CONSUMERS POWER COMPANY

ANNUAL REPORT TO SHAREHOLDERS

1979

(Company has at least
1 operating plant)

RAMS Coding:

Docket No. 50-155

Activity Code R36

TACS No. 5405

REVIEW OF ANNUAL FINANCIAL REPORTS (10 CFR 50.71b)

FINANCIAL QUALIFICATIONS SECTION

Company Name: Consumers Power Co.

Date of Balance Sheet: 12-31-79

Date FIN Section Receives Report: 4-18-80

Assigned to: Mike Karlowicz Date: 4-18-80

The annual financial report for the above-named company has been reviewed. The review indicates that special monitoring of the company's financial condition and progress is needed ☐.

is not needed ☒.

If special monitoring is recommended, indicate reasons and any other recommended action:

[signature]
Signature of Reviewer

April 25, 1980
Date Review is Completed

Jim C. Petersen
Approved

4-25-80
Date Approved

About Our Photos

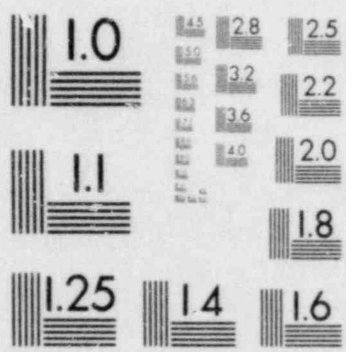
Shareholders—who participate in the future of Consumers Power through their investment in the Company—are the photographic theme of this annual report. In the Stock Transfer Department, Jean Matz works with registration books containing information about the Company's 205,000 shareholders. Jean is a shareholder herself through the Employee Stock Ownership Plan.

Contents

FINANCIAL HIGHLIGHTS	**1979**	1978
Total Operating Revenue	**$2,003,374,000**	$1,866,921,000
Net Income	**$ 203,787,000**	$ 185,131,000
Earnings per Common Share	**$3.24**	$3.21
Average No. of Common Shares Outstanding	**48,003,214**	43,743,081
Dividends Paid per Common Share	**$2.30**	$2.18
Return on Average Common Equity	**11.4%**	11.5%
Capital Expenditures	**$ 823,967,000**	$ 665,057,000
Net Investment in Utility Plant at Year End	**$4,670,780,000**	$3,986,378,000
Total Capitalization at Year End	**$4,136,975,000**	$3,919,621,000

Consumers Power Company Annual Report 1979
212 West Michigan Avenue, Jackson, Michigan 49201 (517) 788-0550

IMAGE EVALUATION
TEST TARGET (MT-3)



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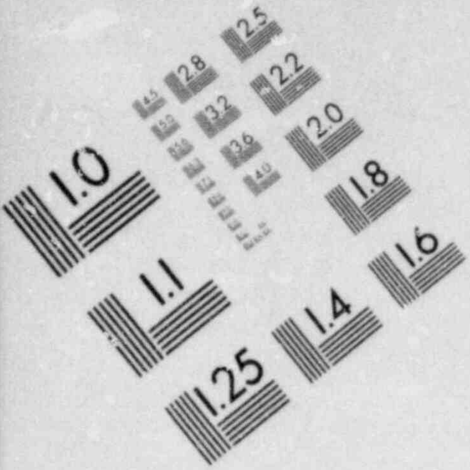
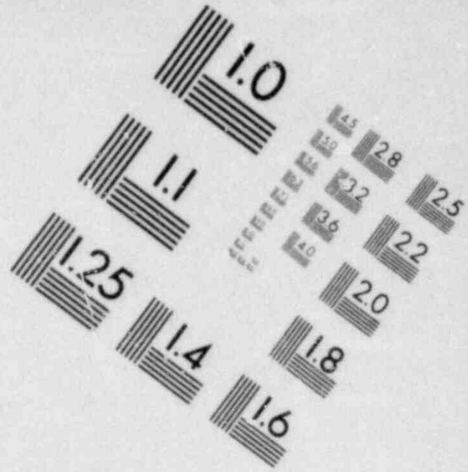
MICROCOPY RESOLUTION TEST CHART





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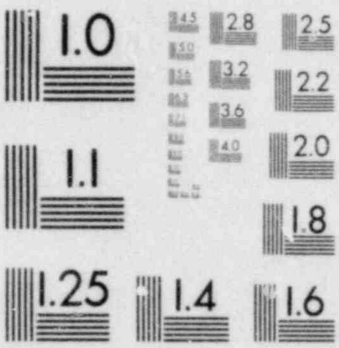

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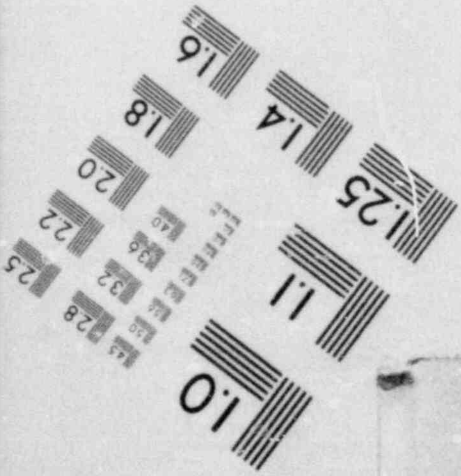

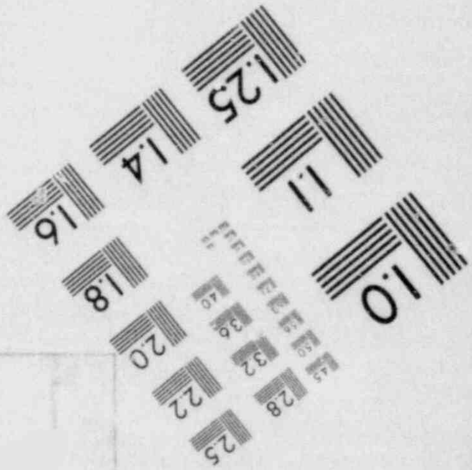

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EXECUTIVE VICE PRESIDENT

CONSUMERS POWER COMPANY
212 WEST MICHIGAN AVENUE
JACKSON, MICHIGAN 49201

More Information for You

(SEE OTHER SIDE.)

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More Information for You

(SEE OTHER SIDE.)

Dear Shareholder:

This year your Company's annual report is about where we've been and where we expect to go, and also about you. We conducted a shareholder survey in 1979 and, as a result, we've started a program to meet more of your informational needs and wishes. There is more on the new program in the report that follows. We hope you're interested.

Our earnings per share rose to $3.24 from $3.21 a year ago. The improvement is inadequate and well below plan. The basic causes were: (1) lower-than-budgeted revenues resulting from a sales decline brought on by a mid-year slump in the auto industry, (2) delayed rate increases, and (3) a rapid increase during the year in the cost of borrowed funds which was compounded by delayed approval from the Michigan Public Service Commission (MPSC) for the sale of additional securities.

There are many things that we might discuss with you in this management letter but, of the factors that influenced our industry in 1979, three stand out: the continuing influence of small but vocal groups of anti-utility activists, unrelenting inflation, and the Three Mile Island accident.

First, intervention continues to be a very significant problem. Some system which will permit essential regulatory decisions to be made in a timely manner must be established so that small groups of "special interest" intervenors cannot, without accountability for the results of their actions, tie up regulatory agencies and cost utility stockholders and customers millions of dollars. Time and time again, important projects of investor-owned utilities are delayed because a few objectors twist and distort the facts. We are counting on those shareholders, employees, and retirees who are enrolled in our new Information/Action Program to help combat this by making their opinions heard where they will count.

Second, inflation remained a heavy burden last year. Otherwise, you would have earned more on your investment in Consumers Power Company. The cost of everything has surged up and up. To economize, we have put stiff controls on employment levels, on purchases of supplies and materials, and on all expenses that do not relate directly to serving

John D. Selby

James B. Falahee

our customers reliably. But—since we cannot control inflation—in the interest of keeping up with increased cost levels, we must and shall continue to ask the MPSC to authorize additional revenues.

Third, no nuclear plant in the U.S.—whether already in operation, under construction, or merely in the planning stages—was left unaffected by the events which occurred in March 1979 at the Three Mile Island nuclear complex in Pennsylvania. The Company's Midland plant is no exception.

Because the Nuclear Regulatory Commission (NRC) is directing its resources towards handling TMI issues, consideration of all construction permits and operating licenses, including the Company's application for an operating license for the Midland plant, has been delayed.

Intensive study of the lessons learned at Three Mile Island can, we believe, contribute to safer and more efficient nuclear generation over the long run. For the short run, however, the fact that NRC requirements are in a state of flux causes severe problems. Regulations have changed constantly since the Midland plant was announced in 1967 and, as a result of TMI, are changing still. It is difficult, if not impossible, to arrive at accurate cost estimates and completion schedules under these circumstances.

In spite of the regulatory uncertainties, we asked our Midland contractor, the Bechtel Power Corporation, to prepare a cost and schedule projection based on their and our best estimates of the NRC licensing environment and the changes that will be required to obtain an operating license. The Bechtel report, which we received in late January, indicates a probable schedule delay of three years and a cost increase to $3.1 billion from our previous cost estimate of $1.67 billion. The inability of the NRC to settle in a timely fashion all the licensing issues brought forth by the Three Mile Island accident poses a significant threat to the existence of the nuclear option in this country. We are now in the process of reviewing the Bechtel report and evaluating various alternatives regarding the Midland plant's cost and completion schedule.

Finally, we note two of 1979's major internal changes. We witnessed the retirement, as an active employee, of A. H. Aymond, chairman of the board from 1960-1979. His tribute follows, but we are pleased that his advice and insight are not lost to this Company since he remains a member of the board of directors.

Subsequently, there was a reorganization in the structure of the Company's top management. The two of us now form an "executive office" to which the other officers of the Company report. It is our belief that this reorganization will provide the appropriate flexibility and control for managing Company operations.

There is no direct way we can thank the employees of Consumers Power—except through their paychecks and through effective, concerned supervision—but they are good and their work shows it. Utility people nationwide have a tradition of being above average. Ours—we feel—are among the very best.

JD Selby

JOHN D. SELBY
Chairman of the Board

James B Falahee

JAMES B. FALAHEE
Vice Chairman of the Board

February 15, 1980

AL AYMOND BEGINS A NEW CAREER

His Legacy To Consumers Power: Leadership

"At home" in North Palm Beach, Florida, Al Aymond keeps up with board executive and financial committee paperwork. He also continues to maintain his residence in Jackson.

For more than 32 years, Alphonse H. Aymond seldom, if ever, had Consumers Power Company completely off his mind.

And for 19 of those years, as chairman and chief executive officer, he held the ultimate responsibility for making the most of the good times and weathering the bad.

There surely were both: the rapid progress on both the corporate and operating fronts throughout most of the 1960s, the severe financial challenges in 1974 and 1975.

But when Al Aymond stepped down as chief executive officer in 1978, he relinquished the leadership of a company that was strong in management, solid in its work force, financially sound, and—above all—proud of its proven ability to provide quality utility service to the state of Michigan and to more than two million Consumers Power customers.

His mandatory retirement on October 1, 1979, in keeping with Company policy, did not mean the time had finally come to get Consumers Power completely off his mind. He continues as a member of the board of directors, on which he has served for 22 years, as a member of the executive committee and several other board committees, as chairman of the finance committee, and as a director of three of the Company's wholly-owned subsidiaries—Northern Michigan Exploration Company, Plateau Resources Limited, and Michigan Gas Storage Company.

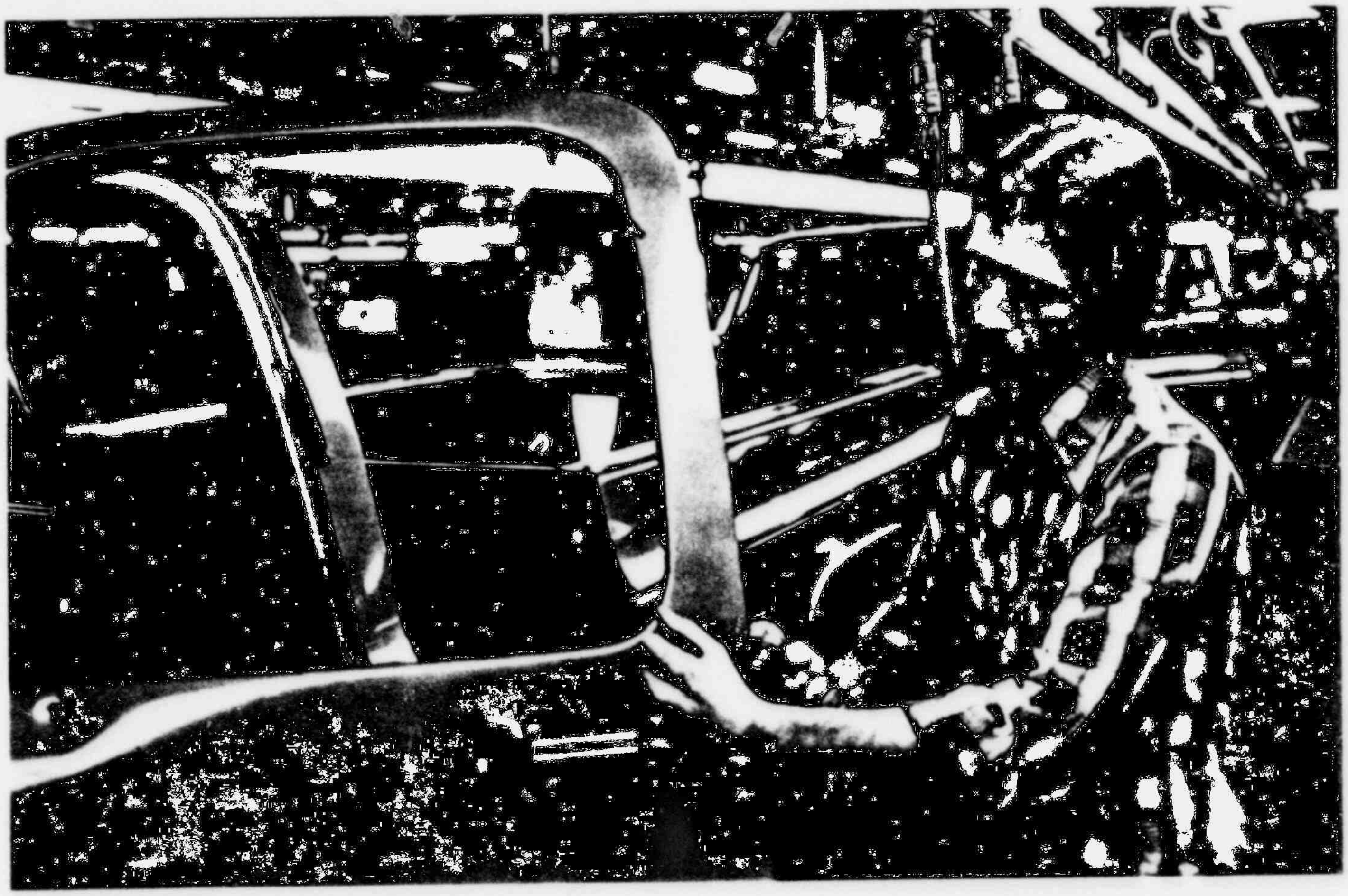
He will also maintain his close ties with Michigan and with the Company's corporate headquarters city since he has become associated with the Jackson law firm in which his son, Charles, is a partner.

Without the responsibility for the leadership of Consumers Power Company, does Al Aymond still have his hands full? He surely does. There are new horizons on which his eyes are sharply trained, as they were on Consumers Power problems and achievements during his tenure as chief executive.

His business experience and his wealth of community and public service accomplishments have made him an invaluable source of counsel and leadership in the many professional, civic, and cultural activities in which he is, and will become, engaged.

"The requests to serve keep coming in," he said recently, "and in spite of the temptation, golf will just have to wait."

And at Consumers Power, his leadership—by decision and by example—will continue to benefit the Company as he serves on the board of directors and several of its committees.



CONSUMERS POWER COMPANY SHAREHOLDERS—

INTERESTING AND INTERESTED

Shareholder Survey Conducted in 1979

As part of our continuing dialogue with groups of people who have a strong influence on the success of Consumers Power Company, we conducted a shareholder survey in the spring of 1979. Explanatory letters and survey questionnaires were sent to a representative sample of 2,550 CP Co. shareholders.

The results of that survey cannot go unrecognized. This year's annual report—in addition to portraying as accurately as possible the events which took place at Consumers Power Company during 1979—will also attempt to convey some of the interest, enthusiasm, support, loyalty, and critical perception of Consumers Power shareholders.

Survey Results Reveal More Than Statistics

Geographically, "CP people" cover a lot of territory. Although 54 percent live in Michigan, others are located throughout the remaining 49 states and in 28 foreign countries. Not surprisingly, 48 percent are customers as well as shareholders.

(Top) Shareholder James Cahill, assembly line worker at the Chevrolet plant in Flint, Michigan, recognizes the tie between energy from Consumers Power and a healthy economy. He has an investment in both.

(Lower left) Helen and Dorothy Kwapil, shareholders of Consumers Power, aren't bothered by a rainy day. They take the weather in Seattle, Washington in stride.

(Lower right) Music adds something to life for Ronald, Chris, and Doug Gallegos who live near Jackson, Michigan. So do the dividend checks they receive from Consumers Power Company.

According to the survey, around 60 percent have some college experience. The average number of common shares held is just over 300, and 62 percent of those responding to the survey report that they acquired their stock prior to 1974.

The main purpose of the survey, however, was not to acquire statistics but to learn what Consumers Power shareholders think about their Company. Are they generally satisfied with the Company's performance? In making such an overall judgment, 84 percent of the survey respondents said "yes." More specifically, nearly 50 percent gave the Company top marks for efficiency of operation, profitability, and effectiveness in planning for future energy needs.

How familiar are shareholders with the Company's actual operations? Fifty-five percent said they knew "a great deal" to "a fair amount" about them. Do they want to know more? Fifty-seven percent indicated that they would be interested in participating in a program that would provide them with information about social, political, economic, and environmental issues affecting the Company.

New Information/Action Program Initiated

In response to this expression of shareholder interest, the Company initiated a new Information/Action Program for shareholders, employees, and retirees. Sign-up cards (like the one in the back of this annual report) were mailed during the year to all potential participants. To date, more than 22,000 people have asked to be put on the mailing list. Two issues of "Energy Update," the new program's newsletter, have already been released; others will be forthcoming. In addition, program participants who wish to take action on behalf of the Company—such as writing to legislators or newspapers and speaking to civic groups—will receive suggestions through the Information/Action Program when issues affecting Consumers Power arise.

Dividend Increased in 1979

An item that is always of paramount interest to shareholders is an increase in dividends. At its July 1979 meeting the board of directors increased the quarterly dividend on the Company's common stock from 56 to 59 cents per share. It was the third such increase in the past three years. (In April 1977 the dividend was raised from 50 to 53 cents per share and, in July 1978, to 56 cents per share.) During 1979 the Company paid $109,698,000, or $2.30 per share, in dividends to its 165,000 common shareholders. Dividends for the Company's 18,000 preferred shareholders amounted to $32,009,000 in 1979, and those for its 24,000 preference shareholders totaled $16,410,000.

Board Elects New Officers

The headline item at the board's October 1979 meeting was the selection of a new chairman. John D. Selby, president and chief executive officer of the Company, was elected to the additional position of chairman of the board, and James B. Falahee, senior vice president for legal, regulation, and accounting and computer services, was elected to the board and to the newly created post of vice chairman.

Under the reorganized management structure, the chairman and vice chairman began operating as an "executive office" to provide overall direction for the Company's activities. Senior officers reporting directly to the Executive Office are John B. Simpson, executive vice president; Russell C. Youngdahl, executive vice president; Walter R. Boris, executive vice president; Stephen H. Howell, senior vice president; and Jack W. Reynolds, senior vice president.

At the same meeting, Paul S. Mirabito, chairman of the board and chief executive officer of Burroughs Corporation, was elected to the board of Consumers Power Company. His election brought the number of CP Co. directors to 16.

A. H. Aymond, former chairman of the board, retired as an active employee on October 1. He continues as a member of the board, the executive committee and several other committees, and as chairman of the finance committee.

Dividend Reinvestment Plan Reflects Shareholder Savvy

At the end of 1979, 23,000 shareholders were taking advantage of the Company's Dividend Reinvestment and Common Stock Purchase Plan in order to purchase additional shares of common stock—by reinvesting their dividends or by making cash payments—without incurring any brokerage fees or service charges.

During 1979 plan participants purchased nearly 629,000 shares of common stock for approximately $13,239,000. Of that amount, about $9,794,000 came from reinvested dividends and about $3,445,000 came from cash payments. The number of participants enrolled in the plan increased 5.1 percent over that for 1978.

Shareholders who are interested in obtaining more information concerning the plan may write to: Stock Transfer Department, Consumers Power Company, 212 West Michigan Avenue, Jackson, Michigan 49201.

1979 Annual and Regional Shareholder Meetings Held; 1980 Meetings Planned

At the Company's April 10, 1979 annual meeting of shareholders, which was held in Jackson, Michigan, nearly 36,269,000 shares of Company stock, or 70.3 percent of all shares entitled to vote, were represented. Shareholders voted to amend the Articles of Incorporation to increase the authorized number of shares of preferred stock from 5 million to 7.5 million. The primary reason for taking this action was to insure adequate capital for construction purposes.

Shareholders also voted at the 1979 meeting to reelect 14 incumbent members of the board of directors. A fifteenth board member, C. S. Harding Mott of Flint, Michigan, retired from the board on that date in accordance with the board's retirement policy. The many valuable contributions he made during his almost 14 years as a director are greatly appreciated.

In addition to the 1979 annual meeting of shareholders, regional meetings were held in five Michigan cities. Combined attendance for the meetings was more than 3,000. At each meeting Mr. Aymond or Mr. Selby reported to the shareholders on the events of the past year and the business transacted at the 1979 annual meeting in Jackson.

The 1980 annual meeting of shareholders will take place on April 8 at 2:00 PM in the Parnall Office Building, 1945 West Parnall Road, Jackson, Michigan. Regional shareholder meetings will be held, as well, on April 9 in Jackson, April 10—Pontiac, April 15—Grand Rapids, April 16—Lansing, and April 17—Saginaw. Shareholders are cordially invited to attend either the annual meeting or one of the regional meetings.

CP Co. 1978 Annual Report Wins *Financial World* Awards

The Company's 1978 annual report was awarded silver and bronze medals in *Financial World* magazine's 35th annual report contest. To win, the Consumers Power report had to survive competition that began with the selection of 1,500 merit award winners which were then grouped into 82 industry categories. The first place winners in each of these categories were awarded bronze trophies. Bronze trophy winners were then grouped into 11 broad industrial categories from which silver medal winners were selected. The Company's annual report took first place in the utility category.

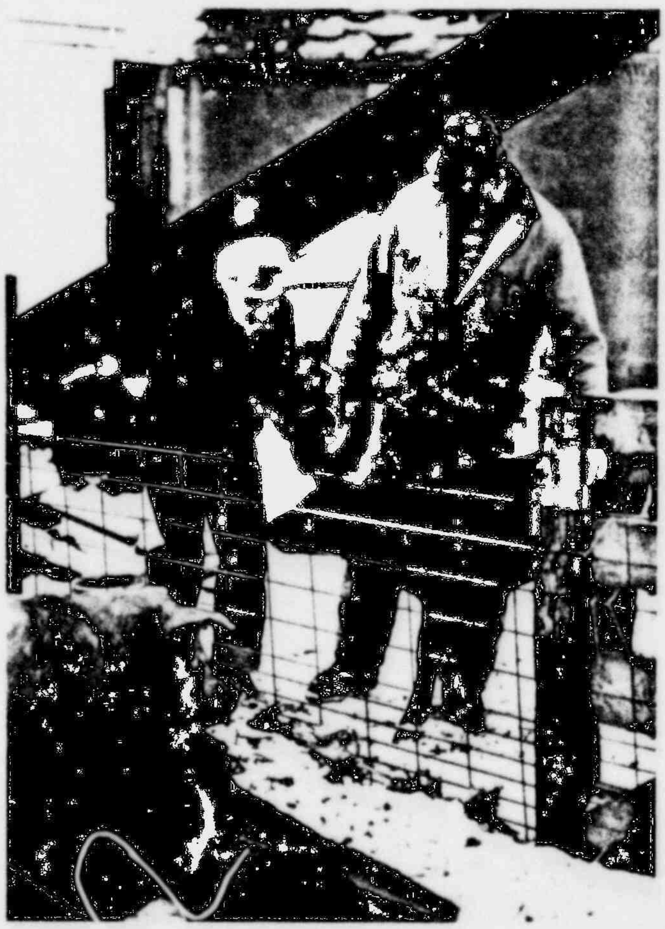
(Top left) In Sparta, Michigan, it's "like grandfather—like grandson." Floyd Schut, a retired businessman, and his grandson Andrew both own shares in Consumers Power.

(Top right) An investment in Consumers Power is part of the financial "game plan" of stockholder Lucille Doss, who teaches school in Detroit.

(Lower left) Gordon Howard, long-time Battle Creek division manager (now retired) and consultant for the new Information/Action Program, discusses issues presented in "Energy Update" with Marion Chaffin, one of the first shareholders who enrolled in the program.

(Lower right) On the west coast, shareholder Andrew Vitalich (right) joins brother Anton for a day of salmon fishing on Anton's boat, a purse seiner.


TWO BROTHERS



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SHAREHOLDERS INVEST MORE THAN MONEY IN CONSUMERS POWER

Investors Show Interest in Issues Affecting Company

Although Consumers Power shareholders are—of course—interested in the financial aspects of their investment, many of them have expressed a much broader interest in the Company and its affairs. Eighty percent of those responding to the shareholder survey indicated they felt that the Company should ask their help in resisting the passage of unreasonable legislation or regulation, and 83 percent said they should be asked to support the Company's position (if they agreed with it) on pending legislation.

Because utility shareholders know that the state and federal agencies which regulate Consumers Power can have a strong influence on whether the Company has an outstanding year or a mediocre one, news about regulatory and legislative activities affecting the Company is of major interest to them. Through the new Information/Action Program, participating shareholders will receive additional information about such issues as well as suggestions for action to be taken on them.

Unusual, Three-Step Electric Rate Case Filed in 1979

An event of particular significance for the Company and its investors occurred in January of 1979 when the Company filed an unusual, three-step electric rate case with the Michigan Public Service Commission (MPSC). The Company has proposed that the $320 million request be implemented in three stages.

In November the MPSC, acknowledging that the Company needed additional revenue to arrange debt financing at reasonable rates, granted an interim increase of approximately $29.3 million annually. A decision on the second step of the rate increase request ($165.7 million) is expected in mid-1980.

The third portion of the request, $125 million, is based upon the additional plant investment and expenses of the new Campbell unit 3. This step may be considered in the commission's mid-1980 order or it may be the subject of a separate hearing. (The commission staff has proposed that such a hearing be held and that it should begin four months before the facility goes into commercial operation. Present plans call for Campbell 3 to go on line in September 1980.)

Reasons for the rate increase include the need to cover the investment and expenses for Campbell unit 3; to counter the effects of inflation on the cost of materials, labor, and supplies; to recover the higher cost of obtaining investment capital; and to make adequate provision for the retirement of the Company's presently operating nuclear plants at the end of their operating lives.

Consumer Price Index Adjustment Approved

In January 1980 the Michigan Public Service Commission approved an operating and maintenance expense indexing adjustment for the Company that increased its electric rates by an estimated $20.3 million annually. The increase became effective in February. The operating and maintenance expense indexing system was approved by the MPSC in a July 1978 electric rate order as a further incentive to management efficiency.

Under the provisions of the indexing system, the Company may reflect in its electric rates an increase or decrease in recoverable operating and maintenance expense equal to the percentage increase or decrease in the Consumer Price Index during the preceding 12 months ending in August. Fuel, purchased power, and production maintenance expense are not included. A previous operating and maintenance expense indexing adjustment, which became effective in February 1979, raised the Company's rates by $12.3 million annually.

Gas Rate Case Reopened

A gas rate case filed by the Company in March 1978 and apparently closed in June 1979 when the Michigan Public Service Commission issued a final order allowing a total gas rate increase of $29.2 million annually was reopened by the commission in September 1979 after the Company announced that it was mothballing its Marysville Gas Reforming Plant.

Constructed to produce synthetic natural gas from liquid hydrocarbon feedstocks, the Marysville plant began operating in 1973 and continued until March of 1979. It produced over one-quarter trillion cubic feet of pipeline-quality natural gas and enabled Consumers Power to meet the needs of its customers during periods of national natural gas shortages.

Taken out of service in March for scheduled maintenance, the plant did not resume operation because an adequate supply of lower cost pipeline gas had become available. This, plus uncertainty concerning the feedstock supply for the plant,

(Top left) B. N. Sharp and son Michael are "the management" of Sharp's hardware store in Milford, Indiana. Shares of CP Co. stock are held by the business.

(Top right) It's a long way from headquarters in Jackson, Michigan to Green Valley, Arizona but shareholder Roy Oliver, wife Donna, and daughter LaDonna keep track of their investment in the Company.

(Lower left) As a retired judge, Ronald M. Ryan of Battle Creek, Michigan knows the law. As an investor in the Company, he also knows about Consumers Power.

(Lower right) Consumers Power Company serves more than 68,000 farm customers. Among them are shareholders Wayne and Georgia Gardner of Concord, Michigan.

led to the Company's decision—announced on September 5—to mothball the plant until the mid-1980s when it is expected to be needed again.

In October 1979, the MPSC ordered the Company to decrease its gas rates by $23.9 million to reflect the reduced plant operating costs resulting from the Marysville shutdown. The commission also reopened the previous case to review, along with other Marysville-related issues, the actual savings from the shutdown. This reopened proceeding is continuing.

In January 1980 the Company presented to the commission a request, based on a more recent test period than that used in the previous filing, for an annual increase of $77 million in the Company's gas rates. The Company asked that the commission hear the request either as a separate case or as a part of the reopened gas rate proceeding.

Company Negotiates Rate Agreement with Wholesale Customers

In October 1979 the Company reached an agreement with 17 wholesale electric customers—who together purchase about 830,000 megawatthours annually, or approximately 3 percent of the Company's total electric sales—on a $5.9 million annual rate increase. The increase, which was approved by the Federal Energy Regulatory Commission in December, is being implemented in two stages. The first, an annual increase of $3.5 million, became effective in February 1980. A second increase of $2.4 million annually will go into effect when Campbell unit 3 comes on line.

Optional Purchase Agreement Completed for Midland and Campbell

Issues that arose in an antitrust case connected with the licensing of the Company's Midland nuclear plant were settled in an agreement announced in September. Twenty-nine Michigan cooperatives and municipalities were given options to purchase up to a total of 341,000 kilowatts of Midland units 1 and 2 and 100,000 kilowatts of Campbell unit 3. Also outlined in the agreement are the electric transmission services the Company will provide to the utilities, general conditions for the sale and exchange of electric power, and the creation of an administrative and planning committee to coordinate future joint activities.

The antitrust case began in 1971 when the U.S. Atomic Energy Commission, predecessor of the Nuclear Regulatory Commission (NRC), appointed a hearing board to decide whether the Company's activities under the Midland plant licenses would create or maintain a situation inconsistent with antitrust laws. Public hearings began in late 1973, and in July 1975 the hearing board ruled that activities under the Midland plant licenses would not be incompatible with antitrust laws. The decision was appealed by a number of the cooperatives and municipalities, and in December 1977 the NRC's Atomic Safety and Licensing Appeal Board reversed the decision. After the appeal board returned the case to the hearing board for further consideration, the participants asked that hearings be deferred until settlement discussions could be completed. Those discussions eventually led to the formation of an agreement in principle in July 1978 and to the agreement concluded last September. The NRC must still approve proposed license conditions in the agreement.

Availability Incentive Will Affect Rate of Return

If the Michigan Public Service Commission approves the change, Consumers Power expects to receive an upward adjustment, for a 12-month period, of .25 percentage points in the authorized rate of return on common equity for its electric business as a result of having achieved an overall availability of 81.8 percent for the Company's electric generating plants in 1979. The "availability incentive" for system generation was established in an electric rate order issued by the MPSC in July 1978. If the Company's plants are available (not shut down for repair, maintenance, or nuclear refueling) more than 80 percent of the time, the Company's 13.5 percent authorized return on common equity will be increased to 13.75 percent. If, however, plant availability is 70 percent or less, a penalty equivalent to .25 percentage points is deducted from the authorized return on common equity for the Company's electric business.

In November 1979 the MPSC found the overall availability of the Company's electric plants in 1978 to be in the neutral range (between 70.1 and 80.0 percent) so there was no adjustment to the 13.5 percent authorized rate of return.

Company Confers with Regulatory Agencies on New Plant Sites

Although present plans for future generating projects do not require the start of construction for several years, the Company presented a 12-step process for environmental evaluation of future power plant sites, plus environmental data on eight sites now being considered, to the staff of the Michigan Public Service Commission and the Michigan Department of Natural Resources in January 1979. The presentation was made in an effort to establish a satisfactory process of early review and comment from the state agencies. Before the Company makes a final decision on the next construction site, discussions will also be held with federal agencies and local governing bodies.

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(Top left) In the far Northwest, Margaret and Fred George stay current on their company—Consumers Power—through annual and interim reports to shareholders.

(Top right) The William F. Kapankas, who live in the great Southwest, maintain a proprietary interest in Michigan's economy via part ownership of Consumers Power.

(Lower left) Over 50 percent of the Company's shareholders live in Michigan, including insurance agent Harry Conway. In his free time, he enjoys exercising his horses.

(Lower right) Many Michigan shareholders, like Mr. and Mrs. Harry Davidson, are also customers of the Company. Harry makes custom fishing tackle as a hobby.

CUSTOMER/SHAREHOLDERS—HOME-GROWN INVESTMENT MAKES SENSE . . . AND DOLLARS

Customer Investment Pays Dividends for Company and Vice Versa

In these days of increased energy costs, the Company—through public service advertising and material enclosed with customers' bills—suggests ways for customers to conserve energy and keep their bills lower. In addition, when the Company anticipates that special conditions such as colder weather or a nuclear plant outage may cause higher bills, customers are informed in advance so that they may take extra precautions for conserving energy.

While no one—including Consumers Power shareholders—likes paying higher gas and electric bills, customers of the Company who are also shareholders often are more aware than others how increased fuel costs, regulatory delays, and overall inflation affect the Company's cost of providing service. Their knowledge and understanding provide a base of public support which helps offset the sometimes destructive actions of anti-utility intervenor groups.

But customer/shareholders also derive important benefits from Consumers Power Company. As shareholders they receive cash dividends, and as customers they receive reliable gas and electric service, an energy source to support jobs and growth in their local economies, and concerned planning for their future energy needs.

Customer Usage More Modest in 1979

Because of our customers' awareness of higher energy costs and the need for conservation, plus milder weather as compared to that of 1978 and the decline in auto production in our service area, 1979 was a year of modest gains in electric sales. The number of electric customers increased 1.8 percent, or 23,117, over the number served in 1978, and total kilowatthour sales rose 1.7 percent from 26,359,130,000 kilowatthours to 26,797,331,000 kilowatthours.

Of the total 1,309,535 electric customers being served by the Company at the end of 1979, 1,169,917 were residential, an increase of 18,031 over those served in 1978; 130,627 were commercial, an increase of 4,992 over 1978; and 8,126 were industrial, an increase of 103. Within these customer categories, sales to residential customers were up 1.9 percent, those to commercial customers rose 3.7 percent, and those to industrial customers increased 0.3 percent during 1979.

Gas sales for the 1979 year decreased 6.3 percent, from 353,092,000 mcf in 1978 to 330,849,000 mcf in 1979. The decrease was partially due to significantly higher average temperatures during March and December of 1979 and partially due to the Company's 1978 sale of nearly 15 billion cubic feet of gas to an Ohio gas supplier faced with an emergency shortage.

At the end of 1979, the Company was serving 1,098,581 gas customers, an increase of 46,690 during the year. The number of residential gas customers increased by 36,787 to a total of 1,019,929. Of these, 963,472 use natural gas for home heating. Additions to the commercial category numbered 9,561—for a total of 71,547 commercial customers at year end. Industrial customers, who were 6,763 strong in 1978, increased to 7,105 by the end of 1979. Gas sales to residential customers increased (.6 percent; commercial sales remained about the same; and industrial sales decreased 9.7 percent.

Generating Electricity Cost More in 1979

Inflation continued to be felt in coal, oil, combustion turbine, and nuclear electric generating operations. Company plants burned 6.1 million tons of coal in 1979 at an average cost of $32.95 per ton, as compared to 5.8 million tons at an average cost of $29.10 per ton in 1978. Oil-fired plants used 8.2 million barrels at an average cost of $18.55 per barrel, versus 11 million barrels at an average cost of $15.65 per barrel in 1978. (Oil consumption was lower in 1979 because of the abnormally high use of oil during the coal strike in early 1978.)

The Company's two operating nuclear plants, Palisades and Big Rock Point, generated 3,525,645,000 kilowatthours of electricity, or 12.1 percent of total Company requirements, at a fuel cost of .43 cents per kilowatthour, as compared to

(Top) Mary and Arthur Kroon, customers of the Company, go shopping in Grand Rapids. They've already shopped for an investment—and purchased CP Co. shares.

Dental technician Dennise Hoffman of Horton, Michigan pays her utility bill. It's often a little easier to understand energy costs when you're both a customer and a shareholder. Barbara Lubahn accepts the payment.

.375 cents per kilowatthour in 1978. Fuel costs for fossil-fueled plants amounted to 1.98 cents per kilowatthour in 1979 and the system average for all plants was 1.76 cents.

Where the Energy Dollar Went in 1979

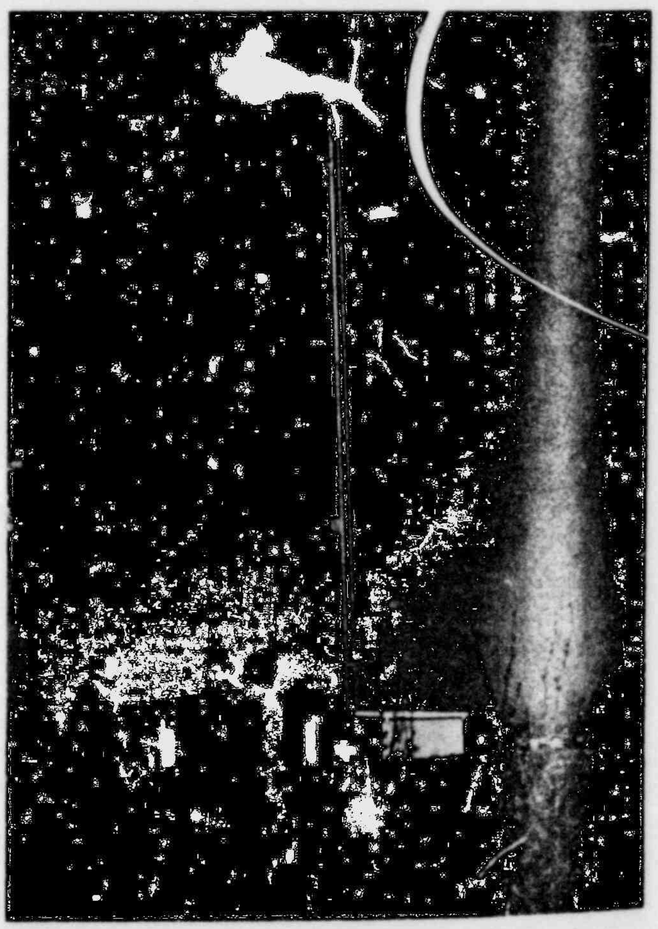
Out of every dollar received by Consumers Power Company in 1979, 55 cents was spent for natural gas sold, for fuel used to generate electricity, and for electricity purchased from other utilities to meet energy requirements. In addition 7 cents was spent for materials and supplies; 7 cents for interest on debt required to finance Company facilities; and 11 cents for employee wages, salaries, and benefits. To cover wear and tear and necessary replacements of plants and equipment, 5 cents was provided in depreciation allowances. Local, state, and federal taxes accounted for 5 cents, 8 cents went to shareholders in the form of dividends, and approximately 2 cents was set aside for the building of new plants and the purchase of new equipment.

Growth Projections Remain Moderate

In keeping with increasing energy costs, conservation by customers, and predictions of a slowing real economic growth rate for the nation, electric sales in the Company's service area are expected to continue growing at much lower rates than those experienced prior to 1973. Company analysts expect an average annual increase in electric sales and peak demand of 2.75 percent from 1979 to 1994.

After the gas shortages of the early 1970s, the federal government began to allow the price of newly discovered natural gas to increase. As a result of several government actions which encouraged production, there has been an increase in the amount of pipeline gas available from our suppliers. Because of reduced demand from prior levels, a temporary excess or "gas bubble" has been created. This increased availability—plus the rapidly accelerating cost of oil—has caused many people to convert to natural gas as a means of heating their homes. Approximately 20,000 such conversions took place on the Consumers Power system during 1979.

The Company's most recent (January 1980) long-term gas sales forecast thus reflects mild optimism as a result of gas supplies that have emerged in the past two years. Projections are based on the predicted continuation of adequate gas supplies and on the demand-limiting trends in energy prices, conservation, and future economic conditions similiar to those used as a basis for the electric forecast. Over the long term (1979-1994), gas sales are expected to show some slight growth—about 0.6 percent per year.



Balancing the Electric System

In 1985 when Campbell unit 3 and Midland units 1 and 2—the three major generating units now under construction- are expected to be in operation, the Company will rely on coal for approximately 50 percent of its internally generated electric production, on nuclear for approximately 41 percent, on oil and gas for approximately 7 percent, and on hydro for 2 percent. Thus the electric system—including the large hydroelectric peaking capacity of Ludington—will be flexible and strong enough to meet the needs of customers throughout most of the remainder of the decade.

Current estimates of a lower economic growth rate and related moderate increases in demands for electricity have resulted in additional latitude regarding future construction plans. The Company expects that the next generating unit will be fossil-fired.

Energy Assistance Programs Made Available for Customers

Because the Company switched from postcard to statement billing this year, it was possible to send important information to customers in a timely manner without incurring the cost of special mailings. (The potential saving from eliminating even one mailing amounts to $200,000 in postage alone.) In late 1979, for example, all customers began receiving notices about the federal and state home heating assistance programs which are now available.

In addition to informing customers of these programs, Consumers Power applied to the Michigan Public Service Commission for authorization to adopt an expanded residential gas energy conservation program. (In July the MPSC adopted rules allowing regulated utilities to make interest-free loans to customers if the cost of the insulation purchased with the loan can be repaid in energy savings within seven years.)

Under the Company's proposal, interest-free financing for ceiling insulation would be provided to eligible customers who would then have up to 60 months to pay for the insulation in equal monthly payments added to their gas bills. Funds of up to $1,000 per building would be available, when the work is done by an approved contractor, and up to $300 for a "do-it-yourself" project. The cost of financing the interest-free loan program, together with other overhead costs of the insulation program, would be charged to all the Company's gas customers. The Company estimates that there are 234,000 gas-heated, single-family homes, duplexes, apartments, or other multi-family dwellings in its service area which have no more than 2½ inches of ceiling insulation and could meet the cost-effective standard set up by the MPSC for interest-free loans.

(Top) CP Co. customers are Eugene Tolbert's business. He supervises the handling of customer records. Eugene is a shareholder as well.

Gene Yehl of Energy Management Services shows Marilyn and Eugene Wanger, CP Co. customer/shareholders, the experimental windmill generating project in East Lansing, Michigan.

Company Studies Alternative Energy Sources

Two small, wind-powered generators and related monitoring equipment have been installed at Michigan State University on land south of the campus in East Lansing, Michigan. The windmills, which will have a combined output of between 1,000 and 5,000 watts, are part of a joint research project involving Consumers Power and MSU's College of Engineering.

The MSU windmill project is being undertaken to determine the effects of adding energy from small, wind-powered electric generators to a utility grid and also to determine the amount of energy produced by AC and DC generators of the same size.

The first-year cost of the project is estimated at $45,000. Consumers Power will pay about two-thirds of that amount while MSU will provide the remainder.

Coal Gasification Project

Consumers Power Company, a group of other utilities, the state of Illinois, and Allis-Chalmers Manufacturing Company intend to build a coal gasification plant in East Alton, Illinois if funding can be arranged and the necessary governmental permits secured. The $100 million project will produce a low Btu gas to be burned in a 50-megawatt conventional boiler owned by Illinois Power Company.

A portion of Consumers Power Company's 1980 research and development budget is directed to the project because the Company believes that its customers will eventually benefit from the technology which shows promise of utilizing coal —the nation's most abundant fuel—in yet another way.

Consumers Power, Wolverine Agree on Wood-Fueled Plant Project

After completing an eight-month feasibility study on the project, Consumers Power Company and Wolverine Electric Cooperative of Big Rapids plan to combine forces to construct and operate a demonstrational 25,000-kilowatt wood-fueled electric generating plant near Hersey, Michigan.

Wolverine Electric and Consumers Power intend to share the costs of the undertaking as well as the eventual electric output of the plant on a 51/49 percent basis, respectively. Consumers Power is responsible for managing the design and construction of the facility, for obtaining necessary governmental permits for construction, and for arranging project financing. Wolverine Electric will have responsibility for operating and maintaining the completed facility, obtaining supplies of wood for fuel, and establishing an environmental monitoring program for wood harvesting.

The Michigan Natural Resources Commission has approved a timber harvest agreement allowing the purchase of wood from state lands for a major portion of the plant's fuel requirements. A project manager has been appointed by CP Co. to supervise the undertaking and an architect-engineer will be selected early in 1980. The cost of the project is currently estimated at $56 million.

If the necessary governmental approvals and permits are granted in a timely manner, plant construction could begin by mid-1982 with commercial operation by late 1984.

THROUGH ESOP AND ON THEIR OWN—

EMPLOYEES OWN SHARES OF CONSUMERS POWER COMPANY

Stock Ownership Gives Employees a Stake in Company's Financial Success

The Consumers Power Company Employee Stock Ownership Plan (ESOP), which covers almost all employees of Consumers Power and three of its subsidiaries—Michigan Gas Storage Company, Northern Michigan Exploration Company, and Plateau Resources Limited—was established to give employees the benefit of certain provisions of the Tax Reduction Act of 1975. Under existing laws, companies may receive an investment tax credit against their federal income tax for a part of their investment in new plants or equipment. The 1975 act provides an additional 1 percent credit for those companies that contribute an amount equal to the additional tax credit to an employee stock ownership plan.

Although most employees are shareholders through the Company's Employee Stock Ownership Plan, nearly 85 percent of those employees who qualify also own stock through enrollment in the Employees' Savings Plan, and some have chosen to purchase shares on their own as well. Since they are familiar with the Company and its operations, many employees feel that stock ownership is a good investment in their own and the Company's future. It seems to increase the feeling of involvement with the Company's goals and the realization that individual effort on the job is important. As one employee shareholder put it, "Since I own part of this Company, I'm going to keep an eye on what goes on around here."

(Top left) Jim Hausbeck, lead lineman in Saginaw, sports a regulation hard hat with the Company symbol. Jim is a shareholder through the Employee Stock Ownership Plan.

(Top right) "See what you get?" Jim Hagadorn and Sandy Decker of the Personnel Department in Jackson, Michigan look over a booklet describing the Company's Employee Stock Ownership Plan.

(Lower left) Customer representative Linda Bohnsack was born with a smile in her voice. As an employee and a shareholder of the Company, Linda is adept at answering the questions of customers who call with problems.

(Lower right) Charles Ramsey of Buildings and Machine Repair keeps an eye on Company equipment—and on his investment as a shareholder in the Company.

Management Changes Reflect Increased Emphasis on Safety and Efficiency

Since the Three Mile Island accident, the nuclear industry as a whole has acted to toughen standards by creating an Institute of Nuclear Power Operations to upgrade the training and performance of nuclear reactor operators and a Nuclear Safety Analysis Center to investigate ways to improve plant safety. At Consumers Power Company, programs are being instituted to assure the maintenance of a higher level of safety consciousness.

In connection with increased management emphasis on safety and efficiency and with preparations for adding Campbell unit 3 and Midland units 1 and 2 to the Company's system, Russell B. DeWitt was elected vice president for Nuclear Operations, Charles R. Bilby, formerly vice president for Production and Transmission, was made vice president for Fossil Operations, and Gordon L. Heins was elected vice president for System Operations.

As additional safety concerns and increased environmental requirements add to the intricacies of electric system operations, a new operating structure — designed to meet these changing conditions—has become necessary. Under a realignment of responsibilities in the energy supply area, each of the Company's major generating complexes is now headed by a general manager who reports to an officer of the Company.

Company Requests Hearing on NRC Action at Palisades

In January 1980, the Nuclear Regulatory Commission (NRC) notified Consumers Power that a public hearing will be held later in the year on the $450,000 in civil penalties assessed against the Company for an alleged safety violation at the Palisades plant. The Company requested the hearing, in accordance with NRC regulations, after the commission rejected the Company's formal protest against the civil penalties in December.

The NRC imposed the penalties after the Company discovered and reported that two containment isolation valves were found open during an inspection performed after the Palisades plant was shut down for scheduled refueling and maintenance in September 1979. License requirements stipulate that the valves must be closed while the plant is in operation.

Consumers Power has requested the public hearing in order to explain fully its contentions that the agency's actions in this matter are both excessive and unreasonable. While it has not been proven that the valves were open during the operation of the plant, the Company has determined—through

two separate surveys and a thorough review of operating procedures—that there was no release of radiation from containment during the operating period. Nor did anything happen to expose employees or members of the public to radiation.

According to the NRC's own guidelines, civil penalties are to be imposed when there are chronic or willful violations of safety regulations or violations that represent a threat to public health and safety. Such was not the case at the Palisades plant. The Company did not knowingly permit a violation to continue, and once the condition was discovered, the Company on its own initiative took corrective action and voluntarily reported the condition to the NRC.

Intensive Review Conducted at Palisades

The Company is as concerned as the Nuclear Regulatory Commission that the Palisades plant be operated safely at all times. A special task force headed by the Company's director of nuclear activities has conducted an intensive review of approximately 1,200 plant operating procedures. Four hundred of these, which have an effect on safety, have been reviewed and changed where necessary. In addition, all containment penetrations are being color coded and tagged, and drawings are being compared against the actual system.

Company officers met with NRC officials on November 30 to discuss the details of CP Co.'s review procedures since Consumers Power is required by the NRC to demonstrate that appropriate controls for preventing a recurrence of the

valve incident have been adopted before the plant may resume commercial operation. While this requirement is not expected to delay the plant's return to service, the additional testing (also required by the NRC) of installed anchor bolts, which hold down numerous safety-related pipes throughout the plant, may prevent Palisades from coming back on line until this spring.

Company Reviews Waste-Handling Procedures

After being cited by the Department of Transportation (DOT) for improperly packaging and labeling low-level radioactive waste materials shipped from the Palisades plant to Beatty, Nevada in June and July 1979, the Company has reviewed all procedures associated with radioactive waste disposition, made all necessary corrections, and set up a new training course for employees who handle radioactive waste.

The DOT could have imposed a civil penalty of up to $40,000 for the alleged violations but, in view of the Company's past history and the nature of the violations, the DOT assessed a penalty, which the Company paid, of $8,000.

Big Rock Repaired; New Equipment Installed

Repairs required to correct a cracked weld attaching a control rod drive mechanism to the reactor vessel of the Big Rock Point nuclear plant extended the plant's scheduled return to service from an outage for refueling and maintenance from April to November of 1979. Start-up testing begun in April was halted when employees noticed that about two quarts of water had seeped from the bottom of the reactor. (All of the water, which contained low-level radioactivity, evaporated within the containment vessel and at no time did it constitute a safety hazard to employees or to the public.) The leak was repaired and the plant returned to service in early November.

The facility was shut down again—for about two weeks—at the end of December while work required by the Nuclear Regulatory Commission as a result of lessons learned at Three Mile Island was completed. Indicators were installed to show whether relief valves are open or closed, and electrical modifications were made to insure that positive operator action is required to reopen containment isolation valves after they have automatically closed. The changes are part of an overall program evaluating older operating reactors in the U.S. with regard to current government licensing requirements. The Big Rock Point plant began commercial operation in 1962.

(Top) Scheduled and emergency maintenance work performed by CP Co. linemen Carl Burk and Rich Neuwirth, shareholders through ESOP, keeps the power flowing to the Company's 1.3 million electric customers.

Helicopter pilot Carl Boylan and lineman Arthur McManus consult a map before taking off to check the Company's transmission lines from the air. Both are shareholders.

Miss Dig's At It Again

In December 1979 when the program was expanded into the upper peninsula, Michigan became the first state to have a statewide safety program aimed at avoiding damage to both overhead electric lines and underground cable and pipeline systems. Known as "Miss Dig" to utility people and contractors, the communication system was developed to protect builders and individuals from contact with utility lines, cables, and pipes when they are digging or working near those facilities. Initiated by Consumers Power in 1970, the program now includes other utilities throughout the state. Miss Dig urges all who will listen to call "her" 48 hours before beginning a project near utility lines so that utility representatives can come to the site and advise on the location of electric or gas lines as well as on safe procedures for completing the work planned.

The program's success—it has been credited with reducing damage to underground lines by some 50 percent—spurred the extension of Miss Dig to overhead electric facilities in mid-1977.

Miss Dig has a 30-member call-center staff which gets almost 300,000 calls a year and sends out 1.5 million utility line marking requests to 317 participating utilities and public agencies.

MEPCC Marks 10th Anniversary

The Michigan Electric Power Coordination Center (MEPCC) near Ann Arbor completed its first decade of operations in August of 1979. The facility serves as the nerve center for the interconnected Consumers Power and Detroit Edison electric systems. These, in turn, are interconnected with utilities in Ohio, Indiana, and Canada for economic operations, as well as for mutual assistance in emergencies. Through computer monitoring MEPCC provides for the use of the least expensive, reliable sources of power that are available at any given time. The center's computers analyze the relative costs of buying power for Michigan from out-of-state utilities and generating it with available units and if, for example, it is cheaper to buy power from Canada than to generate it from plants owned by Consumers Power or Detroit Edison, controllers at MEPCC do so.

MEPCC is staffed and operated jointly by Consumers Power and Detroit Edison. Records maintained at the center indicate its operation saved the two companies' customers $70 million in 1979, and has saved them $220 million over the 10 years since the facility began operation.

approximate average grade of 0.11 percent U_3O_8 in place on properties owned or leased by Plateau. Plateau believes these reserves to be commercially minable, and estimates it will take approximately 15 years to exhaust them. The company is conducting further exploration work to define more precisely the amount of its uranium ore reserves and to determine the extent to which such reserves are commercially minable.

In February 1979 Plateau formed a wholly-owned subsidiary, Canyon Homesteads, Inc., in Utah to develop housing facilities for the Company's mine and mill workers. In December, $2,775,000 of tax exempt revenue bonds were sold to a private purchaser to finance portions of the housing project. Consumers Power has invested $46 million in Plateau. During 1979, Plateau also secured a $25 million loan agreement from a group of banks, led by the National Bank of Detroit. The money will be used to finance Plateau's Henry Mountains activities.

NOMECO Contributes to Company's Earnings

When Northern Michigan Exploration Company (NOMECO), a wholly-owned subsidiary of Consumers Power Company, was organized in 1967, its original purpose was to strengthen, through exploration and development, the oil and gas supply of its parent company. During the ensuing 12 years of operation, that purpose—along with NOMECO's success—has expanded to include making a notable contribution to Consumers Power's earnings. In 1978 the Company received two quarterly dividends of $1.5 million each from NOMECO, and in 1979 NOMECO paid the Company a total of $6 million in dividends.

Although NOMECO's 1979 revenue decreased from $45,023,000 in 1978 to $42,005,000 in 1979, the company's 1979 net income increased to $11,323,000, in comparison with $11,181,000 in 1978, and earnings per share rose to $.78 in 1979 from $.77 in 1978. Having paid off the remainder of its long-term debt in 1978, NOMECO—at the end of 1979—had temporary cash investments amounting to $10 million.

At year end, NOMECO owned an interest in 208 wells in the lower 48 states. More than half of these wells are in Michigan. The Company also owned an interest in or had made a commitment for 12.25 million acres in the continental U.S. and in the foreign countries of Tonga, Belize, and Australia. In 1979 NOMECO produced 1.4 million barrels of oil and 10.6 billion cubic feet of gas. In addition, the company has proven reserves of 8.6 million barrels of oil and 65 billion cubic feet of gas.

During 1979 NOMECO participated in the drilling of 75 wells and found oil or gas in 30 wells, located in the U.S., for a success rate of 40 percent. Exploration expenditures for the year totaled $22,100,000, and the funds to cover them were generated from internal sources.

At "information meetings" held for interested members of the financial community prior to the sale of securities, Company officers present an overview of Consumers Power's operations and prospects.

Statement of Income

	YEAR ENDED DECEMBER 31 1979	1978
	Thousands of Dollars	
OPERATING REVENUE (Notes 1 and 6):		
Electric	**$1,129,565**	$1,057,240
Gas	**870,296**	806,479
Steam	**3,513**	3,202
Total operating revenue	**$2,003,374**	$1,806,921
OPERATING EXPENSES AND TAXES:		
Operation—		
Fuel consumed in electric generation	**$ 385,944**	$ 371,444
Purchased and interchange power	**159,944**	151,249
Cost of gas sold (Note 1)	**592,315**	533,779
Other	**268,806**	238,892
Total operation expenses	**$1,407,009**	$1,295,364
Maintenance (Note 12)	**114,575**	101,446
Depreciation and amortization (Note 12)	**113,302**	106,688
General taxes	**83,437**	80,503
Income taxes (Note 8)	**23,740**	52,747
Total operating expenses and taxes	**$1,742,063**	$1,636,748
NET OPERATING INCOME:		
Electric	**$ 200,851**	$ 163,627
Gas	**60,331**	66,419
Steam	**129**	127
Total net operating income	**$ 261,311**	$ 230,173
OTHER INCOME:		
Allowance for other funds used during construction (Note 1)	**$ 66,168**	$ 43,710
Income of subsidiaries (Note 1)	**9,098**	10,887
Gain on reacquisition of long-term debt	**2,617**	2,558
Other, net	**6,698**	15,443
Total other income	**$ 84,581**	$ 72,598
INTEREST CHARGES:		
Interest on long-term debt	**$ 176,858**	$ 149,525
Other	**14,555**	1,701
Allowance for borrowed funds used during construction (Note 1)	**(49,308)**	(33,586)
Net interest charges	**$ 142,105**	$ 117,640
Net income	**$ 203,787**	$ 185,131
DIVIDENDS ON PREFERRED AND PREFERENCE STOCK	**48,419**	44,881
Net income after dividends on preferred and preference stock	**$ 155,368**	$ 140,250
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	**48,003,214**	43,743,081
EARNINGS PER COMMON SHARE	**$3.24**	$3.21

The accompanying notes are an integral part of this statement.

Statement of Source of Funds for Gross Property Additions

		YEAR ENDED DECEMBER 31 1979	1978
		Thousands of Dollars	
FUNDS GENERATED FROM OPERATIONS:	Net income	$ 203,787	$ 185,131
	Principal noncash items—		
	Depreciation and amortization		
	Per Statement of Income	113,302	106,688
	Charged to other accounts	3,054	4,248
	Deferred income taxes, net	19,437	18,386
	Investment tax credit, net	(5,805)	46,238
	Allowance for funds used during construction	(115,476)	(77,296)
	Undistributed earnings of subsidiaries	79	(7,471)
		$ 218,378	$ 275,924
	Less—		
	Dividends on preferred and preference stock	48,419	44,881
	Dividends on common stock	109,698	95,050
	Retirement of preferred stock and long-term debt	18,198	23,140
		$ 42,063	$ 112,853
FUNDS OBTAINED FROM NEW FINANCING:	Issuance of common stock	$ 94,830	$ 106,031
	Issuance of preference stock	—	58,000
	Issuance of preferred stock	46,000	50,000
	Sale of first mortgage bonds	138,500	100,000
	Net proceeds from installment sales contracts	337	7,825
	Increase in bank term loan	—	100,000
	Increase (decrease) in other long-term debt	187	(110)
	Increase in notes payable due within one year	289,139	—
		$ 568,993	$ 421,746
OTHER SOURCES (USES) OF FUNDS:	Changes in net current assets and liabilities, excluding obligations expected to be refinanced —		
	Temporary cash investments	$ 154,160	$ (14,436)
	Accounts receivable	(23,160)	(38,444)
	Accrued revenues	(19,560)	(9,949)
	Gas in underground storage	(41,020)	20,674
	Generating plant fuel stock	(13,005)	(6,420)
	Accounts payable	44,574	25,216
	Accrued taxes	10,195	(7,424)
	Deferred income taxes	10,817	2,054
	Other, net	(37,554)	21,263
		$ 85,447	$ (7,466)
	Property sold under leaseback arrangements (Note 5)	16,985	66,323
	Other, net	(4,997)	(5,695)
		$ 97,435	$ 53,162
Total funds from above sources		$ 708,491	$ 587,761
Allowance for funds used during construction		115,476	77,296
GROSS PROPERTY ADDITIONS		$ 823,967	$ 665,057
GROSS PROPERTY ADDITIONS BY REPORTABLE SEGMENTS:			
Electric		$ 750,552	$ 617,125
Gas		67,663	44,558
Other		5,752	3,374
		$ 823,967	$ 665,057

The accompanying notes are an integral part of this statement.

( ) Denotes deduction.

Balance Sheet

Assets

		DECEMBER 31 1979	1978
		Thousands of Dollars	
UTILITY PLANT (AT ORIGINAL COST):	Plant in service and held for future use—		
	Electric	$2,717,517	$2,582,077
	Gas	1,132,802	1,073,199
	Other	55,169	53,483
		$3,905,488	$3,708,759
	Less provision for accumulated depreciation	1,177,038	1,051,773
		$2,728,450	$2,656,986
	Construction work in progress (Notes 2 and 3)	1,942,330	1,329,392
		$4,670,780	$3,986,378
INVESTMENTS:	Wholly-owned subsidiaries (Note 1)—		
	Northern Michigan Exploration Company	$ 66,218	$ 60,895
	Plateau Resources Limited	38,424	30,058
	Michigan Gas Storage Company	20,280	22,048
	Other, at cost or less, net	4,757	4,425
		$ 129,679	$ 117,426
CURRENT ASSETS:	Cash	$ 20,672	$ 20,452
	Temporary cash investments, at cost, which approximates market	—	154,160
	Accounts receivable, less reserves of $2,670,000 in 1979 and $2,602,000 in 1978	186,181	163,021
	Accrued revenues (Note 1)	128,194	108,634
	Gas in underground storage, at average cost	163,159	122,139
	Generating plant fuel stock, at average cost	81,386	68,381
	Materials and supplies, at average cost	72,380	68,244
	Prepayments and other	97,175	83,528
		$ 749,147	$ 788,559
	DEFERRED DEBITS	$ 29,481	$ 43,148
		$5,579,087	$4,935,511

Stockholders' Investment and Liabilities

		1979	1978
CAPITALIZATION:	(See Statement of Capitalization):		
	Common stockholders' equity	$1,461,266	$1,314,111
	Redeemable preference stock	28,924	35,698
	Nonredeemable preference stock	140,000	140,000
	Redeemable preferred stock	138,355	92,755
	Nonredeemable preferred stock	334,779	334,779
	Long-term debt	2,033,651	2,002,278
		$4,136,975	$3,919,621
CURRENT LIABILITIES:	Current obligations expected to be refinanced —		
	Notes payable due within one year (Note 3)	$ 289,139	$ —
	First Mortgage Bonds, 9¾% Series due 1980	75,000	—
	Note payable to subsidiary (Note 3)	5,400	—
		$ 369,539	$ —
	Current maturities and sinking fund on long-term debt (Note 4)	31,475	17,799
	Accounts payable	196,901	158,1[illegible]
	Accounts payable to subsidiaries	21,417	15,556
	Accrued taxes (Note 8)	92,914	82,719
	Deferred income taxes (Note 8)	99,966	89,149
	Accrued interest	57,040	43,301
	Other	43,201	95,567
		$ 912,453	$ 502,279
DEFERRED CREDITS AND RESERVES:	Deferred income taxes (Note 8)	$ 330,303	$ 314,363
	Investment tax credit (Note 8)	163,089	168,791
	Other	36,267	30,457
		$ 529,659	$ 513,611
	Construction commitments and contingent liabilities (Notes 3 and 9)		
		$5,579,087	$4,935,511

The accompanying notes are an integral part of this statement.

Statement of Capitalization (Note 4)

	Shares Outstanding 1979	Shares Outstanding 1978	Thousands of Dollars 1979	Thousands of Dollars 1978
	DECEMBER 31			
COMMON STOCKHOLDERS' EQUITY:				
Common stock, $10 par value, authorized 60,000,000 shares	52,455,515	47,176,203	$ 524,555	$ 471,762
Capital in excess of par value			516,572	467,607
Retained earnings			440,008	394,338
Less capital stock expense			19,869	19,596
Total common stockholders' equity			$1,461,266	$1,314,111
PREFERENCE STOCK—Cumulative, $1 par value, authorized 15,000,000 shares:				
Redeemable—				
$ 6.00 Convertible, $50 stated value, conversion price $12.50	21,096	104,484	$ 1,055	$ 5,224
5.50 Convertible, $50 stated value, conversion price $15.50	197,380	249,470	9,869	12,474
85.00 Nonconvertible, $1,000 stated value	18,000	18,000	18,000	18,000
Total redeemable preference stock			$ 28,924	$ 35,698
Nonredeemable—				
$2.43 Nonconvertible, $25 stated value	2,000,000	2,000,000	$ 50,000	$ 50,000
2.23 Nonconvertible, $25 stated value	2,000,000	2,000,000	50,000	50,000
2.50 Nonconvertible, $25 stated value	1,600,000	1,600,000	40,000	40,000
Total nonredeemable preference stock			$ 140,000	$ 140,000
PREFERRED STOCK—Cumulative, $100 par value, authorized 7,500,000 shares:				
Redeemable—				
$4.52	103,550	107,550	$ 10,355	$ 10,755
9.25	320,000	320,000	32,000	32,000
9.00	500,000	500,000	50,000	50,000
9.70	100,000	—	10,000	—
8.625	360,000	—	36,000	—
Total redeemable preferred stock			$ 138,355	$ 92,755
Nonredeemable—				
$4.50	547,788	547,788	$ 54,779	$ 54,779
4.16	100,000	100,000	10,000	10,000
7.45	700,000	700,000	70,000	70,000
7.72	700,000	700,000	70,000	70,000
7.76	750,000	750,000	75,000	75,000
7.68	550,000	550,000	55,000	55,000
Total nonredeemable preferred stock			$ 334,779	$ 334,779
LONG-TERM DEBT:				
First mortgage bonds, secured by a mortgage and lien on substantially all property—				
9¾%, Series due 1980			$ 75,000	$ 75,000
3⅛%, Series due 1981			38,479	38,654
11¼%, Series due 1982			50,000	50,000
3%, Series due 1984			21,642	21,707
3¼%-4⅝%, Series due 1986-1991			149,050	158,588
11⅜%, Series due 1994			57,000	60,000
5⅞%-9⅞%, Series due 1996-2000			512,889	519,155
10⅝%, Series due 1999			38,500	—
11½%, Series due 2000			75,000	75,000
7½%-9¾%, Series due 2001-2008			695,000	695,000
10⅜%, Series due 2009			100,000	—
Total first mortgage bonds			$1,812,560	$1,693,104
Installment sales contracts, average interest rate 6.5% (net of $1,309,000 in 1979 and $1,646,000 in 1978 held in trust pending certification of construction expenditures)			124,141	125,354
4⅝% Sinking Fund Debentures due 1994			34,000	34,600
Bank term loan, at 109% of bank's prime rate due 1980 through 1985			75,000	75,000
Bank term loan, at 106% of bank's prime rate due 1985			100,000	100,000
Other			267	80
			$2,145,968	$2,028,138
Deduct—				
9¾% First Mortgage Bonds Series due 1980			75,000	—
Current maturities of installment sales contracts			2,550	1,550
Current maturity of bank term loan			7,500	—
First mortgage bonds reacquired for sinking fund			20,825	19,045
Sinking fund for debentures			600	600
Unamortized net debt discount			5,842	4,665
Total long-term debt			$2,033,651	$2,002,278
Total capitalization			$4,136,975	[illegible]919,621

The accompanying notes are an integral part of this statement.

Statement of Capital in Excess of Par Value of Common Stock

	YEAR ENDED DECEMBER 31			
	1979	1978	1979	1978
	Number of Shares		Thousands of Dollars	
Balance at January 1	47,176,203	42,199,870	$467,607	$405,502
Issuance of common stock through:				
Sales through underwriters	4,000,000	4,000,000	38,440	52,780
Dividend Reinvestment and Common Stock Purchase Plan	628,990	415,957	8,949	5,265
Employee Stock Ownership Plan	103,225	161,085	1,215	2,216
Employees' Savings Plan	46,000	—	444	—
Conversions of $6.00 Preference Stock	333,252	173,040	833	433
Conversions of $5.50 Preference Stock	167,845	226,251	923	1,244
Net gain on reacquisition of preferred stock	—	—	161	167
Balance at December 31	52,455,515	47,176,203	$518,572	$467,607

Statement of Retained Earnings

	YEAR ENDED DECEMBER 31	
	1979	1978
	Thousands of Dollars	
Balance at January 1	$394,338	$349,138
Net income	203,787	185,131
	$598,125	$534,269
Less cash dividends:		
Preferred stock	32,009	31,007
Preference stock	16,410	13,874
Common stock (Note 4)	109,698	95,050
Balance at December 31	$440,008	$394,338

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. Under this method the Company's interest in the subsidiaries' earnings is reflected currently in earnings and in the carrying value of the investments. At December 31, 1979, undistributed subsidiary earnings were $48,[illegible]7,000. The Company receives a portion of its gas supply from two subsidiaries. Operation expense includes approximately $162,638,000 in 1979, and $124,263,000 in 1978 relating to gas purchased from these subsidiaries. Transactions with subsidiaries have no significant effect on the Company's financial position or results of operations and are not eliminated.

The Company accrues revenues for service rendered to customers but not billed at month's end.

The Company capitalizes as a component of utility plant cost, and includes in other income and deducts from interest charges, an allowance for funds used during construction (AFUDC), a noncash item. AFUDC is the cost of funds applicable to utility plant in process of construction. During 1979 and 1978, the Company capitalized AFUDC at a rate of 8.5%. Substantially all AFUDC was related to electric plant 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.

Reference is made to Notes 7, 8 and 12 for information regarding the pension plan, income taxes and depreciation, respectively.

Notes (continued)

2 NUCLEAR GENERATING PLANTS

Investment in the Midland Nuclear Plant, a twin-unit facility designed to generate 1,357 megawatts for the Company's electric system and to furnish process steam service to The Dow Chemical Company (Dow), was $1.26 billion at December 31, 1979. Because of the Three Mile Island (TMI) accident, the Nuclear Regulatory Commission (NRC) is directing its resources towards handling TMI issues; therefore, consideration of construction permits and operating licenses, including the Company's application for Midland Plant operating licenses, has been delayed. Additionally, not all NRC requirements resulting from reviews of the TMI accident have been defined. Based on estimates of the effects of licensing delays and expected design revisions as a result of licensing requirements, many of which resulted from the TMI accident, Bechtel Power Corporation (Bechtel), prime contractor for the Midland Plant, reported a revised estimate of costs and schedules in January 1980. A preliminary review of the Bechtel report indicates that the plant could cost approximately $3.1 billion and be in commercial operation in 1984-1985. (See Note 3.) The Company had previously estimated the cost to be $1.67 billion and commercial operation in 1981-1982. There can be no assurance that further delays and further cost increases will not occur. The Company has undertaken a detailed study of the revised costs and schedules in order to examine alternatives, prepare a definitive project plan, and determine the resulting schedule and cost forecast. Design and construction of the plant is continuing. If commencement of commercial operation of the plant for process steam service to Dow were delayed beyond December 31, 1984, Dow would have the right to terminate its agreement with the Company for such service; however, Dow would be obligated to pay an amount estimated to range from $175 million at present to $430 million if the plant were completed at a cost of $3.1 billion. In the event Dow were to terminate the agreement for such cause, the remaining portion of the investment in equipment allocable to the process steam service, estimated to range from $130 million at present to $300 million if the plant were completed at a cost of $3.1 billion, may not be salvageable.

In August 1978, the Company discovered and reported to the NRC certain foundation soil problems at the Midland Plant. In December 1979, the NRC issued an order which, if made effective, would modify the Company's construction permits relating to the plant to prohibit remedial construction work undertaken to correct the problems, pending NRC approval. The matter is pending. The Company is presently unable to determine whether this matter will result in further delay in initial operation of the plant or further increases in plant costs.

Other pending issues relating to the Midland Plant construction permits which could influence the cost and schedule relate to an antitrust proceeding in which the parties involved have reached a settlement, subject to NRC approval, and to nuclear fuel cycle rules. However, the Company does not expect that further review of these issues will invalidate the plant construction permits.

In November 1979, the NRC cited the Company for license violations for allegedly operating the Palisades Nuclear Plant with two containment isolation valves open and related matters. The Company discovered the open valves in September 1979 during testing at the plant during the current refueling and maintenance outage. The Company filed a response to the November notice which denied the alleged violations in part and sought remission or mitigation of proposed civil penalties. In December 1979, after consideration of the Company's response, the NRC issued an order which required the Company to pay the proposed civil penalties. The Company has requested a hearing with respect to the December order, thereby delaying its effectiveness. Concurrently with the November notice, the NRC issued an immediately effective order which requires monthly inspections and, before the plant may be returned to service, a review of checklists and procedures and a demonstration by the Company that appropriate controls have been adopted to prevent recurrence of the alleged violations. The Company is unable to predict whether the current outage will be extended on account of these requirements. The date when the plant will return to service from this outage is uncertain due to maintenance work necessary to meet seismic requirements. An extension of the outage would increase the Company's cost of replacement power in an amount which cannot presently be determined, and the recoverability of the incremental portion of such costs is not assured.

The Company filed suit in a U.S. District Court seeking damages, together with equitable relief, from five suppliers of components and design work for the Palisades Plant. The Company has reached settlements with the five suppliers totaling approximately $68 million in cash and future services, the majority of which has been or will be used to reduce the investment in the plant. The value to the Company of the settlement could reach $88 million depending on the future value of certain uranium fuel assemblies.

The Company's applications for full-term, 40-year operating licenses for the Palisades and Midland Plants are pending before the NRC.

3 CONSTRUCTION PROGRAM AND SHORT-TERM BORROWING ARRANGEMENTS

After giving effect to the preliminary estimate of the Midland Nuclear Plant's cost increases and schedule delays (see Note 2), construction expenditures are currently estimated to total approximately $650 million in 1980 and $3.4 billion through 1984. These amounts are net of anticipated participation by other parties in the Campbell unit 3 coal-fired plant, estimated at $46 million in 1980, and net of leased nuclear fuel. The amounts and timing of similar participation in the Midland Plant are presently uncertain, and are not considered in the preceding construction expenditures estimates. While substantial commitments have been made with respect to the construction program in future years, the Company is unable to determine at this time how it will finance its construction program beyond 1980. No determination has been made regarding the amounts, timing and nature of the securities to be issued.

The Company will need significant and timely rate increases if revenues and income are to reach and be maintained at levels which will result in sufficient internally generated funds to meet its operational requirements and permit external financing of its constrution program at reasonable cost. If adequate funds cannot be obtained from outside financing and internal sources, the Company will, as it has in the past, curtail its construction program to the extent feasible, although this may affect adversely the reliability of service for future customer requirements. Deferrals of planned construction may result in near-term expenditure reductions, but cost escalations and general inflationary price trends would, in the Company's judgment, cause the long-term effect of such deferrals to be an overall increase in the Company's required investment.

The Company has arrangements with banks for short-term borrowings of up to $291 million and for acceptance draft commitments up to $145 million which are subject to periodic review. In connection with the short-term borrowings, 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 banks' records after adjustment for uncollected funds. There are no legal restrictions on the withdrawal of the compensating balances. When issued, the acceptance drafts are secured by a lien on certain of the Company's fuel inventories.

During 1979, the Company incurred short-term borrowings to a maximum amount of $332,773,000, which were the first such transactions since 1976. The average daily amount outstanding was $80,671,000, and the weighted average interest rate (calculated daily), excluding the effect of compensating balances, was 13.8% per annum.

4 CAPITALIZATION

Common Stock

At December 31, 1979, retained earnings in the amount of $48,371,000, out of total retained earnings of $440,008,000, cannot be distributed as cash dividends on common stock under provisions of the Company's Articles of Incorporation. There are also other restrictions as to payment of dividends on common stock which are presently less restrictive. At December 31, 1979, common stock is reserved as follows: 505,331 shares for the Employee Stock Ownership Plan, 354,000 shares for the Employees' Savings Plan, 2[illegible]2,032 shares for the Dividend Reinvestment and Common Stock Purchase Plan, and 84,384 and 636,710 shares for conversions of $6.00 and of $5.50 Preference Stock, respectively. The Company's quarterly dividend on common stock was increased from $.53 to $.56 per share in July 1978 and to $.59 per share in July 1979.

Preference and Preferred Stock

All preference and preferred issues may be repurchased as a whole or in part at the Company's option, either at a fixed price or at progressively decreasing prices. Certain issues are subject to restrictions which prohibit repurchase with funds raised from the issuance of securities which would rank prior to or on parity with the repurchased stock and have a lower interest or dividend cost. The Company's $6.00, $5.50 and $85.00 Preference Stock and $4.52, $9.25, $9.00, $9.70 and $8.625 Preferred Stock are redeemable at mandatory dates and prices.

The following table summarizes the repurchase and redemption features for stock outstanding at December 31, 1979.

	Repurchases at Company's Option			Mandatory Redemptions		
	Price (Excluding Accrued Dividends)	Effective Through	Restrictions in Effect Through	Annual Number of Shares	Price (Excluding Accrued Dividends)	First Redemption
Redeemable preference:						
$ 6.00	$ 52.50	July 1984	None	37,500(a)	$ 50.00	Aug. 1979
5.50	52.50(b)	June 1985(b)	None	50,000(c)	50.00	July 1980
85.00(d)	1,085.00	Sept. 1983	Sept. 1983	3,600	1,000.00	Oct. 1984
Redeemable preferred:						
$ 4.52	$ 104.725	None	None	4,000	$ 102.725	April 1952
9.25	110.00	March 1982	March 1987	16,000	100.00	April 1982
9.00	110.00	March 1983	March 1988	25,000	100.00	April 1983
9.70(e)	110.00	Dec. 1984	Dec. 1989	5,000	100.00	Jan. 1986
8.625(e)	109.00	Dec. 1984	Dec. 1984	72,000	100.00	Jan. 1986
Nonredeemable preference:						
$ 2.43	$ 27.43	Aug. 1981	Aug. 1981			
2.23	27.25	Oct. 1982	Oct. 1982			
2.50(f)	27.50	July 1983	July 1983			
Nonredeemable preferred:						
$ 4.50	$ 110.00	None	None			
4.16	103.25	None	None			
7.45	106.00	March 1981	None			
7.72	106.00	June 1982	None			
7.76	107.25	May 1983	None			
7.68	106.00	Oct. 1983	None			

(a) Mandatory redemption in 1980 will be limited to the number of shares outstanding (21,096 at December 31, 1979). This limit is reflected in the mandatory redemption amounts.
(b) The Company's repurchase option begins in July 1980.
(c) The Company has the option to receive credit for any shares converted.
(d) Issued in October 1978.
(e) Issued in November 1979.
(f) Issued in July 1978.

Five-year aggregate amount of mandatory redemption requirements of redeemable preference and preferred stock:

	Preference	Preferred
	Thousands of Dollars	
1980	$3,555	$ 411
1981	2,500	411
1982	2,500	2,011
1983	2,369	4,511
1984	3,600	4,511

Should the Company default in the performance of its obligations under the sinking fund provisions, no cash dividends or distribution of assets may be made on common stock or, for preferred stockholders, on preference stock, over which the preferred and preference stock have preference as to the payment of dividends.

First Mortgage Bonds

The Company has 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.

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. In addition, a $600,000 sinking fund deposit is due on the 4⅝% Sinking Fund Debentures on or before September 1 of each year.

Five-year maturities and annual sinking fund requirements of long-term debt, including mandatory redemption features on certain issues:

	Debt Maturities	Annual Sinking Fund Requirements
	Thousands of Dollars	
1980	$85,050	$21,425
1981	56,029	23,125
1982	67,950	23,125
1983	17,950	23,125
1984	39,592	23,125

The Company sold $100,000,000 of [illegible]% Series First Mortgage Bonds due 2010, and $70,000,000 of 12.10% Series First Mortgage Bonds due 1987, in January 1980; and has contracted to sell $39,500,000 of 10⅝% Series First Mortgage Bonds due 1999 in February 1980.

5 LEASE OBLIGATIONS AND RENTALS

The Company has two leasing arrangements for its nuclear fuel. The lessors' investment in the fuel at December 31, 1979 was $110 million. The current term of one lease runs to November 1983, with provision for one-year extensions from time to time to November 2029, subject to earlier termination in certain events. The initial term of a second leasing agreement expires in August 1983, with provision for one-year extensions from time to time to August 2013, subject to earlier termination in certain events.

The quarterly lease charges for both leases consist of a fuel factor computed on the basis of heat production plus interest costs and administrative fees and expenses incurred by the lessors. In the event of termination of either lease, the lessor would be entitled to 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.

In 1975, two of the Company's general office buildings were sold for $26 million and leased back. The initial term of the leases expires in 2003, with two five-year renewal options subject to escalation clauses and a third five-year renewal option at the then fair market rental 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 $2.9 million. Taxes, insurance and other operating costs relating to the buildings are required to be paid by the Company.

Rentals, including amounts charged to clearing and other accounts, amounted to $42,204,000 in 1979 and $27,738,000 in 1978. Of these amounts $11,700,000 in 1979 and $8,074,000 in 1978 were contingent upon usage.

The minimum rental commitments for leases presently in effect will approximate $28,800,000 in 1980, $24,878,000 in 1981, $24,709,000 in 1982, $21,967,000 in 1983, $13,385,000 in 1984, $25,200,000 for the period 1985-1989, $16,209,000 for the period 1990-1994, $14,599,000 for the period 1995-1999 and $10,219,000 for remaining years.

The Company's lease obligations are accounted for as operating leases in the rate-making process. Accordingly, obligations related to financing leases have been charged to expense as incurred. Had these leases been capitalized the aggregate amounts of assets and liabilities that would have been recorded at December 31, 1979 are $171,635,000 related to utility plant, net of accumulated depreciation and amortization, and $173,041,000 related to obligations under capital leases. If all financing leases were capitalized, the effect on expense would not be material.

Notes (continued)

6 RATE MATTERS

In September 1979, the Company announced plans to "mothball" the Marysville Gas Reforming Plant until such time, currently projected to be the mid-1980s, as its output is again needed to meet the requirements of the Company's customers. As a result of this announcement the Michigan Public Service Commission (MPSC) reopened hearings in the Company's most recent gas rate case (in which a final order for an annual amount of $29.2 million had been issued in June 1979) and in October 1979 ordered that the rates established in June be reduced $23.9 million annually to reflect the reduced plant operating costs, including depreciation. In November 1979, the Michigan Attorney General petitioned the MPSC for rehearing of the October order. The petition seeks retroactivity to June 1979 of the reduction ordered in October 1979, a refund of the revenue collected under an interim order in the proceeding and a refund of the 1978 and 1979 purchased gas adjustment clause revenue attributable to Marysville Plant feedstock costs.

Appeals and motions for rehearing are pending with respect to several electric and other gas rate orders, including litigation involving alleged over-collections under the fuel cost adjustment clause, and alleged illegality of the purchased and interchange power adjustment clause (PPAC) applicable to the Company's electric rates, the December 1977 PPAC revenue collected under protection of court order, revenues collected in 1979 and 1980 under an indexing system whereby the recovery in rates of other operation and maintenance expense is annually adjusted for changes in the Consumer Price Index and a court-ordered electric rate increase collected from October 1969 to April 1970. The Company is vigorously pursuing these matters before regulatory bodies and the courts and, in the opinion of management, their ultimate resolution should not materially affect the financial position of the Company or the results of operations for the periods involved.

7 PENSION PLAN

The Company has a trusteed noncontributory pension plan under which employees within specified age limits and periods of service are qualified to participate.

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. Contributions to the plan were $24,785,000 in 1979 and $22,489,000 in 1978. Of these amounts, $19,357,000 in 1979 and $18,466,000 in 1978 were charged to expense accounts and the remainder charged to construction, clearing and other accounts.

As of the most recent actuary's report dated January 1, 1979, the actuarially computed value of vested benefits was $207,234,000. The market value of the assets of the plan was $240,464,000 at January 1, 1979, and $284,077,000 at December 31, 1979. Should the market value of the assets of the plan fall below the value of vested benefits, the actuarial method used in determining the annual contribution funds this difference over a period of years. The unfunded prior service cost at January 1, 1979 amounted to approximately $59 million. Unfunded prior service costs are being amortized over a 25-year period.

8 INCOME TAX EXPENSE

The components of income tax expense are as follows:

	YEAR ENDED DECEMBER 31	
	1979	1978
	Thousands of Dollars	
Federal income taxes (credit)	**$ (3,859)**	$ (1,065)
Deferred income taxes:		
Current, net —		
Accrued revenues	**$15,283**	$ (1,613)
Revenue reserved for possible refund	**533**	(3,954)
Real and personal property taxes	**1,276**	1,344
	$17,092	$ (4,223)
Noncurrent —		
Accelerated depreciation —		
Deferred in current year	**$28,504**	$26,475
Reversal of prior years' deferrals	**(7,218)**	(7,147)
Other, net	**(1,849)**	(942)
	$19,437	$18,386
Deferred investment tax credit, net	**$ (5,805)**	$46,238
	$27,065	$59,336
Charged to utility operations	**$23,740**	$52,747
Charged to nonutility operations	**3,325**	6,589
	$27,065	$59,336

The 1979 and 1978 federal income tax credits reflect adjustments of prior years' provisions and investment tax credits.

The following schedule reconciles the statutory federal income tax rates to the effective income tax rates.

	YEAR ENDED DECEMBER 31	
	1979	1978
Federal income tax statutory rates	46.0%	48.0%
Increase (reduction) in taxes resulting from:		
Borrowed portion of AFUDC and other capitalized construction costs	(16.6)	(10.0)
Other portion of AFUDC	(13.8)	(8.6)
Customer connection fees	1.3	2.5
Other, net	(5.2)	(7.6)
Effective income tax rates	11.7%	24.3%

Certain costs, principally interest, which are capitalized for financial reporting purposes in accordance with the provisions of the Uniform System of Accounts, are expensed for income tax purposes and the resulting tax reduction is reflected currently in the Statement of Income as ordered by the MPSC.

The job development investment tax credit utilized as a reduction of the current year's income tax is deferred and amortized to operating expense over the life of the related property. As of December 31, 1979, the Company's unutilized job development investment tax credit generated during 1979 and 1978 was approximately $86 million and $9 million, respectively.

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.

9 CONTINGENT LIABILITIES

The Company is involved in certain legal and administrative proceedings before various courts and governmental agencies and in contractual matters with others concerning rates, environmental issues, property and income taxes, licensing, fuel supplies and costs, and other matters, the outcome of which might result in a decrease in the Company's revenues and/or increases in construction expenditures and/or operating expenses.

10 SEGMENTS OF BUSINESS

Income taxes and corporate expenses are allocated to segments in accordance with the regulatory accounting requirements of both the MPSC and the Federal Energy Regulatory Commission.

Expenses by segment for the years ended and total assets at December 31 are shown below:

	1979			1978		
	Depreciation and Amortization	Income Taxes	Assets	Depreciation and Amortization	Income Taxes	Assets
	Thousands of Dollars					
Electric	$ 75,763	$ 1,144	$3,994,924	$ 71,032	$20,719	$3,317,245
Gas	37,436	22,566	963,689	35,553	31,990	901,371
Steam	103	30	1,943	103	38	2,044
Unallocated	—	—	618,531	—	—	714,851
	$113,302	$23,740	$5,579,087	$106,688	$52,747	$4,935,511

Allocated assets include construction work in progress.

Revenue derived from sales to General Motors Corporation amounted to 10.6% and 11.1% of the total revenue for 1979 and 1978, respectively.

Notes (continued)

11 QUARTERLY FINANCIAL INFORMATION

Quarterly financial information for 1979 and 1978 is as follows:

	QUARTER ENDED							
	March 1979	**June 1979**	**Sept. 1979**	**Dec. 1979**	March 1978	June 1978	Sept. 1978	Dec. 1978
	Thousands of Dollars							
Total operating revenue	**$625,065**	**$426,554**	**$383,641**	**$568,114**	$607,528	$397,285	$358,894	$503,214
Net operating income	**87,747**	**57,212**	**53,963**	**62,389**	69,074	54,331	48,760	58,008
Net income	**74,016**	**45,418**	**43,490**	**40,863**	53,948	41,316	39,305	50,562
Net income after dividends on preferred and preference stock	**61,950**	**33,397**	**31,578**	**28,443**	43,590	30,509	27,644	38,507
Earnings per common share	**$1.31**	**$ .70**	**$ .66**	**$ .58**	$1.03	$ .72	$ .64	$ .82

12 MAINTENANCE AND DEPRECIATION AND NUCLEAR FUEL AMORTIZATION

The Company charges to maintenance expense the cost of repairs of property and replacements and renewals of items determined to be less than units of property. Property additions and replacements and renewals of units of property are charged to the utility plant accounts. Units of property retired or otherwise disposed in the normal course of business are charged to the provision for accumulated depreciation in the amount of such retirements, less net salvage credits.

The Company provides depreciation on the basis of straight-line rates approved by the MPSC. Composite depreciation rates were approximately 2.93% for electric plant and 3.76% for gas plant in 1979, and 2.87% for electric plant and 3.60% for gas plant in 1978. The Company's composite electric depreciation rate includes an estimate for the decommissioning costs of the Company's nuclear plants. In January 1979, the Company sought approval of revised electric depreciation schedules which would incorporate higher decommissioning costs. The matter is pending before the MPSC.

In the opinion of management, the balance in the provision for accumulated depreciation is reasonably adequate to cover the requirements for depreciation on the original cost of utility plant.

The Company's cost of nuclear fuel is amortized to fuel expense based on the quantity of heat produced for the generation of electric energy. In an electric rate order effective in August 1978, cost of service was determined giving consideration, on a prospective basis, to the assumptions of zero residual value for spent nuclear fuel and the need for perpetual storage. Previously, the nuclear fuel amortization rate utilized for accounting and rate purposes was based upon the assumptions that spent nuclear fuel had a residual salvage value and would be chemically reprocessed. With regard to these costs, the MPSC indicated in an earlier order that the Company was not precluded from recovering such costs when actually incurred.

13 JOINTLY-OWNED UTILITY PLANT

The Company and The Detroit Edison Company are co-owners of the Ludington Pumped Storage Plant which was placed into commercial operation in 1973. The Company has a 51% undivided ownership interest and Detroit Edison the remaining 49%. The Company's investment at December 31, 1979 and 1978 in utility plant in service was $122,165,000 and $124,893.000, respectively, net of accumulated depreciation of $17,778,000 and $15,036,000, respectively. Operation, maintenance and other expenses of the plant are shared by the Company and Detroit Edison, 51% and 49%, respectively. The Company's share of these expenses is included in operation and maintenance expense on the Statement of Income.

14 EFFECTS OF CHANGING PRICES (UNAUDITED)

The following information is supplied in accordance with the requirements of Financial Accounting Standards Board (FASB) Statement No. 33, "Financial Reporting and Changing Prices," for the purpose of providing estimates of certain information about the effects of changing prices. The schedules below are intended to indicate the effect on the Company of both general inflation (represented by the constant dollar amounts) and changes in specific prices (represented by the current cost amounts). The estimated information should be viewed as an approximation of the effects of inflation rather than a precise measure. A number of judgments and estimating techniques were used in the current cost calculations so that the cost of accumulating the data would be proportionate to its benefit. As provided by FASB Statement No. 33, the information does not reflect a comprehensive application of either type of inflation accounting, but instead represents approximations of the price changes that have affected the Company's business.

Constant dollar amounts represent historical costs stated in dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers. Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present, and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than the general rate of inflation. The current cost of plant represents an estimated cost of replacing existing plant assets and was determined by indexing the original cost of existing plant by the Handy-Whitman Index of Public Utility Construction Costs and other appropriate indexes. The provisions for depreciation stated in constant dollar and current cost amounts were determined by applying the Company's functional class depreciation rates to the average indexed plant amounts.

Inventories, the cost of fuel consumed in electric generation and the cost of gas sold have not been restated from their historical cost amounts. The inventory turnover period is relatively short, and fuel and gas costs are recovered on a reasonably current basis through the operation of adjustment clauses or through adjustments in basic rate schedules. In accordance with FASB Statement No. 33, other items on the Condensed Statement of Income Adjusted for Changing Prices have not been restated.

Under the ratemaking prescribed by the regulatory commissions to which the Company's accounting is subject, only depreciation of the historical cost of plant is recoverable in rates, and any excess of the cost of plant stated in constant dollars or current cost over the historical cost is not presently recoverable. Therefore, the amount of this excess which accumulated in 1979 is reflected in the schedules below as a reduction of plant, as adjusted, to net recoverable cost. To properly reflect the economics of rate regulation in the Condensed Statement of Income Adjusted for Changing Prices, the reduction of net plant, should be offset by the gain from the decline in purchasing power of net amounts owed.

Holders of monetary assets suffer a loss of general purchasing power during inflationary periods while holders of monetary liabilities experience a "gain." The theoretical "gain" from the decline in purchasing power of net amounts owed disclosed below is primarily attributable to the substantial amount of debt and other fixed-return securities which were used to finance plant.

There is presently no consensus on which aspect of inflation, if any, should be reported on a continuing basis. Experimentation with these techniques of communicating the effects of inflation and price changes may eventually lead to changes in the basic financial statements. But until a final decision is reached, the FASB has decided that primary financial statements will be stated on a historical cost basis.

	1979 Historical Dollars	Constant Dollar	Current Cost
		Average 1979 Dollars	
	Millions of Dollars		
CONDENSED STATEMENT OF INCOME ADJUSTED FOR CHANGING PRICES			
Operating revenue	$2,003.4	$2,003.4	$2,003.4
Deduct (add):			
Depreciation and amortization	113.3	222.5	266.7
Remaining operating expenses, and taxes	1,628.8	1,628.8	1,628.8
Other income, net	(84.6)	(84.6)	(84.6)
Net interest charges	142.1	142.1	142.1
Dividends on preferred and preference stock	48.4	48.4	48.4
Net income after dividends on preferred and preference stock[a]	$ 155.4	$ 46.2	$ 2.0
OTHER ADJUSTMENTS FOR CHANGING PRICES			
Increase in specific price of plant held during the year[b]			$ 685.6
Reduction of plant to net recoverable cost		$ (420.4)	(42.0)
			$ 643.6
Less effect of increase in general price level of plant			$1,019.8
Excess of increase in general price level over increase in specific prices after reduction of plant to net recoverable cost			$ (376.2)
"Gain" from decline in purchasing power of net amounts owed		357.5	357.5
Net		$ (62.9)	$ (18.7)

(a) Excludes the reduction of plant to net recoverable cost. Had this reduction been included, net income after dividends on preferred and preference stock in constant dollars would have been reduced to a $374.2 million loss.

(b) At December 31, 1979, plant, net of accumulated depreciation, was $8.9 billion on a current cost basis and $4.7 billion on a historical cost basis.

Notes (continued)

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES
In Average 1979 Dollars (Millions, except per share amounts)

	1979	1978	1977	1976	1975
AVERAGE CONSUMER PRICE INDEX	**217.4**	**195.4**	**181.5**	**170.5**	**161.2**
HISTORICAL INFORMATION ADJUSTED FOR GENERAL INFLATION					
Operating revenue	$2,003.4	$2,077.1	$1,960.3	$2,016.3	$1,808.6
Cash dividends per common share	$2.30	$2.43	$2.50	$2.[illegible]5	$2.70
Year-end market price per common share	$17.89	$23.97	$28.18	$28.22	$24.84
Net income after dividends on preferred and preference stock (excluding reduction of plant to net recoverable cost)	$46.2				
Earnings per common share	$.96				
Net assets at year-end at net recoverable amount	$1,395.2				
"Gain" from decline in purchasing power of net amounts owed	$357.5				
CURRENT COST INFORMATION					
Net income after dividends on preferred and preference stock (excluding reduction of plant to net recoverable cost)	$2.0				
Earnings per common share	$.04				
Excess of increase in general price level over increase in specific prices after reduction of plant to net recoverable cost	$376.2				
Net assets at year-end at net recoverable cost	$1,395.2				

ARTHUR ANDERSEN & CO.

DETROIT, MICHIGAN

To the Board of Directors,
Consumers Power Company:

We have examined the balance sheet and statement of capitalization of CONSUMERS POWER COMPANY (a Michigan corporation) as of December 31, 1979, and 1978, and the related statements of income, retained earnings, capital in excess of par value of common stock and source of funds for gross property additions for the years then ended. Our examinations were 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, 1979, and 1978, 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 applied on a consistent basis.

February 8, 1980.

Arthur Andersen & Co.

Management's Discussion and Analysis of the Statement of Income

OPERATING REVENUE

Electric revenue increased $72,325,000 in 1979 and $148,277,000 in 1978. The 1979 increase was primarily the result of rate increases. A 1.7% sales volume increase accounted for $17,463,000. The 1978 increase was primarily the result of fuel cost and purchased and interchange power cost adjustment clause revenue. A 2.6% sales volume increase accounted for an increase of $23,790,000.

Gas revenue increased $63,817,000 in 1979 and $81,658,000 in 1978. An increase in purchased gas adjustment clause revenue was partially offset by a $50,594,000, or 6.3%, decrease in sales volume that was due to a 1978 sale to an Ohio utility that faced an emergency shortage. Colder weather in 1978 and the emergency sale caused a sales volume increase of 13.3%, or $96,094,000. Lower purchased gas adjustment clause revenue, net of increased rate revenue, accounted for the offsetting decrease.

OPERATING EXPENSES

Fuel for generation increased $14,500,000 in 1979 and $108,721,000 in 1978. The 1979 increase was the result of a 4.1% increase in the average fuel cost per kilowatthour generated, from 1.69 cents to 1.76 cents. The higher 1979 average cost resulted from increased oil prices and increased price and use of coal. The increase in 1978 reflects a 39.7% increase, from 1.21 cents to 1.69 cents, in the average fuel cost per kilowatthour generated. The increase reflects the higher cost of oil generation in lieu of coal during the 1978 coal strike and the scheduled refueling outage of the Palisades Nuclear Plant in the first quarter of 1978.

Purchased and interchange power increased $8,695,000 in 1979 and $21,244,000 in 1978. The 1979 increase was the result of a 7.1% increase in purchased and net interchange power use. The 1978 increase reflects an 11.3% increase in the average cost per kilowatthour purchased and a 4.5% increase in purchased power requirements. Much of the increase in requirements occurred during the coal strike.

Cost of gas sold increased $58,536,000 in 1979 and $37,212,000 in 1978. An 18.5% increase in the unit cost in 1979 due to supplier price increases was partially offset by lower sales volume. The 1978 increase reflects a 13.3% increase in the gas sendout associated with the increase in sales, partially offset by a decrease in the average unit cost.

Other operation and maintenance expense increased $43,043,000 in 1979 and $44,655,000 in 1978. Generating plant maintenance and employee wage increases accounted for the major portion in these amounts.

INCOME TAXES

In 1979, the decrease in income taxes of $29,007,000 was the result of increased interest charges and the decrease in gas net operating income before income taxes. In 1978, income taxes decreased $10,098,000 despite the growth in income before taxes, largely due to an increased interest deduction.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)

Increases in the AFUDC debt and other components in 1979 and 1978 resulted primarily from construction at the Midland and at the Campbell unit 3 plants. In 1979, total AFUDC increased $38,180,000 and in 1978 it increased $23,085,000.

INTEREST CHARGES

Interest expense, exclusive of the AFUDC credit, increased $40,187,000 in 1979 and $18,733,000 in 1978. Both increases resulted from first mortgage bond sales and, in 1979, short-term borrowings.

Summary of Statement o' 'ncome 1979-1975

	1979	1978	1977	1976	1975
	Thousands of Dollars				
Operating revenue:					
Electric	$1,129,565	$1,057,240	$908,963	$878,468	$757,741
Gas	870,296	806,479	724,821	700,236	581,294
Steam	3,513	3,202	2,826	2,548	2,065
Operating expenses, except income taxes:					
Fuel consumed in electric generation	385,944	371,444	262,723	266,447	249,556
Purchased and interchange power	158,944	151,249	130,005	127,464	90,8[illegible]1
Cost of gas sold	592,315	533,779	496,567	460,458	375,435
Other operation and maintenance	383,381	340,338	295,683	263,279	236,636
Depreciation and amortization	113,302	106,688	102,448	96,954	93,635
General taxes	83,437	80,503	74,397	77,365	67,678
Net operating income before income taxes:					
Electric	201,995	184,346	209,988	202,926	161,468
Gas	82,897	98,409	64,666	86,159	65,461
Steam	159	165	133	200	280
Income taxes:					
Federal	16,108	(11,877)	(9,211)	38,970	(1,602)
State	—	—	—	(2,901)	3,417
Deferred, net	19,437	18,386	25,328	26,603	31,318
Investment tax credit, net	(5,805)	46,238	46,728	14,643	24,431
Net operating income:					
Electric	200,851	163,627	162,873	151,952	120,276
Gas	60,331	66,419	48,952	59,864	49,166
Steam	129	127	117	154	203
Allowance for funds used during construction (1)	66,168	43,710	30,444	33,848	24,825
Other income	18,413	28,888	21,347	14,787	15,828
Interest charges (1)	142,105	117,640	108,726	116,060	110,362
Net income	203,787	185,131	155,007	144,545	99,936
Cash dividends on preferred stock	32,009	31,007	25,437	24,071	24,093
Cash dividends on nonconvertible preference stock	14,850	11,545	5,764	1,701	—
Cash dividends on convertible preference stock	1,560	2,329	3,386	5,177	5,993
Net income after dividends on preferred and preference stock	155,368	140,250	120,420	113,596	69,850
Cash dividends on common stock	109,698	95,050	77,866	61,038	53,271
Average common shares outstanding assuming no dilution (000)	48,003	43,743	37,866	31,300	26,677
Earnings per share of common stock assuming no dilution (2)	$3.24	$3.21	$3.18	$3.63	$2.62
Average common shares outstanding assuming full dilution (000)	48,952	45,174	39,942	34,487	30,437
Earnings per share of common stock assuming full dilution (3)	$3.21	$3.16	$3.10	$3.44	$2.49
Cash dividends paid per share	$2.30	$2.18	$2.09	$2.00	$2.00

(1) Prior to 1977, allowance for funds used during construction (AFUDC) was defined by 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. Beginning in 1977, AFUDC reflects allowance for other funds used during construction. Interest charges for 1977, 1978 and 1979 have been credited with allowance for borrowed funds used during construction.

(2) After reduction for cash dividends on preferred and preference stock.

(3) After reduction for cash dividends on preferred and nonconvertible preference stock.

Consumers Power Company
Dividends and Stock Prices

Security	Dividends Paid Per Share							
	Calendar Quarter — 1979				Calendar Quarter — 1978			
	1	2	3	4	1	2	3	4
Common Stock	$0.56	$0.56	$0.59	$0.59	$0.53	$0.53	$0.56	$0.56
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	1.92	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
9.25	2.3125	2.3125	2.3125	2.3125	2.3125	2.3125	2.3125	2.3125
9.00	2.25	2.25	2.25	2.25	—	1.275	2.25	2.25
9.70	—	—	—	—	—	—	—	—
8.625	—	—	—	—	—	—	—	—
Preference Stock:								
$ 6.00	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
5.50	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375
2.43	0.6075	0.6075	0.6075	0.6075	0.6075	0.6075	0.6075	0.6075
2.23	0.5575	0.5575	0.5575	0.5575	0.4522	0.5575	0.5575	0.5575
2.50	0.6250	0.6250	0.6250	0.6250	—	—	—	0.5555
85.00	18.6528	21.25	21.25	21.25	—	—	—	—

Security	High and Low Sales Prices Based on NYSE-Composite Transactions															
	Calendar Quarter — 1979								Calendar Quarter — 1978							
	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	23⅝	22⅛	23½	19	23¼	21⅜	22¾	18½	24	22⅛	23⅞	21⅝	25	22¾	25¼	20⅛
Preferred Stock:																
$ 4.16	42	39	41½	37	40½	38⅜	41	32	45	42⅜	45½	42	46¾	41½	45¼	39⅛
4.50	45	41⅞	44	40	44½	38⅜	41¾	34½	49¾	47	48	43½	48½	44	47	42¼
4.52	58⅞	53½	57¼	52⅜	53½	52¼	56	52¾	57¾	52½	54	51½	53	51¼	53½	51⅝
7.45	78½	69½	77⅝	70	76⅞	71¼	72	57½	82¾	78½	79½	72	84¼	72½	81½	71
7.68	80⅜	73¼	78¾	72	77¼	73⅛	72½	61	84½	81¼	83¼	75½	86⅝	76	86	77
7.72	80⅝	75	80¼	73½	80⅞	71	74⅝	61½	85¼	81	82½	75	88	76	85½	76
7.76	80⅞	75¾	79⅝	73	80⅜	73⅛	73¼	62½	85⅞	81	82¼	76¼	86½	77	85⅜	75
9.25*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
9.00*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
9.70*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
8.625*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Preference Stock:																
$ 6.00	93½	88¾	90	80¼	92½	86¼	79	77½	95	89	94	87½	97	91½	97	86½
5.50	75	71¼	72	64¼	73	68¼	69½	59½	75	71½	76	70⅛	77¾	73½	76⅞	70½
2.43	24¼	22	24	21⅜	24	21⅝	21⅞	18	26¼	25	25¾	23¼	26½	23½	25⅜	21¾
2.23	22¾	19⅝	21¾	19⅝	21¾	19⅜	19¾	16½	24⅜	23	23¾	21½	24¼	21½	23¾	19½
2.50	24⅜	22⅞	24⅝	21½	24⅜	21½	22¼	18½	—	—	—	—	26⅞	25⅜	25¾	23
85.00*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

*Not traded—Private placement.

Exchanges on which the Company's Equity Securities Are Listed for Trading:

Common stock is listed on the New York and Midwest stock exchanges.

Preferred (except $9.25, $9.00, $9.70, and $8.625) and Preference (except $85.00) stock are listed on the New York Stock Exchange.

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 did business in Michigan from 1915 to 1968.

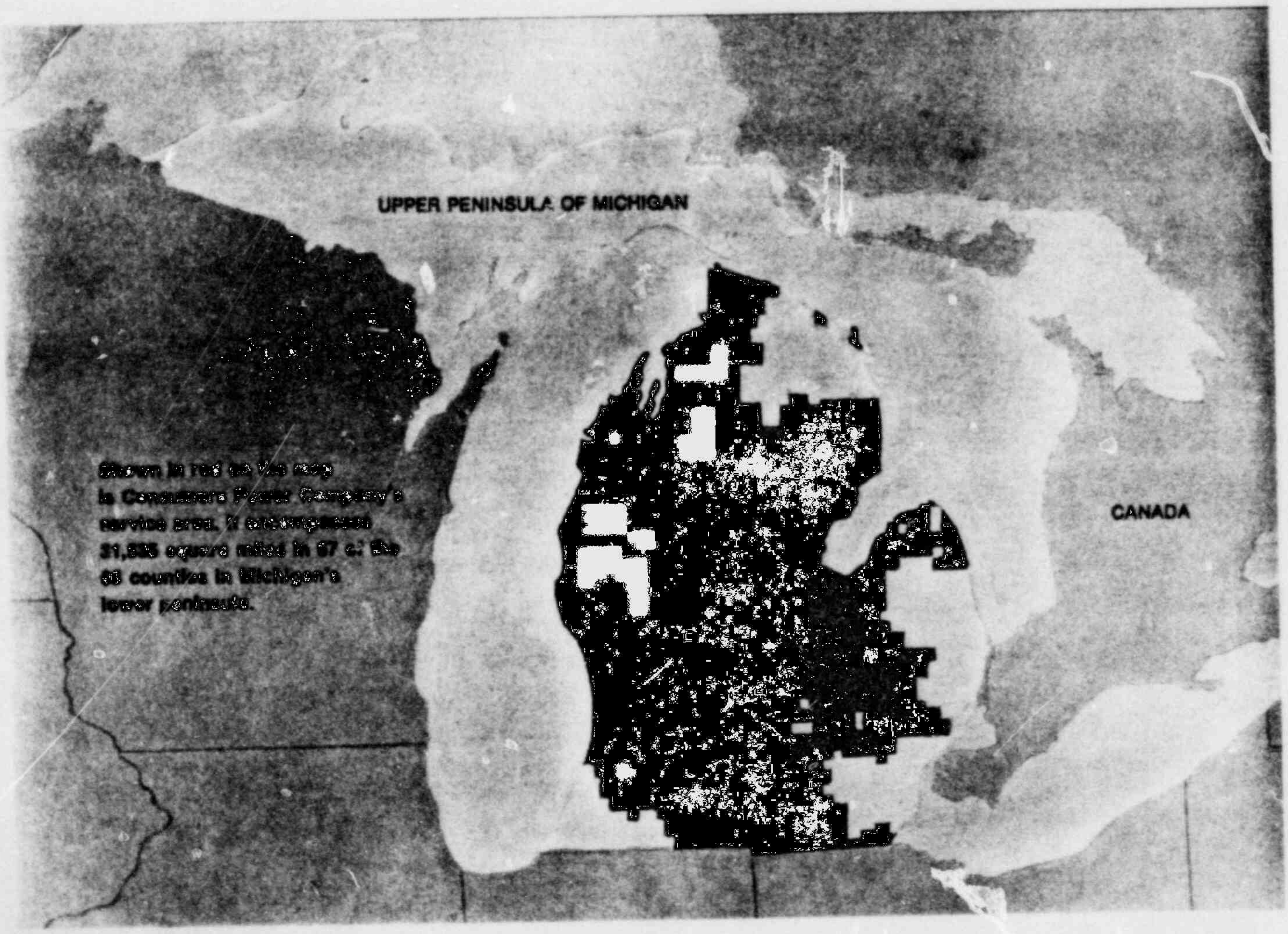
As a combination utility, Consumers Power supplies electricity or gas, or both, to a service area with more than 5 million residents, including those in metropolitan centers such as Grand Rapids, Flint, suburban Detroit, Pontiac, Lansing, Kalamazoo, Muskegon, Saginaw, Bay City, Jackson, Traverse City, and Battle Creek.

Industries in the territory served by the Company include automobiles and automobile equipment, primary metals, chemicals, metal fabricating, pharmaceuticals, machinery, oil refining, paper and paper products, food processing, and others. Consumers Power also serves a large rural service area with more than 68,000 farms.

In all, the Company serves 1.3 million electric customers and more than 1 million gas customers. About 417,000 of these are both gas and electric customers.

Approximately 57 percent of the Company's operating revenue comes from its electric business, and approximately 43 percent comes from its gas business.

The Company has four wholly-owned subsidiaries. Northern Michigan Exploration Company is engaged in the exploration, development, purchase, and sale of oil and natural gas; it operates primarily in the contiguous 48 states. Plateau Resources Limited is engaged in the acquisition, exploration, and development of properties for the mining and milling of uranium and the purchase and sale of uranium. Michigan Gas Storage Company is engaged in the purchase, transmission, and storage of gas and in the sale to the Company of gas from interstate pipeline suppliers. Michigan Utility Collection Service Co. Inc. is engaged in a special collection service for past-due utility service bills.



Shown in red on the map is Consumers Power Company's service area. It encompasses 31,835 square miles in 67 of the 68 counties in Michigan's lower peninsula.

Company Directors

A. H. AYMOND
Past Chairman of the Board of the Company
Counsel, Aymond Sullivan & Schwartz
Jackson, Michigan

WALTER R. BORIS
Executive Vice President of the Company
Jackson, Michigan

E. NEWTON CUTLER, JR.
Retired
New Vernon, New Jersey

JAMES B. FALAHEE
Vice Chairman of the Board of the Company
Jackson, Michigan

RICHARD M. GILLETT
Chairman of the Board and Chief Executive Officer
Old Kent Financial Corporation, Grand Rapids, Michigan
(a bank holding company)

MARTHA W. GRIFFITHS
Attorney, Griffiths and Griffiths
Romeo, Michigan

JOHN W. HANNON, JR.
President
Bankers Trust Company and Bankers Trust New York Corporation
New York, New York

W. N. HUBBARD, JR., M.D.
President
The Upjohn Company, Kalamazoo, Michigan
(pharmaceutical and chemical manufacturer)

DON T. McKONE
President and Chief Executive Officer
Libbey-Owens-Ford Company, Toledo, Ohio
(a diversified corporation)

PAUL S. MIRABITO
Chairman of the Board and Chief Executive Officer
Burroughs Corporation, Detroit, Michigan
(producer of business equipment)

L. C. ROLL
Chairman Emeritus, Director and Member of the Executive Committee
Kellogg Company, Battle Creek, Michigan
(cereal manufacturer)

JOHN D. SELBY
Chairman of the Board, President, and Chief Executive Officer of the Company
Jackson, Michigan

JOHN B. SIMPSON
Executive Vice President of the Company
Jackson, Michigan

JOHN C. SUERTH
Director and member of the Executive Committee
Gerber Products Company, Fremont, Michigan
(manufacturer of infant food and infant care products)

ROBERT B. WHITE
Executive Vice President of Citibank, N.A.
New York, New York

RUSSELL C. YOUNGDAHL
Executive Vice President of the Company
Jackson, Michigan

Company Officers

JOHN D. SELBY
Chairman of the Board, President, and Chief Executive Officer

JAMES B. FALAHEE
Vice Chairman of the Board, Legal, Regulation, Accounting and Computer Services, and Energy Planning

JOHN B. SIMPSON
Executive Vice President, Energy Distribution, Customer Services, General Services, and Oil and Gas Exploration

RUSSELL C. YOUNGDAHL
Executive Vice President, Energy Supply

WALTER R. BORIS
Executive Vice President, Finance and Corporate Affairs

STEPHEN H. HOWELL
Senior Vice President, Projects Engineering and Construction

JACK W. REYNOLDS
Senior Vice President, Personnel and Public Affairs

LOWELL L. SHEPARD
Vice President, Region Operations

RAYNARD C. LINCOLN, JR.
Vice President, General Services

CHARLES R. BILBY
Vice President, Fossil Operations

ROBERT J. FITZPATRICK
Vice President, Public Affairs

LAWRENCE B. LINDEMER
Vice President and General Counsel

JAMES W. COOK
Vice President, Energy Planning

MACLAY D. GWINN
Vice President, Energy Distribution

ROBERT J. ODLEVAK
Vice President, Fuel Supply

SAMUEL N. SPRING
Vice President and Controller

RUSSELL B. DeWITT
Vice President, Nuclear Operations

GORDON L. HEINS
Vice President, System Operations

PAUL A. PERRY
Secretary

RICHARD M. GRISWOLD
Treasurer

Region General Managers

(Headquarters cities in parentheses)

CHARLES F. BROWN, Central Region (Saginaw)
J. LAURENCE GILLIE, Western Region (Grand Rapids)
JOHN G. GOENSE, Northern Region (Traverse City)
RALPH HAHN, Southeastern Region (Pontiac)
WILLIAM A. HOLTGREIVE, South Central Region (Lansing)
STANLEY M. JURRENS, Eastern Region (Flint)
K. EUGENE McGRAW, Southwestern Region (Kalamazoo)
EUGENE A. WAGGENER, Metro Region (Royal Oak)

Plant General Managers

JAMES S. BRUNNER, B. C. Cobb, B. E. Morrow, & J. R. Whiting plants
ROBERT C. HOFFMAN, D. E. Karn & J. C. Weadock plants
JAMES G. LEWIS, Palisades Plant
ROBERT W. MONTROSS, Midland Plant
JEROME M. SIMPSON, J. H. Campbell Plant

Consumers Power Company, 212 West Michigan Avenue, Jackson, Michigan 49201

Shareholder Information

Transfer Agents Common, Preference and Preferred Stock

Consumers Power Company
Jackson, Michigan 49201

Bradford Trust Company
New York, New York 10017

Registrars Common Stock

National Bank of Jackson
Jackson, Michigan 49201

Bradford Trust Company
New York, New York 10017

Registrars Preference and Preferred Stock

City Bank and Trust Company, N.A.
Jackson, Michigan 49201

Bradford Trust Company
New York, New York 10017

Trustee for First Mortgage Bonds

Citibank, N.A.
Box 3297
111 Wall Street
New York, New York 10043

Notice of Annual Meeting

The Annual Meeting of Shareholders of Consumers Power Company will be held on Tuesday, April 8, 1980, at 2:00 PM Jackson time at 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 1980. Prompt signing and return of proxies will be appreciated.

Annual Report on Form 10-K*

A copy of Consumers Power Company's Annual Report, without exhibits, for the fiscal year ended December 31, 1979, on Form 10-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, after April 1, 1980, to any shareholder who so requests. Requests from beneficial owners of securities must indicate that, as of February 22, 1980, the record date of the Annual Meeting of Shareholders, the person making the request was a beneficial owner of securities entitled to vote at the annual meeting.

Financial and Statistical Summary Available*

A Financial and Statistical Supplement to the 1979 Annual Report covering the years 1969-1979 is available to all interested shareholders at no charge.

**Please address all correspondence to Mr. Paul A. Perry, Secretary, Consumers Power Company, 212 West Michigan Avenue, Jackson, Michigan 49201*