	11,500	4,500	23.2
1972	19,600	89.5	10245	14,000	12,600	5,600	28.2
Total		698.6	7995.7				100.7

(A) - Breakdown requirements with loss of one 70,000 #/hr boiler.

(B) - Requirements over output of existing plant operation at 50% annual load factor.

PLAN IIEstimated Demands and Kilowatt-Hours

	<u>Total Requirements</u>		<u>Generated</u>		<u>Purchased</u>	
	<u>Kw (annual peak)</u>	<u>Kwh x 10⁶</u>	<u>Kw</u>	<u>Kwh x 10⁶</u>	<u>Kw (maximum)</u>	<u>Kwh x 10⁶</u>
1963	11,660	53.0	7,000	30.6	4,660	22.4
1964	12,350	56.2	7,000	32.6	5,350	23.6
1965	13,000	59.6	7,000	34.7	6,000	24.9
1966	13,780	63.1	7,000	36.7	6,780	25.4
1967	14,600	66.9	7,000	38.8	7,600	23.1
1968	15,500	70.9	7,000	40.8	8,500	30.1
1969	16,400	75.2	7,000	42.8	9,400	32.4
1970	17,400	79.7	7,000	44.9	10,400	34.8
1971	18,500	84.5	7,000	46.9	11,500	37.6
1972	19,600	89.5	7,000	49.0	12,600	40.5
Total		698.6		397.8		300.8

10/29/62

ESTIMATED POWER COSTSPlan I vs. Plan II

	Plan I			Plan II		
	Purchased Power	Self Generated Power	Total	Purchased Power	Self Generated Power	Total
1963	\$ 72,000	\$ 439,900	\$ 511,900	\$ 240,400	\$ 222,400	\$ 462,800
1964	111,800	466,500	578,300	260,400	238,000	498,400
1965	128,400	494,700	623,100	280,400	253,300	533,700
1966	144,000	508,800	652,800	304,000	267,900	571,900
1967	162,700	508,800	671,500	329,700	283,200	612,900
1968	182,400	508,800	691,200	358,800	297,800	656,600
1969	204,000	508,800	712,800	390,000	312,400	702,400
1970	225,600	508,800	734,400	423,600	327,800	751,400
1971	265,800	508,800	774,600	461,700	342,400	804,100
1972	321,800	508,800	830,600	500,500	357,700	858,200
10-Year Total	\$1,818,500	\$4,962,700	\$6,781,200	\$3,549,500	\$2,902,900	\$6,452,400
Cents Per kWh	1.806	0.83	0.971	1.180	0.73	0.924

Note:

The investment for transformer substation would be the same under either of these plans.

10/29/62