BEFORE THE

UNITED STATES NUCLEAR REGULATORY COMMISSION

Docket No 50-329
Docket No 50-330

In the Matter of

CONSUMERS POWER COMPANY

APPLICATION FOR
REACTOR CONSTRUCTION PERMIT AND OPERATING LICENSE

---

for the

MIDLAND PLANT

Units No 1 and 2

2

OPERATING LICENSE APPLICATION

GENERAL INFORMATION

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for Midland Plant
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GENERAL INFORMATION

1. NAME OF APPLICANT

Consumers Power Company (hereinafter called "Applicant")

2. ADDRESS OF APPLICANT

212 West Michigan Avenue

Jackson, Michigan 49201

3. DESCRIPTION OF BUSINESS OF APPLICANT

Applicant is a public utility engaged in the generation, purchase,
transmission, distribution and sale of electricity, and in the purchase,
2| storage, transmission, distribution and sale of natural gas. Applicant
also supplies steam service in one community. Applicant owns and
operates electric generating plants with aggregate net demonstrated
2| capability of 6,647,800 kilowatts as of December 31, 1980. Construction

of the Midland Units will add 1,262,000 kilowatts (net capability) to the Applicant's generating capacity. Applicant renders electric service to approximately 1,328,000 separately billed customers in an area of approximately 27,800 square miles in the Lower Peninsula of the State of Michigan.

Applicant has either interconnection, purchase and interchange power, or mutual emergency assistance agreements with the Detroit Edison Company and the Hydroelectric Power Commission of Ontario. These agreements provide coordination for planning and operating the interconnected
2 electric systems and improved reliability of bulk power supply. Applicant has agreements with several other major electric utilities operating in Michigan, Ohio, Indiana and Illinois providing for interconnection services and other transactions. Applicant maintains interconnections with the Michigan Municipals and Cooperatives Power Pool and the Cities of Lansing and Holland, Michigan. Applicant also purchases power from the Dow Chemical Company, Wolverine Power Cooperative, Edison Sault Electric Company, Michigan State University, and Mid-State Service Company, all in Michigan.

4. CORPORATE DATA

Applicant is incorporated under the laws of, and operates solely within the State of Michigan. Applicant's principal office is at 212 West Michigan Avenue, Jackson, Michigan. The names and addresses of its directors and principal officers, all of whom are citizens of the United States are as follows:

	Name	Position	Business Address
2	Alphonse H Aymond	Director	Aymond, Sullivan & Schwartz 800 Harris Bldg - 7th Floor 180 West Michigan Avenue Jackson, MI 49201
	Walter R Boris	Executive Vice President and Director	Consumers Power Company Jackson, MI 49201
	E Newton Cutler, Jr	Director	Lindsley Road New Vernon, NJ 07976
2	Robert E Dewar	Director	K Mart Corporation 3100 West Big Beaver Road Troy, MI 48084
	James B Falahee	Vice Chairman of the Board	Consumers Power Company Jackson, MI 49201
	Richard M Gillett	Director	Old Kent Financial Corporation One Vandenberg Center Grand Rapids, MI 49502
	Martha W Griffiths	Director	Griffiths & Griffiths PO Box 407 Romeo, MI 48065
	John W Hannon, Jr	Director	Bankers Trust Company PO Box 318 Church Street Station New York, NY 10015
2	Dr William N Hubbard, Jr	Director	The Upjohn Company Kalamazoo, MI 49001
	Don T McKone	Director	Libbey-Owens-Ford Company 811 Madison Avenue Toledo, OH 43695
	Paul S Mirabito	Director	Burroughs Corporation Burroughs Place Detroit, MI 48232
2	John D Selby	Chairman of the Board, President and Chief Executive Officer	Consumers Power Company Jackson, MI 49201
	John C Suerth	Director	4030 Shorewood Drive Fremont, MI 49412

	Name	Position	Business Address
2	Robert B White	Director	Citibank, NA 399 Park Avenue New York, NY 10043
	Russell C Youngdahl	Executive Vice President and Director	Consumers Power Company Jackson, MI 49201
	Stephen H Howell	Executive Vice President	Jackson, MI 49201
2	Jack W Reynolds	Executive Vice President	Jackson, MI 49201
	Lowell L Shepard	Vice President	Jackson, MI 49201
	Raynard C Lincoln	Vice President	Jackson, MI 49201
	Charles R Bilby	Vice President	Jackson, MI 49201
	Robert J Fitzpatrick	Vice President	Jackson, MI 49201
	Lawrence B Lindemer	Vice President and General Counsel	Jackson, MI 49201
	James W Cook	Vice President	Jackson, MI 49201
	Maclay D Gwinn	Vice President	Jackson, MI 49201
	Robert J Odlevak	Vice President	Jackson, MI 49201
2	Samuel N Spring	Vice President and Controller	Jackson, MI 49201
	Russell B Dewitt	Vice President	Jackson, MI 49201
	Gordon L Heins	Vice President	Jackson, MI 49201
	Paul A Perry	Secretary	Jackson, MI 49201
	Richard M Griswold	Treasurer	Jackson, MI 49201

Applicant is not owned, controlled or dominated by an alien, a foreign corporation, or foreign government, and is filing this application on its own behalf and not as the agent or representative of any other person.

5. LICENSES APPLIED FOR

Applicant requests a Class 103 operating license for each of the two
Midland Units, to be effective for a period of forty (40) years from date
2 | of operating license issuance.

Construction Permits CPPR-81 and CPPR-82 were issued for Midland Plant
Units 1 and 2, respectively, on December 15, 1972, and were amended on
2 | May 23, 1973 and October 20, 1980.

Applicant also requests such additional source, special nuclear and by-product material licenses as may be necessary or appropriate to, or in connection with or incidental to, the possession, use or operation of Midland Plant Units 1 and 2, including, but not limited to, a license pursuant to 10 CFR Part 70 to receive, own, store, possess and transfer special nuclear material and to use such special nuclear material as reactor fuel.

Midland Units 1 and 2 will generate electrical energy for Applicant's
integrated electric system and will generate process steam for the
Midland, Michigan chemical plant complex of The Dow Chemical Company.
Applicant expects to operate each of the two reactors initially at a core
output of 2,452 MWt, although the core of each reactor may be capable of
an output of 2,552 MWt. With both cores operating at 2,452 MWt the two
2 | units will have a combined gross capability of approximately 1,357
electrical megawatts and 4×10^6 lb/hr of process steam. The facilities
are described in detail in the Final Safety Analysis Report which is a
part of this application.

6. FINANCIAL QUALIFICATIONS

2 Estimated costs of operation of the Midland Units for the years 1983 through 1988 are attached hereto as Appendix A. Estimated costs of permanently shutting the facilities down and maintaining them in a safe condition are attached as Appendix B.

Copies of Applicant's Annual Report (Form 10-K) for the fiscal year ended December 31, 1980 and Quarterly Report (Form 10-Q) for the quarter ended March 31, 1981 submitted to the Securities and Exchange Commission are attached hereto as Appendices C and D, respectively.

7. RADIOLOGICAL EMERGENCY RESPONSE PLANS

Consumers Power Company, the State of Michigan and the counties of Midland, Saginaw and Bay have upgraded or are upgrading the offsite
2 radiological emergency response plans in a coordinated effort to ensure that adequate protective measures are taken in the event of a radiological emergency at the Midland Nuclear Power Plant. Midland, Saginaw and Bay counties are the major local government entities which lie either wholly or partially within the 10-mile plume exposure pathway Emergency Planning Zone (EPZ). The radiological emergency response plans for these counties are under development and will be provided by amendment to the application. The State of Michigan is the only state government which lies within the 50-mile ingestion pathway EPZ. The State of Michigan radiological emergency response plan has been revised to meet the requirements of 10 CFR 50, Appendix E and has been submitted to the Federal Emergency Management Agency for review and approval via

the Palisades Docket (50-255, License DPR-20). The Michigan Plan will also be submitted as part of the Midland Application by amendment.

8. COMPLETION DATES

The presently scheduled date for commencement of fuel loading of Unit 1 is December 1983, and the presently scheduled commercial operation date for Unit 1 is July 1984. The presently scheduled date for commencement of fuel loading of Unit 2 is July 1983, and the presently scheduled commercial operation date for Unit 2 is December 1983. An NRC order dated November 17, 1978 extended the construction completion dates as follows:

2 "IT IS HEREBY ORDERED THAT the latest completion dates for Construction Permits No CPPR-81 and CPPR-82 are extended from December 1, 1978, and December 1, 1979, to October 1, 1982, and October 1, 1981 for Units 1 and 2, respectively."

Applicant requests that Construction Permit CPPR-81 be amended to change the earliest and latest dates for completion of Midland Plant Unit 1 from "October 1, 1981 and October 1, 1982" to "December 1, 1983 and December 1, 1984", respectively. Applicant requests that Construction Permit CPPR-82 be amended to change the earliest and latest dates for completion of Midland Plant Unit 2 from "October 1, 1980 and October 1, 1981" to "July 1, 1983 and July 1, 1984", respectively. A statement of good cause for the requested extensions is attached as Appendix E.

9. REGULATORY AGENCIES

Regulatory agencies that have jurisdiction over the rates and services incident to the proposed activity are:

Michigan Public Service Commission
PO Box 30221
Lansing, Michigan 48909

2 Federal Energy Regulatory Commission
825 North Capitol Street
Washington, DC 20426

2 10. TRADE AND NEWS PUBLICATIONS

2 Trade and news publications which circulate within the area in and near Midland, Michigan, and elsewhere in the State of Michigan, and which Applicant considers appropriate to give reasonable notice of the application to those municipalities, private utilities, public bodies and cooperatives that might have a potential interest in the facility, are listed in Appendix F.

2 11. RESTRICTED DATA

This application does not contain any Restricted Data or other defense information. Applicant agrees that it will not permit any individual to have access to Restricted Data until the Civil Services Commission shall have made an investigation and report to the Nuclear Regulatory Commission on the character, associations and loyalty of such individual, and the Nuclear Regulatory Commission shall have determined that permitting such person to have access to Restricted Data will not endanger the common defense and security.

2

2 12. COMMUNICATIONS

All communications pertaining to this application should be sent to:

2 Mr James W Cook
Vice President
Consumers Power Company
2 1945 W Parnall Road
Jackson, MI 49201

In addition, it is requested that copies of each communication be sent to:

Mr Paul A Perry
Secretary
Consumers Power Company
212 W Michigan Avenue
Jackson, MI 49201

Judd L Bacon, Esq
Managing Attorney
Consumers Power Company
212 W Michigan Avenue
Jackson, Michigan 49201

Michael I Miller, Esq
Isham, Lincoln & Beale
Suite 4200, One First National Plaza
Chicago, IL 60670

APPENDIX A

SUMMARY OF ELECTRIC ENERGY ANNUAL PRODUCTION COSTS INITIAL FIVE YEARS OF OPERATION AND LEVELIZED ANNUAL COSTS (FUTURE DOLLARS $\$ \times 10^6$)

Item	1984[a]	1985	1986	1987	1988	1989	Levelized[b] Annual
O&M	$ 39	$ 60	$ 66	$ 72	$ 78	$ 85	$120
Fuel	70	54	68	70	74	81	122
Insurance	6	9	10	11	12	13	19
Taxes	70	93	93	93	93	93	93
2 Depreciation	3	4	4	4	4	4	4
Total	$188	$220	$241	$250	$261	$276	$358

[a] Assumes commercial operation dates of December 1983 for Unit 2 and July 1984 for Unit 1.

[b] Levelized over plant operating life.

APPENDIX B

ESTIMATED DECOMMISSIONING AND RESTORATION COSTS[a]
(Millions of 1984 Dollars)

Activity	Estimate
Mobilization, Demobilization and Temporary Facilities	$ 4.8
Supplies, Power, Contractor Services, Nuclear Insurance	23.6
Equipment	5.4
Staff Labor	33.2
Demolition Services	54.9
Disposal (Radioactive Waste)	46.6
Overheads	16.3
Subtotal Decommissioning	$184.8
[illegible], Diesel-Generator, Administration, Service [illegible] and Circulating Water Structures Demolition	8.9
Site Specific Restoration	41.9
Rounding	(0.6)
Total Decommissioning, Demolition and Site Restoration	$235.0

[a] Prompt removal/dismantling based on the following studies:

R I Smith, G J Konzek and W E Kennedy, Jr, Technology, Safety and Costs of Decommissioning a Reference Pressurized Water Reactor Power Station, NUREG/CR-0130 (June 1978) Battelle Pacific Northwest Laboratory, Prepared for U S Nuclear Regulatory Commission.

W J Manion and T S LaGuardia, An Engineering Evaluation of Nuclear Power Reactor Decommissioning Alternatives (November 1976), National Environmental Studies Project, Atomic Industrial Forum, Inc

SECURITIES AND EXCHANGE COM
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1980   Commission file number 1-5611

CONSUMERS POWER COMPANY
(Exact name of registrant as specified in its charter)

MICHIGAN	38-0442310
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
212 WEST MICHIGAN AVENUE, JACKSON, MICHIGAN	49201
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code   517 - 788-1030

Securities registered pursuant to Section 12(b) of the Act:

Securities registered pursuant to Section 12(b) of the Act are listed on the back of this cover page.

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X   No ____

Aggregate market value of the voting stock held by non-affiliates of registrant - $1,254,537,000

For detail see back of this cover page.

Common stock, $10 par value, number of shares outstanding as of February 27, 1981   57,726,945

Documents incorporated by reference:

(1) The registrant's Annual Report to shareholders for 1980, incorporated by reference in Part II.

(2) The registrant's proxy statement, dated March 6, 1981, relating to the 1981 annual meeting of shareholders to be held April 14, 1981, incorporated by reference in Parts I and III.

rp0379-0110a-06

Securities registered pursuant to Section 12(b) of the Act:

FIRST MORTGAGE BONDS:

11-1/4% Series due 1962	6-5/8% Series due October 1, 1998	7-1/2% Series due October 1, 2002
4-1/2% Series due 1988	7-5/8% Series due 1999	8-5/8% Series due 2003
4-5/8% Series due 1989	8-5/8% Series due 2000	9 % Series due 2006
4-5/8% Series due 1990	11-1/2% Series due 2000	9-3/4% Series due 2006
4-5/8% Series due 1991	8-1/8% Series due 2001	8-7/8% Series due 2007
11-3/8% Series due 1994	7-1/2% Series due November 1, 2001	8-5/8% Series due October 15, 2007
5-7/8% Series due 1996	7-1/2% Series due 2002	9 % Series due September 15, 2008
6-7/8% Series due 1998		

PREFERRED STOCK - $100 par value:

$4.50 Series	$7.72 Series
$4.52 Series	$7.76 Series
$4.16 Series	$7.68 Series

PREFERENCE STOCK - $1 par value:

$5.50 Series	$2.50 Series
$2.43 Series	$3.85 Series
$2.23 Series	$3.98 Series

COMMON STOCK - $10 par value

All securities listed above are registered on the New York Stock Exchange and common stock is also registered on the Midwest Stock Exchange.

Aggregate market value of the voting stock held by non-affiliates of registrant:

Type of Stock	Number Shares Outstanding (2/27/81)	Transaction Price/Share	Transaction Date	Market Value
COMMON	57,726,945	$16 3/4	3/ 5/81	$ 966,926,329
PREFERRED:				
$4.50	547,788	30	3/ 5/81	16,433,640
4.52	99,550	50	2/23/81	4,977,500
4.16	100,000	28 1/2	2/26/81	2,850,000
7.45	700,000	47 1/4	3/ 5/81	33,075,000
7.72	700,000	51	3/ 5/81	35,700,000
7.76	750,000	51	2/25/81	38,250,000
7.68	550,000	51 1/2	2/25/81	28,325,000
9.25	320,000	*		32,000,000
9.00	500,000	*		50,000,000
9.70	100,000	*		10,000,000
8.625	360,000	*		36,000,000
Total				$1,254,537,469

*Sold at private placement, therefore, no transactions. Valued for this calculation at par value of $100 per share.

CONSUMERS POWER COMPANY

ANNUAL REPORT FORM 10-K
TO THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 1980

The enclosed Form 10-K for the year 1980 is composed of certain financial statements and schedules included in Consumers Power Company's ("Registrant") Annual Report to shareholders and additional information concerning Registrant and its operations. The Annual Report to shareholders is attached hereto but not filed herewith, except for the financial statements and schedules and other information specifically incorporated herein by reference. The additional information concerning Registrant and its operations included in Form 10-K should be used in conjunction with those portions of Registrant's 1980 Annual Report to shareholders which are incorporated into this Form 10-K by reference. A copy of the 1980 Annual Report to shareholders has been sent to shareholders entitled to vote at the annual meeting of shareholders to be held April 14, 1981.

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PART I

ITEM 1. BUSINESS.

(a) General

Registrant was incorporated in Michigan in 1968 and is the successor to a corporation of the same name which was organiz d in Maine in 1910 and which did business in Michigan from 1915 to 1968.

Registrant is a public utility engaged in the generation, purchase, transmission, distribution and sale of electricity, and in the purchase, production, storage, transmission, distribution and sale of gas, in the Lower Peninsula of the State of Michigan. Registrant also supplies steam service in one community. The population of the territory served is estimated to exceed 5,300,000. The industries and the territories served by Registrant include automobile and automobile equipment, primary metals, chemicals, fabricated metal products, pharmaceuticals, machinery, oil refining, paper and paper products, food products and a diversified group of other industries. Registrant's consolidated operating revenue in 1980 was derived approximately 55% from the electric business and 43% from the gas business and about 2% from other sources.

General Problems of the Industry

Registrant has been experiencing problems common to the utility industry in general, including the difficulty and length of time required in obtaining an adequate return on invested capital (see Item 3. Legal Proceedings.), restrictions on operations and increased costs and delays attributable to inflation and environmental considerations (see Regulation - Compliance With Environmental Requirements, Regulation - Nuclear Regulatory Commission, and Item 3. Legal Proceedings.), the necessity of obtaining substantial amounts of outside capital to finance construction programs, and delays in construction and operating problems with respect to new large generating units (see Regulation - Nuclear Regulatory Commission, Item 3. Legal Proceedings. and Notes 2 and 3 to Consolidated Financial Statements on Page 13 of Registrant's Annual Report to shareholders, which Notes are incorporated herein). Events at Metropolitan Edison Company's Three Mile Island Unit 2 Nuclear Plant ("TMI") near Harrisburg, Pennsylvania, have affected Registrant's nuclear generating plants (see Regulation - Nuclear Regulatory Commission, Item 2. Properties. and Item 3. Legal Proceedings.). See also Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Electric Service

Registrant renders electric service in Michigan in an area of approximately 27,800 square miles, having a population of approximately 3,300,000. Principal cities served are Battle Creek, Bay City, Flint, Grand Rapids, Jackson, Kalamazoo, Muskegon, Pontiac, Saginaw and Wyoming.

Registrant owns and operates electric generating plants with aggregate net demonstrated capability as of December 31, 1980 of 6,836,800 kilowatts and, as shown under Item 2. Properties., is constructing an additional plant which will add 1,357,000 kilowatts (nameplate rating) to Registrant's generating capacity

For the summer of 1981 the net demonstrated capability of Registrant's interconnected system is expected to be 6,185,000 kilowatts (after the net sale of 273,000 kilowatts) to serve a projected maximum demand of 4,400,000 kilowatts. The maximum net demand on the interconnected system was 4,588,000 kilowatts, which occurred on September 11, 1978.

Registrant's electric generating plants are interconnected by a transmission system operating at from 138,000 to 345,000 volts. This transmission system is also interconnected at a number of locations with transmission facilities of unaffiliated systems.

Registrant has an electric coordination agreement with The Detroit Edison Company ("Detroit Edison") which provides for the coordination of planning and operation of the interconnected electric systems of the parties, the rendering of mutual assistance during emergencies and the effecting of the maximum practical economy in providing the electric power requirements of each system. There are five 138,000-volt and four 345,000-volt interconnections between the systems. These interconnections permit a sharing of the reserve capacity of the two systems and a substantial reduction in investment in plant facilities for each company. Pursuant to an order of the Michigan Public Service Commission ("MPSC"), Registrant has in effect certain emergency electrical procedures to be implemented in the event of short-term or long-term fuel or generating capacity shortages. The procedures include automatic and manual load shedding, voltage reduction, requests for voluntary curtailment, interruptible and emergency load management tariff provisions, and mandatory curtailment of electric demand of certain nonresidential customers.

Registrant has an agreement with Detroit Edison and Ontario Hydro for interconnections linking the power systems of Registrant and Detroit Edison with the power system of Ontario Hydro and also providing for mutual assistance during emergencies, improved reliability of bulk power supply and the effecting of economies by coordinated development and exchange of power. Two 230,000-volt and two 345,000-volt interconnections have been established under the agreement.

Registrant has agreements with several other major electric utilities operating in Michigan, Ohio, Indiana and Illinois that provide for interconnection services and other transactions. In Michigan, Registrant maintains interconnections and interchanges power with the Michigan Municipals and Cooperatives Power Pool and the cities of Lansing, Holland and Hillsdale. In Michigan, Registrant also purchases power from The Dow Chemical Company ("Dow"), Wolverine Power Corporation, Edison Sault Electric Company, Michigan State University and Mid-State Service Company.

Midland Plant

The Atomic Energy Commission ("AEC") issued construction permits for the Midland Nuclear Plant in December 1972. Thereafter intervenors appealed the granting of the permits. In July 1976 the US Court of Appeals for the District of Columbia Circuit ("D C Court of Appeals") remanded the orders granting construction permits for the plant to the US Nuclear Regulatory Commission ("NRC") for reconsideration of certain issues. On April 3, 1978 the US Supreme Court reversed the D C Court of Appeals' decision, remanding only that portion concerning the environmental impact of waste disposal and other nuclear fuel cycle issues. With respect to a related licensing case involving another utility, the US Supreme Court stated that the administrative proceedings concerning the environmental impact of waste disposal and other nuclear fuel cycle issues should be reviewed by the D C Court of Appeals to determine whether the NRC's rule concerning such environmental impact was adequately supported by the rulemaking record. The NRC promulgated a final fuel cycle rule which became effective September 4, 1979 and announced that it will conduct a new generic waste disposal proceeding (see also Item 3. Legal Proceedings.).

In an order issued in November 1978 the NRC stated that the environmental effects of radon emissions in the uranium fuel cycle are to be considered in the Midland Plant construction permit proceedings. A number of cases, including Registrant's case on remand from the US Supreme Court, are pending before the D C Court of Appeals for decision under one or more aspects of the NRC's fuel cycle rule. Registrant believes that further review of the nuclear fuel cycle rule will not invalidate the construction permits for the Midland Plant. As a result of the US Supreme Court's decision, further proceedings, if any, on the matters remanded by the D C Court of Appeals are not expected to have any materially adverse effects on Registrant's investment in and commitments with respect to the Midland Plant.

Investment in the Midland Plant, a twin-unit facility designed to generate 1,357 megawatts for Registrant's electric system and to furnish process steam service to Dow, was $1.57 billion at December 31, 1980. Because of the TMI accident, the NRC has been concentrating its resources towards handling TMI issues; therefore, consideration of construction permits and operating licenses, including Registrant's application for Midland Plant operating licenses, has been delayed. 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, and certain other licensing assumptions, Registrant estimates that Midland Plant Unit 2 will be in commercial operation for electric service in December 1983 and Unit 1 will be in commercial operation for process steam service and electric service in July 1984, and that the Midland Plant will cost approximately $3.1 billion. Registrant's decision to continue design and construction of the plant assumes that necessary regulatory approvals will be obtained. Registrant is vigorously pursuing efforts to identify and favorably resolve matters that could cause delays and cost increases. There can be no assurance, however, that further delays and further cost increases will not occur.

If commercial operation of the plant for process steam service to Dow cannot begin until after December 31, 1984, Dow would have the right to terminate its agreement with Registrant for such service; however, Dow would be obligated to pay an amount estimated to range from $218 million at December 31, 1980 to $430 million if the plant were completed at a cost of $3.1 billion. Should Dow terminate the agreement for such cause, the remaining portion of the investment in equipment allocable to the process steam service, estimated to range from $157 million at December 31, 1980 to $310 million if the plant were completed at a cost of $3.1 billion, may not be salvageable.

In May 1978 the NRC published a notice that Registrant's application for facility operating licenses for both units at the Midland Plant had been docketed for review. The notice provided an opportunity for hearing by Registrant or by any other person whose interest may be affected. In August 1978 an NRC Atomic Safety and Licensing Board ("ASLB") ordered that a hearing be held on the application. The State of Michigan has been admitted to the proceeding as an interested state, and two individuals have been admitted as parties. The operating license proceeding has been consolidated with the foundation soils proceeding (see next paragraph) with respect to the issues being litigated in the latter proceeding.

On December 6, 1979 the NRC issued an order which, if made effective, would modify Registrant's construction permits for the Midland Plant to prohibit remedial construction work undertaken to correct certain foundation soils problems at the Midland Plant, discovered in August 1978, pending Registrant's submittal of an amendment to its license application for the Midland Plant seeking approval for such work and pending issuance of an amendment to the construction permits authorizing such work. On December 19, 1979 Registrant filed an amendment to its application for construction permits and operating licenses for the plant, seeking NRC approval for the remedial action prohibited by the NRC's December 6, 1979 order. In addition, on December 26, 1979 Registrant requested a hearing with respect to the NRC's order, thereby delaying the order's effectiveness, and on March 14, 1980 the NRC issued a notice that a hearing will be held before an ASLB at a time and place to be specified. Prehearing conferences were held in the matter in September 1980 and January 1981. Certain individuals have been permitted to intervene in the proceeding. The Staff of the NRC has raised an issue in the proceeding as to whether the seismic criteria applicable to the Midland Plant should be made more stringent. As part of the December 6, 1979 order, the NRC also issued two notices of violation, citing Registrant for several noncompliances, including an alleged material false statement in Registrant's license application for the plant, all related to the foundation soils problem. Registrant is unable to determine at this time whether these matters will result in further delay in initial operation of the Midland Plant or further increases in plant costs.

Gas Service

Registrant renders gas service in Michigan in an area of approximately 12,900 square miles having a population of approximately 3,800,000. Principal cities served are Bay City, Flint, Jackson, Kalamazoo, Lansing, Pontiac, Royal Oak, Saginaw and Warren. Registrant also serves a number of suburban communities near Detroit.

Registrant owns gas transmission and distribution mains and other gas lines, compressor stations and facilities, and storage rights, wells and gathering facilities in several fields in Michigan. Registrant and Michigan Gas Storage Company, a wholly-owned subsidiary of Registrant, store a portion of their respective gas supplies in the warmer months of the year for use in the colder months of the year.

The peak-day transmission and distribution system capacity is in excess of 2,800 million cubic feet. The maximum daily sendout of natural gas for Registrant was 2,410 million cubic feet on January 3, 1979.

Subsidiaries

The following are wholly-owned subsidiaries of Registrant:

Northern Michigan Exploration Company ("Northern") is engaged in exploration for and production of oil and natural gas.

Plateau Resources Limited ("Plateau"), a Utah corporation, is engaged in exploration for and purchase, mining, milling and sale of uranium. In February 1979 Canyon Homesteads, Inc. ("Canyon"), a Utah corporation, was formed as a wholly-owned subsidiary of Plateau to develop housing facilities for Plateau's mine and mill workers and for other purposes.

Michigan Gas Storage Company ("Storage Company") is engaged in the purchase, transmission and storage of gas and in the sale to Registrant of gas from an interstate pipeline supplier.

Michigan Utility Collection Service Co. Inc. is engaged in a special collection service for past-due utility service bills.

(b) Electric Fuel Supply

Approximately 49% of Registrant's owned generating capability (excluding pumped storage) depends upon coal as a fuel source and requires approximately 7 million tons of coal annually. Registrant has long-term coal contracts covering 73% of its coal requirements during 1981. These long-term contracts provide for base period deliveries through 1983 and, in some instances, through 1999 (including options for renewal under some agreements). The sulfur content of the contract coal ranges from 0.6% to 3.0% by weight. Approximately 3.5 million tons per year of coal containing 1% or less sulfur are available under long-term contracts from mines located in eastern Kentucky and 1.7 million tons per

year of coal containing more than 1% sulfur are under long-term contract from a mine located in Ohio. The remaining long-term contract coal supplies are from mines in Illinois and western Kentucky. Registrant's coal requirements not under long-term contract and that quantity of coal under long-term contract which is not delivered must be supplied through short-term agreements or spot purchases.

As of January 31, 1981 Registrant's coal inventory at its railroad-supplied electric generating plants amounted to approximately 60 days' supply, and its coal inventory at its B C Cobb Plant, which is supplied by lake carrier, amounted to approximately 130 days' supply. Future changes in governmental requirements, and labor (the potential work stoppage by the United Mine Workers Union on March 27, 1981 would adversely affect Registrant's coal supply) and equipment problems pertaining to the coal industry could adversely affect cost and availability of coal supplies. Registrant has under long-term lease 900 coal cars which will alleviate problems of car shortage in the future. At the present time an annual supply of approximately 2.0 million tons of coal with a sulfur content of 1% or less for use at the D E Karn Plant, Units 1 and 2, the J C Weadock Plant, Units 7 and 8, the Whiting Plant and the Cobb Plant, is under long-term contract. Approval has been obtained to burn a blend of approximately 65% high-sulfur coal and 35% low-sulfur coal to arrive at an annual maximum sulfur content of 2.5% by weight at the Cobb Plant for the years 1980 through 1984. Registrant has negotiated long-term contracts for the supply of the high-sulfur and low-sulfur coal requirements for the Cobb Plant for that period. Registrant has entered into long-term contracts for an annual supply of approximately 1.5 million tons of coal which meets the requirements of the Environmental Protection Agency ("EPA") for use at its J H Campbell Plant, Unit 3, which went into service in September 1980.

In connection with Registrant's generating units which burn petroleum products, Registrant is importing two types of residual fuel oil from Canada. Registrant imported approximately 5.5 million barrels in 1980 and expects to import approximately 5.5 million barrels in 1981. Canadian export licenses and US import licenses are required to be renewed from time to time and the receipt of such licenses is not necessarily assured. Long-term export licenses from the National Energy Board of Canada permit the exportation to Registrant of one type of residual fuel oil through 1981 and the other type of residual fuel oil through August 1982. Registrant has a long-term contract through 1987 to purchase from 10,000 to 19,000 barrels per day of the second type of Canadian residual oil and a long-term contract ending on December 31, 1982 to purchase 5,500 barrels per day of the first type of residual fuel oil, both to be burned at the Karn Plant. The Canadian government began curtailing exports of crude oil in January 1973 and has announced that further curtailments can be expected and that it expects to end exports of light crude oil entirely in 1981. These curtailments should not have any adverse effect on Registrant's residual fuel oil deliveries. See also Gas Supply.

Canadian export taxes applicable to the residual fuel oil imported by Registrant were revised after July 1, 1980. The Canadian

export tax for one type of residual fuel oil increased from $9.70 per barrel to $13.45 per barrel (Canadian dollars) from October 1, 1980 through February 1981. A second type of residual fuel oil imported by Registrant is taxed partly at the $13.45 per barrel rate and partly at a higher rate applicable to partially processed oil. From October 1 through February 1, 1981 the average rate applicable to this second type of oil increased from $14.60 to $16.02 per barrel (Canadian dollars). If the export tax rates remain unchanged, during the 12 months beginning February 1, 1981, approximately $49 million ($41 million in US dollars) will be paid in Canadian export taxes for the exportation to the United States of the first type of residual fuel oil, and approximately $29 million ($24 million in US dollars) will be paid in Canadian export taxes for the exportation to the United States of the second type of residual fuel oil.

Registrant has contracts for the supply of nuclear fuel, including uranium ore concentrates, conversion to and enrichment of the uranium hexafluoride and fabrication of nuclear fuel assemblies, for the Big Rock Point and the Palisades Nuclear Plants. The contracts cover requirements for a minimum of the next four years, and in the case of enrichment, cover requirements through the year 2000. These contracts are with Plateau (see Item 2. Properties.), with major private industrial suppliers of nuclear fuel and related services and with the US government. The present unavailability of capacity for reprocessing spent nuclear fuel will necessitate new arrangements for storage or other disposition of spent fuel, which may be at substantial additional cost to the Registrant. At the Big Rock Point Plant spent fuel storage capacity is sufficient to last until November 1982 and is planned to be increased to last through 1992, assuming normal spent fuel discharge and a full core reserve. Registrant has requested NRC approval of a proposed amendment to the Big Rock Point Plant operating license to allow the increase in storage capacity. Certain parties have been granted leave to intervene in the proceeding. See Item 3. Legal Proceedings. The cost of the increase is estimated at $1,800,000. Registrant has been authorized by the NRC to expand spent fuel storage capacity at the Palisades Plant to an amount which will assure adequate storage to accommodate normal spent fuel discharge through 1987, with a full core reserve. The cost of this expansion, which is now in progress, is estimated at $5,100,000.

Registrant also has contracts for all segments of the nuclear fuel supply chain for the initial and some of the reload cores for the Midland Plant. These include contracts for the supply of uranium ore concentrates for the first four years of planned operation of each unit, conversion to uranium hexafluoride for the initial cores, enrichment of the uranium hexafluoride through the year 2000, and fabrication of the nuclear fuel assemblies for the first six years of planned operation of each unit. No contractual arrangements have been made for reprocessing and reconversion of the spent initial core fuel assemblies expected to be discharged from the Midland Plant in 1987. The availability and price of such reprocessing and reconversion and the availability and price of further reload fuel supplies and services cannot be accurately predicted at this time. There is adequate on-site storage capacity at the Midland

Plant to accommodate normal spent fuel discharge through 1991, with a full core reserve for one unit.

Registrant's cost of fuel has increased substantially in recent years as shown in the following table:

	Cost per Million Btu Fuel Consumed					Percentage of Fuel Consumed Based on Total Btu Burned				
	1980	1979	1978	1977	1976	1980	1979	1978	1977	1976
Coal	$1.72	$1.43	$1.28	$1.10	$1.01	65.3	58.5	53.6	54.1	58.5
Oil	4.21	3.09	2.60	2.56	2.35	16.2	21.1	27.5	16.1	20.0
Gas	2.55	2.36	2.02	1.92	1.54	3.0	2.5	3.6	2.8	5.0
Nuclear	.50	.36	.31	.18	.46	15.5	17.9	15.3	27.0	16.5
All Fuels	1.96	1.61	1.52	1.11	1.22	100.0	100.0	100.0	100.0	100.0

The costs of nuclear fuel consumed in 1976 reflect an assumed value for residual uranium. The probability of recycling residual plutonium and uranium in the future has become speculative because of governmental, environmental and other opposition to the reprocessing of spent nuclear fuel and to the use of recycled plutonium as a fuel material. Substantially all of the nuclear fuel costs for 1976 reflect a zero salvage value for both residual plutonium and uranium, as well as additional future costs to be incurred in perpetual storage of spent nuclear fuel. In 1977 the MPSC issued an order which for the first time determined that Registrant may not recover through the fuel cost adjustment clause ("FCAC") increases in nuclear fuel costs attributable to changes, made outside of the context of a rate case, in assumptions regarding residual uranium value and costs of reprocessing or disposal of spent nuclear fuel. Accordingly, in 1977 Registrant reinstated its assumptions with respect thereto consistent with those effective in its prior rate order and also adjusted currently for expenses recorded in 1976 to reflect these assumptions. The increased nuclear fuel costs for 1976 reflect the decision made to replace the entire Palisades Plant fuel core during the first half of 1976. (See Note 11 to Consolidated Financial Statements on Page 17 of Registrant's Annual Report to shareholders which Note is incorporated herein.)

Gas Supply

For 1980 Registrant received 59% of its gas supply from Trunkline Gas Company ("Trunkline"), a wholly-owned subsidiary of Panhandle Eastern Pipe Line Company ("Panhandle"), 23% from Panhandle through Storage Company, 16% from Michigan fields and 2% from offshore tracts of Northern.

Gas is furnished by Trunkline to Registrant pursuant to a contract providing for the delivery of approximately 255 billion cubic feet of natural gas per year. Storage Company presently has a contract with Panhandle providing for the delivery of approximately 93 billion cubic feet of gas per year. Substantially all the gas purchased from Panhandle by Storage Company is, in turn, sold by Storage Company to Registrant.

Since 1971 Registrant and Storage Company have experienced curtailments from their respective pipeline suppliers. These curtailments aggregated approximately 2 billion cubic feet (1% of contract entitlement) in 1980. Effective March 1, 1980, Panhandle and Trunkline lifted all curtailments until further notice. The curtailments imposed by the pipeline companies are affected by proceedings before the Federal Energy Regulatory Commission ("FERC"), and orders issued in such proceedings determine the curtailment procedures and affect the severity of the curtailments placed into effect by the pipeline companies. See Item 3. Legal Proceedings.

In recent years, Panhandle and Trunkline have applied to regulatory authorities and received several increases in their wholesale gas rates. Any increase in such wholesale rates to Storage Company is passed on to Registrant under Storage Company's cost of service rates approved under the Natural Gas Act. Registrant currently recovers substantially all of any such additional expense incurred by reason of wholesale gas rate increases through the operation of purchased gas adjustment clauses contained in its retail rate schedules for gas service.

In order to protect service to its existing customers and to limit new customer requirements to the gas supply available, Registrant has been following a gas allocation program authorized by the MPSC. Under such program, during the period June 1, 1975 through September 5, 1977, Registrant issued permits for use of gas only for new residential uses. On September 6, 1977 Registrant commenced the issuance of permits for small (6,600 cubic feet per hour or less), new commercial and industrial gas use. In August 1978 Registrant commenced issuing permits for any new commercial or industrial gas use, except for that of boilers, kilns and electric generating equipment utilizing more than 50,000 cubic feet per hour. Registrant is unable to predict whether it will be required in the future to cease adding any new customers of any class of service or to curtail gas service to its existing firm customers. Such actions are dependent upon the extent of future curtailments on the part of the pipeline suppliers and the receipt of additional natural gas supplies from the sources of supply hereinafter described. The MPSC has approved a curtailment program for existing firm gas customers, to be invoked if it becomes necessary.

Registrant has gas purchase contracts with several producers, including Northern, in the northern Michigan area and has placed in service pipelines to transport gas purchased in this area to its integrated gas transmission system. Although Registrant is not assured as to future periods, in 1980 Registrant received approximately 115 million cubic feet of natural gas per day from this northern Michigan area, including approximately 20 million cubic feet per day from Northern. Registrant also received in 1980 approximately 15 million cubic feet per day of gas from producers near Mason, Michigan and approximately 15 million cubic feet per day from Northern's offshore Louisiana production.

In April 1974 Registrant completed the construction of a gas reforming plant at Marysville, Michigan for converting natural gas liquids into gas. On September 5, 1979, Registrant announced its intention to "mothball" the Marysville Gas Reforming Plant for an indefinite period

of time. Because of increased supplies of natural gas, it is anticipated that this will not result in any adverse effect on the ability of Registrant to serve its natural gas customers. Registrant anticipates that the gas supply from the Marysville Plant will again be required sometime in the mid-1980s, at which time the plant will be reactivated. See Item 3. Legal Proceedings.

Employees

Registrant has approximately 12,000 employees, of whom about 4,860 operating, maintenance and construction employees are represented by the Utility Workers Union of America, AFL-CIO ("Union"). The current collective bargaining agreement between Registrant and the Union was reached on September 1, 1980 and expires September 1, 1983.

Regulation

Compliance With Environmental Requirements. Registrant and its subsidiaries, Northern, Storage Company, Plateau and Canyon, are subject to regulation with regard to environmental quality, including air and water quality, zoning and other matters, by various federal, state and local authorities. Registrant and its subsidiaries are attempting to insure that their facilities meet applicable environmental regulations and standards. However, it is not presently possible to forecast the ultimate effect of environmental quality regulations upon the existing and proposed facilities and operations of Registrant and its subsidiaries. Moreover, developments in these and other areas may require Registrant or its subsidiaries to modify, supplement, replace or cease operating existing equipment and facilities, and may delay or impede construction and operation of new facilities at costs which could be substantial. See Item 3. Legal Proceedings.

For many years Registrant has followed an environmental protection program which has included reforestation along Michigan rivers and the siting of electric generating plants and transmission lines with consideration for the impact of such facilities upon the environment. In more recent years the program has included installation of electrostatic precipitators to remove particulates from smoke emissions at electric generating plants and conversion of electric generating units to burn cleaner fuels. The program through 1981 includes, among other things, adding new controls and modifying previously installed plant precipitators; utilization of coal with low-sulfur content; and construction of cooling ponds or other facilities to cool condenser water at a new generating plant before it is reused.

Pursuant to the terms of performance contracts entered into with the Michigan Air Pollution Control Commission ("MAPCC") in 1973, Registrant on January 1, 1980 completed the conversion of D E Karn Units 1 and 2 and J C Weadock Units 7 and 8 to allow utilization of low-sulfur (less than 1%) rather than high-sulfur coal. In 1979, the MAPCC approved agreements providing for further extensions, until January 1, 1985, of the date by which Registrant's J H Campbell Plant Units 1 and 2 and B C Cobb Plant must comply with MAPCC regulations which in general

would require the use of fuel with a sulfur content of 1% or less. The Campbell and Cobb Plants are now being operated in accordance with the extension agreements. Under the Federal Clean Air Act, the extension agreements must also be approved by the EPA as revisions to the Michigan State Implementation Plan ("State Plan") for air quality. The Campbell agreement was approved effective January 23, 1981. Although the State of New York made no comments during the time limits prescribed for such comments, it filed a petition dated January 16, 1981 requesting the EPA to reconsider its final action regarding the J H Campbell Plant extension agreement, based on an allegation that the Campbell Plant contributes to acid rain in the State of New York. Registrant is taking the position that the petition should be dismissed on both procedural and factual grounds. On February 20, 1981 the State of New York petitioned the D C Court of Appeals for review of the EPA action which approved the revised State Plan for the J H Campbell Plant. Although it has not yet formally approved the Cobb extension agreement, the EPA has assured Registrant in writing that it expects to approve the agreement and does not intend to enforce the unrevised State Plan while it is reviewing the agreement so long as the plant is operated in accordance with the agreement. The State of New York has submitted a late pleading asking the EPA not to approve the Cobb extension agreement based on an allegation that the Cobb Plant contributes to acid rain in the State of New York. Further, the State of New York has notified the EPA and Registrant that it intends to bring a legal action for the purpose of compelling the EPA to force Registrant to utilize low-sulfur coal at the Cobb Plant. If EPA approval of the agreement is not obtained and no other appropriate actions are taken by the EPA or Registrant, Registrant could become subject to substantial penalties under the Federal Clean Air Act. Since the publication of final EPA regulations in 1980, an additional "noncompliance penalty" equivalent to the amount of money saved by a source because of its noncompliance could be imposed for the violation of any requirement of the State Plan. See Item 3. Legal Proceedings.

Registrant's capital expenditures for environmental control facilities are estimated to be \$108,855,000 in 1981 and \$86,905,000 in 1982.

In 1973, the EPA delegated to the State of Michigan responsibility for processing applications and issuing National Pollutant Discharge Elimination System ("NPDES") permits under the Federal Water Pollution Control Act Amendments of 1972. NPDES permits for all major operating steam electric generating facilities of Registrant, and the Ludington Pumped Storage Plant, have been issued by the Michigan Water Resources Commission ("MWRC"). The permits restrict or will restrict the discharges from Registrant's facilities pursuant to state and federal water quality standards and federal effluent guidelines. The steam generating plant permits and the permit for a major gas compressor station of Storage Company require Registrant to conduct studies concerning certain effluent limitations. All of the permits except the Ludington permit allow demonstrations to show that existing restrictions are adequate or that additional restrictions are unnecessary. Because the extent and effect of restrictions upon the operation of Registrant's facilities will depend in significant measure upon the outcome of the

demonstration studies required or permitted by the NPDES permits, Registrant is unable to forecast at this time the ultimate effects upon Registrant's facilities of the requirements under the Federal Water Pollution Control Act and state law. However, such effects upon Registrant's operating expenses and the operation of its facilities could be material.

For existing plants, federal law required achievement of effluent limitations that necessitated the application of the "best practicable control technology currently available" by July 1, 1977. Registrant is now in full compliance with the statute and permits thereunder. By July 1, 1984, existing plants and facilities must meet additional effluent limitations on the discharge of two classes of pollutants: toxic and conventional. In addition, limitations on discharges of a third class of pollutants, nonconventional pollutants, must be achieved within three years of their promulgation by the EPA but in no case later than July 1, 1987. The cost of complying with these additional discharge limitations could be substantial.

For new steam electric power plants, standards of performance established pursuant to federal law require achievement of effluent limitations that necessitate the application of the "best available demonstrated control technology." The standards for cooling water intake structures of both new and existing plants are required to reflect the "best technology available for minimizing adverse environmental impact." The Staff of the MWRC is of the opinion, based on demonstration studies, that the existing cooling water intake structures at the Karn, Weadock, Campbell, Morrow, and Whiting Plants do not reflect the "best technology available for minimizing adverse environmental impact." The effects of these findings on the operating expenses and operations of these facilities are presently undefined but could be material. In April 1980 the Staff of the MWRC recommended to the MWRC that the MWRC determine that the cooling water intake of the Whiting Plant has not been demonstrated to reflect the "best technology available for minimizing adverse environmental impact." The MWRC directed that the matter be referred to a hearing officer of the Michigan Department of Natural Resources ("DNR"). Hearings began in October 1980. The outcome of this proceeding is in doubt. See Item 3. Legal Proceedings. In the opinion of the MWRC Staff, the existing cooling water intakes at the Big Rock Point Nuclear Plant and Palisades Nuclear Plant reflect the "best technology available for minimizing adverse environmental impact." Registrant believes the intake structure constructed as part of Campbell Plant Unit 3 will also meet this requirement.

In November 1975 the EPA issued regulations under the Federal Water Pollution Control Act requiring each state to develop and implement a water quality management program, incorporating an anti-degradation policy. Registrant is presently unable to forecast the ultimate effect that these regulations may have upon its operations. Parties other than Registrant have challenged these regulations in the federal courts.

Michigan Public Service Commission. Registrant is subject to the jurisdiction of the MPSC which has general power of supervision and regulation of public utilities in Michigan with respect to retail utility rates, accounting, services, certain facilities, ascertainment of values, the issuance of securities, and various other matters. Storage Company, Northern, Plateau and Canyon are not, in the opinion of the General Counsel for Registrant, subject to the jurisdiction of the MPSC with respect to rates, accounting, services, facilities or ascertainment of values. In 1979 the Michigan Supreme Court issued an opinion holding that the MPSC had jurisdiction over the issuance of securities by Storage Company.

Federal Energy Regulatory Commission. The FERC has jurisdiction over Storage Company and Northern as natural gas companies within the meaning of the Natural Gas Act, which jurisdiction relates, among other things, to the acquisition and operation of assets and facilities and to rates charged by Storage Company. The FERC also has jurisdiction over the field prices charged by Northern as a producer, under the Natural Gas Act and the Natural Gas Policy Act. Under certain circumstances, the FERC also has the power under the Natural Gas Act and the Natural Gas Policy Act to modify gas sales contracts of interstate pipeline companies. The Department of Energy ("DOE") is vested with jurisdiction to establish and review priorities for curtailment of natural gas in instances of shortage of supply, while the FERC has jurisdiction to establish and enforce curtailments. Panhandle (through Storage Company) and Trunkline provide the major portion of Registrant's gas supply. The effect of DOE and FERC regulations, present or future, upon Registrant's gas supply and operations cannot be determined although such effect may be materially adverse. See Item 3. Legal Proceedings. Certain aspects of Registrant's gas business are subject to regulation by the FERC, such as the incremental pricing of natural gas to industrial users of gas as provided in the Natural Gas Policy Act. Effective January 1, 1980, pursuant to regulations promulgated under the Natural Gas Policy Act, Registrant commenced passing on higher gas costs authorized by the Natural Gas Policy Act to its large industrial boiler fuel customers.

Certain aspects of Registrant's electric business are subject to regulation by the FERC, including compliance with the FERC's rules and regulations respecting accounting applicable to "public utilities" and "licensees," the transmission of electric energy in interstate commerce and the rates and charges for the sale of such energy at wholesale, the construction, operation and maintenance of hydroelectric projects, and the issuance of certain securities, as provided by the Federal Power Act. Registrant has accepted licenses authorizing the continued operation and maintenance of a number of its constructed hydroelectric projects, which licenses expire in 1993 except for one license for one small project which expires in 1981. Registrant and Detroit Edison have accepted from the Federal Power Commission ("FPC") a license extending to the year 2019 to construct, operate and maintain the Ludington Pumped Storage Plant. The Federal Power Act provides that if a new license for a hydroelectric project is not issued to the original licensee upon expiration of the original license, a new license may be issued to a new licensee, or the United States may take over the project, upon paying severance damages,

if any, and the amount of the original licensee's "net investment" in the project but not in excess of the fair value thereof.

Nuclear Regulatory Commission. Under the Atomic Energy Act of 1954 and the Energy Reorganization Act of 1974, Registrant is subject to the jurisdiction of the NRC with respect to the design, construction and operation of its nuclear power plants and with respect to certain other uses of nuclear materials. See Midland Plant and Item 3. Legal Proceedings.

Registrant's NRC license to operate the Palisades Nuclear Plant is provisional in nature and will continue in effect until the NRC acts on Registrant's pending application for a full-term, 40-year operating license. To date, approximately 3,700 of the plant's 17,000 steam generator tubes have been plugged because of damage from various forms of corrosion. Additional tube plugging and consequent reductions in the plant's electrical output are possible. Registrant plans to continue to evaluate the need for steam generator modifications at the plant, and is currently unable to predict the likelihood or extent of any such future steam generator modifications. However, on January 3, 1979 Registrant requested NRC review and approval of a proposal to replace the steam generators at the plant, a request entailing issuance of an amendment to the plant's operating license. In an order issued July 23, 1979, an ASLB granted the Great Lakes Energy Alliance's request for intervention and issued a notice that a hearing will be conducted in this proceeding. See Item 3. Legal Proceedings.

The NRC has approved a program in which its technical staff is making a systematic safety evaluation of a number of older nuclear power facilities including Registrant's Big Rock Point and Palisades Plants to determine and document the degree to which they meet current licensing requirements for new plants. The review will evaluate each plant to determine whether deviations from current NRC requirements are acceptable or whether changes in design or procedures are required. This program could possibly result in modifications to or shutdowns or outages or deratings of the Big Rock Point and Palisades Plants, to an extent which cannot be determined at this time.

Effective August 1, 1977, the NRC's indemnity for public liability coverage under the Price-Anderson amendments to the Atomic Energy Act began to be supported by a mandatory industry-wide program under which owners of nuclear generating facilities could be assessed in the event of nuclear incidents. Based on the number of Registrant's reactors presently in service, Registrant would be subject to a maximum assessment pursuant to the Price-Anderson amendments of $5,000,000 in the event of a nuclear incident at any nuclear facility, limited, in the event of two or more nuclear incidents to a maximum payment of $10,000,000 in any year. Registrant does not believe that the TMI accident, discussed below, will result in any assessment against Registrant under the Price-Anderson amendments.

Registrant is a member of Nuclear Mutual Limited, established to provide insurance coverage against property damage to members' nuclear

generating facilities. Registrant would be subject to a maximum annual assessment of approximately $30,700,000 in the event of losses. (TMI was not insured by Nuclear Mutual Limited at the time of the March 28, 1979 accident.) The property damage insurance from Nuclear Mutual Limited maintained by Registrant is in the maximum amount available from such insurer, presently $375,000,000, or, in the case of the Big Rock Point Plant, the insurable value of the facility, which is less. Registrant retains the risk of loss to its nuclear plant facilities to the extent the insurable value exceeds $375,000,000 at any location. Registrant regards this risk to be acceptable because of the very low probabilities of occurrence believed to be associated with incidents which could give rise to losses in excess of the insurance. Registrant believes that its practice in this regard is consistent with that of other utilities similarly situated.

Registrant is a member of Nuclear Electric Insurance Limited ("NEIL"), established to provide insurance coverage against the extra expense incurred in obtaining replacement power during prolonged accidental outages of members' nuclear generating facilities. Registrant would be subject to a maximum annual assessment of approximately $8,740,000 in the event of an insured accident at a member's nuclear facility. Registrant would retain risk of loss for any such extra expense incurred during the first six months of an accidental outage after which Registrant would be able to recover for a period of 12 months $2,000,000 per week or, in the case of Big Rock Point Plant, $225,000 per week, which is Registrant's estimate of 90% of the extra expense that would be incurred. For an additional 12 months the amount recoverable by the Registrant for any such extra expense would be halved. NEIL was established after the TMI accident.

On March 28, 1979 events occurred at TMI near Harrisburg, Pennsylvania, which developed into a nuclear accident that took several days before plant conditions were stabilized. This accident and subsequent investigations resulted in a reexamination of safety standards, equipment and operating, maintenance and emergency procedures for nuclear generating units. As a result of Registrant's review of the TMI accident and pursuant to NRC instructions, Registrant is making several modifications to its Midland Plant, which is of a type and design generally similar to TMI. (See Midland Plant and Item 3. Legal Proceedings. and Note 2 to Consolidated Financial Statements on Page 13 of Registrant's Annual Report to shareholders, which Note is incorporated herein.) Registrant has also made several modifications to its Palisades Plant, which is of a different design but a similar type to TMI. Minor modifications have also been made to the Registrant's Big Rock Point Plant, which is a boiling water reactor. Pursuant to recently issued NRC requirements, additional modifications to both the Palisades and Big Rock Point Plants are being made. In addition, Registrant is continuing to discuss these modifications and the methods to be used to apply the lessons learned from the TMI accident with the NRC and with the vendors of the Palisades and Big Rock Point reactors. The NRC has also issued new requirements for normal and emergency plant operations. Registrant has made changes in its administrative and operating procedures at its Palisades and Big Rock Point Plants to comply with the new requirements.

The NRC and several other federal and state governmental entities are reexamining the safety, operating procedures and regulatory control of nuclear facilities as a result of the TMI accident. Registrant is unable accurately to predict what effect, if any, their efforts and public concern and publicity concerning the TMI accident will have upon Registrant's facilities and operations, its ability to raise new capital, or upon the cost of such capital.

Economic Regulatory Administration. The Economic Regulatory Administration ("ERA") within the DOE has assumed jurisdiction in matters previously before the Federal Energy Administration ("FEA"). The FEA asserted jurisdiction with respect to the use and/or allocation of natural gas, natural gas liquids, coal, crude oil, residual fuel oil and refined petroleum products produced in or imported into the United States. On January 28, 1981 crude oil and refined petroleum products, including natural gas liquids and residual fuel oil, were exempted from price and allocation controls adopted pursuant to the Emergency Petroleum Allocation Act of 1973, as amended. See Item 3. Legal Proceedings.

(c) Revenue by Class of Service

Revenue for the year 1980 (thousands of dollars):

Electric revenue:	
Residential	$ 434,842
Commercial	333,572
Industrial	442,751
Interdepartmental and other	14,967
Other resale	38,258
Miscellaneous	9,175
	$1,273,565
Gas revenue:	
Residential	$ 508,820
Industrial and commercial	439,979
Interdepartmental	14,489
Other resale	17,176
Miscellaneous	5,920
	$ 986,384
Other revenue	$ 44,034
Total operating revenue	$2,303,[illegible]83

Segment Information

Segment information is incorporated by reference to the Consolidated Statement of Income on Page 8 and Note 10 on Page 17 of Registrant's Annual Report to shareholders which Statement and Note are incorporated herein.

ITEM 2. P[illegible]ERTIES.

Character of Ownership

The statements under this item as to ownership of properties are made without regard to leases (except as disclosed with respect to oil and gas exploration and production), tax and assessment liens, judgments, easements, rights of way, contracts, reservations, exceptions, conditions, immaterial liens and encumbrances, and other outstanding rights affecting such properties. The following information is given as of December 31, 1980.

The electric lines and gas mains of Registrant are located on or under public highways, streets, alleys or lands, except where they are located on or under property owned by Registrant or occupied by it under easements or other rights. These easements and rights are deemed by Registrant to be adequate for the purposes for which they are being used. Generally, where payments therefor are minor in amount, no examinations of underlying titles as to the rights of way for transmission or distribution lines or mains have been made.

Electric Properties

Generating statistics for each plant are set forth in the table below:

Name and Location (Michigan) of Station	Net Demonstrated Capability (Kilowatts)	1980 Net Generation (Thousands of Kilowatthours)
Conventional steam plants:		
J H Campbell - West Olive	1,272,500*	4,349,948
J C Weadock - Essexville	499,000	1,804,540
D E Karn - Essexville	1,763,000	6,064,106
J R Whiting - Erie	310,000	1,936,601
B C Cobb - Muskegon	483,000	2,509,818
B E Morrow - Comstock	114,000	173,444
Total conventional steam plants	4,441,500	16,838,457
Nuclear steam plants:		
Big Rock Point - Charlevoix	63,000	404,381
Palisades - South Haven	740,000	2,333,026
Total nuclear plants	803,000	2,737,407
Ludington Pumped Storage	954,700**	1,159,301
Gas turbine plants:		
Thetford - Flint	278,000	150,888
Gaylord - Gaylord	97,000	45,322
B E Morrow - Comstock	38,000	22,381
Straits 1 - Mackinaw City	28,000	5,806
Campbell A - West Olive	21,000	2,455
Weadock A - Essexville	21,000	8,859
Whiting A - Erie	21,000	2,344
Total gas turbine plants	504,000	238,055
Hydro plants:		
Hardy - Oxbow	32,400	79,813
Tippy - Wellston	21,000	51,737
Hodenpyl - Mesick	18,400	36,474
Others (10 plants)	61,800	215,386
Total hydro plants	133,600	383,410
Total all stations	6,836,800	21,356,630

*Includes Registrant's share of the capacity of Campbell Plant Unit 3, net of 4.80% (undivided ownership interest of the Michigan Public Power Agency) and net of 1.89% (under contract to be sold to two transmission and generation cooperatives).

**Represents Registrant's share of the capacity of the Ludington Pumped Storage Plant. Registrant and Detroit Edison have 51% and 49% undivided ownership, respectively, in the plant and the capacity of the plant is shared accordingly. Agreements are in effect providing for the purchase by Commonwealth Edison Company of one-third of the plant's capacity until August 1983 and one-sixth of the plant's capacity thereafter until August 1988.

Electric transmission and distribution lines owned and in service are as follows:

	Pole Miles	Cable Miles	Total Miles
Transmission:			
345,000 volt	1,864	-	1,864
138,000 volt	3,531	-	3,531
120,000 volt	24	-	24
46,000 volt	4,276	8	4,284
41,600 volt	13	-	13
23,000 volt	54	3	57
Total transmission	9,762	11	9,773
Distribution (Under 22,000 volt)	46,415	5,303	51,718
Total transmission and distribution	56,177	5,314	61,491

Registrant owns substations having an aggregate transformer capacity of 10,004,217 kilovoltamperes.

Gas Properties

As of December 31, 1980 Registrant's gas property consisted of: the Marysville Gas Reforming Plant, located in Marysville, Michigan, on which the mothballing is 90% complete; a gas distribution and transmission system; and compressor stations located at Registrant's storage fields and along the gas transmission lines.

The gas distribution and transmission systems consist of 17,719 and 1,339 miles of gas mains, respectively, throughout the Lower Peninsula of the State of Michigan. Registrant owns and operates five compressor stations with 96,910 installed horsepower.

Listed below are Registrant's gas storage fields with an aggregate storage capacity of 243,097,000 thousand cubic feet (Mcf):

Field Name	Location	Certified Storage Capacity (Mcf)
Overisel	Allegan County	64,000,000
Salem	Allegan County	35,000,000
Ira	St Clair County	7,500,000
Lenox	Macomb County	3,500,000
Ray	Macomb County	66,000,000
Northville	Oakland, Washtenaw and Wayne Counties	22,412,000
Puttygut	St Clair County	16,600,000
Four Corners	St Clair County	3,780,000
Swan Creek	St Clair County	650,000
Hessen	St Clair County	17,980,000
Marsac Creek	St Clair County	5,675,000

Other Properties

Registrant occupies three General Office buildings in Jackson, Michigan and 60 Region and District Offices at various locations in the Lower Peninsula. Of these, two of the General Office buildings and 15 of the Region and District Offices are leased. (Also see Note 5 to the Consolidated Financial Statements on Page 15 of Registrant's Annual Report to shareholders, which Note is incorporated herein.) Also owned are miscellaneous parcels of real estate not now used in utility operations.

Construction Program

Reference is made to Note 3 to Consolidated Financial Statements on Page 13 of Registrant's Annual Report to shareholders, which Note is incorporated herein.

During 1980 the Registrant and its subsidiaries incurred gross property additions of $739,532,000, including approximately $93,000,000 for environmental protection additions. The 1980 program included costs for construction of two major projects as follows:

Project and Location	Features	Estimated Year of Operation	Estimated Total Cost(b)
Midland Plant (Midland, Michigan)	Two nuclear fueled units with aggregate nameplate rating of about 1,357,000 kilowatts (estimated cost $1,739 per kilowatt(a)) and 4,050,000 pounds per hour of process steam	1983-84(a)	$3,100,000,000(a)
J H Campbell Plant, Unit 3 (Port Sheldon, Michigan)	One coal-fired unit at existing plant site to add approximately 770,000 kilowatts (nameplate rating) (estimated cost $796 per kilowatt) of capacity	Began commercial operation September 26, 1980	$ 590,000,000

(a) Reference is made to Note 2 to Consolidated Financial Statements on Page 13 of Registrant's Annual Report to shareholders, which Note is incorporated herein.

(b) Estimated costs are subject to review and change from time to time to reflect changes in schedule, inflation rates, additions to or changes in license conditions and regulations and other factors. Costs (in thousands of dollars including dollars related to anticipated participation in the Campbell Plant Unit 3 by other parties) have been incurred or are scheduled to be incurred as follows:

	Prior to 1980	1980	Estimated After 1980
Midland Plant	$1,263,454	$307,325	$1,529,221
J H Campbell Plant	485,093	93,850	11,057

The 1980 construction program included $401,175,000 for the Midland Plant and the J H Campbell Unit 3 and $338,357,000 for other facilities, including other electric production facilities, power supply projects, electric transmission and distribution facilities, gas supply lines, gas production, transmission and distribution facilities, general, miscellaneous and steam additions, and subsidiaries' construction programs. Of this $338,357,000, $216,609,000 was incurred for electric additions including $71,491,000 for nuclear fuel, $63,138,000 for gas additions and $58,610,000 for general, miscellaneous and steam additions, including subsidiaries' additions.

Registrant and its subsidiaries propose to incur construction costs for property additions in 1981, including approximately $109 million for environmental protection additions, in an estimated amount of $666 million, net of leased nuclear fuel. Of this $666 million, it is estimated $562 million will be incurred for electric additions, $55 million for gas additions and $49 million for general, miscellaneous and steam additions, including additions of Registrant's subsidiaries.

Reference is made to Item 3. Legal Proceedings. and to Note 3 to Consolidated Financial Statements on Page 13 of Registrant's Annual Report to shareholders, which Note is incorporated herein.

Subsidiaries

Northern. Northern has carried on an oil and gas exploration program in the northern part of the Lower Peninsula of Michigan for the past several years, and has varying interests in oil and gas leases on lands covering approximately 391,000 acres in that area. Such leases authorize exploration for oil and gas and provide for landowners' royalties. Northern owns all or part of the working interest in 137 oil or gas wells in several fields in northern Michigan. Further drilling and development will be required in some of the fields in which these wells are located, and additional exploration is planned in northern Michigan at an estimated cost of $47 million for the 1981-1985 period.

Northern is also participating with others in the exploration and development of 20,000 acres in four tracts in offshore Louisiana and Northern's net participation therein is 2,000 acres. It is estimated that an additional $4,000,000 will be spent for exploration and development in the 1981-1983 period. Four production platforms have been set on three of the tracts and production has commenced. Drilling has been finished and completion is in progress on a fifth platform on one of these tracts. Drilling is in progress from a sixth platform installed on one additional tract. Northern supplies Registrant with approximately 16 million cubic feet of gas per day from these tracts.

Northern is participating with others in the exploration of approximately 850,000 acres in various prospects in the United States outside the State of Michigan. In addition, under exploratory agreements with other operators, Northern has an interest in petroleum concessions in Australia, the country of Belize and the Kingdom of Tonga.

Northern's geologists and petroleum engineers estimated, as of January 1, 1981, that Northern held working interests in prospects which amounted to approximately 8 million barrels of proven oil reserves as well as approximately 62 billion cubic feet of proven gas reserves. In 1980 the net income of Northern provided 7.6% of the net income of Registrant. No reports have been filed with any regulatory agencies which include total oil or gas reserves attributable to Northern.

Northern estimates that its 1981 net production will consist of approximately 1,380,000 barrels of oil and approximately 10,460,000 Mcf of gas.

For the years 1976 through 1980 net oil and gas production of Northern is shown in the following table:

	1980	1979	1978	1977	1976
Oil - Barrels	1,470,000	1,437,000	1,347,000	1,319,000	1,337,000
Gas - Mcf	11,451,000	10,600,000	13,900,000	15,949,000	16,984,000

Plateau. Plateau owns or has under lease or option 77,500 acres in Nevada, Colorado and Utah. The property consists primarily of unpatented and currently nonproducing mining claims in Utah. However, a small portion is comprised of state leases and fee lands. Because of the dramatic decrease in the market price of uranium concentrates during 1980, Plateau has suspended virtually all activities outside the Henry Mountains area of Garfield County, Utah, with corresponding reductions in staff and in property positions. Plateau has a tentative agreement to sell to Minatome Corporation all of its Paradox Basin area properties which consist of approximately 35,000 acres located in San Juan County, Utah and Montrose County, Colorado. Negotiations are in progress and the agreement is expected to be completed in early 1981. On September 21, 1979 the NRC issued a license for a uranium processing facility near Shootaring Canyon in the Henry Mountains area of Utah. As of December 31, 1980 construction work on the project was 90% complete and engineering work was 100% complete. The processing facility will be used primarily to process uranium ore mined from Plateau's own properties. The facility, which is being constructed by Mountain States Mineral Enterprises, Inc, was nearly complete and ready for testing by the end of February 1981 but work was suspended as of March 7, 1981, except for work within the tailings area. The work was suspended to facilitate long-term financing of the facility and because of the depressed state of the uranium market, and because of certain disputes with Mountain States Mineral Enterprises, Inc. The suspension is expected to be in effect for approximately six months.

In February 1979 Plateau formed a wholly-owned subsidiary, Canyon, in Utah to provide housing and community services for Plateau's mine and mill workers.

In May 1979 Registrant entered into an agreement for the purchase of uranium concentrates with Plateau pursuant to which Plateau agreed to sell and Registrant agreed to purchase at least 4,000,000 pounds of contained U_3O_8 in U_3O_8 concentrates over an eight-year period. The purchase price for the U_3O_8 concentrates delivered under the agreement will consist of the higher of the "market price" (as defined in the agreement) or 110% of Plateau's "cost of production" (as defined in the agreement), subject to certain adjustments and exceptions. There is no assurance that Registrant will be able to recover from its customers any amounts paid Plateau for U_3O_8 concentrates which exceed the "market price" (as determined by the MPSC). Any U_3O_8 concentrates produced by Plateau in excess of the contracted quantities must be offered first to Registrant at a price to be negotiated between Registrant and Plateau at that time. Registrant anticipates that the agreement will be modified during 1981 to modify quantity and delivery terms. Because of delays in construction and operation of the Midland Plant, Registrant desires to reduce near-term deliveries. Plateau desires to increase the term of the agreement and the total quantities of uranium concentrates to be delivered.

As of December 31, 1980 Registrant had a net investment of $38 million in Plateau. As of December 31, 1980, Plateau's plant investment was $82 million and Plateau had invested approximately $3.4 million in Canyon.

Storage Company. Storage Company holds title to gas storage fields located in the Lower Peninsula of Michigan which have an aggregate storage capacity of 117,000,000 Mcf:

Field Name	Location	Certified Storage Capacity (Mcf)
Winterfield	Osceola and Clare Counties	75,000,000
Cranberry Lake	Clare County	30,000,000
Riverside	Missaukee County	12,000,000

It owns and operates two compressor stations with 46,600 installed horsepower.

ITEM 3. LEGAL PROCEEDINGS.

(a) On December 14, 1977 a claim for refund to customers amounting to approximately $7,76[illegible],000 plus interest charges with respect to electric rates placed in effect in October 1969 by court order but not approved by the MPSC until April 20, 1970 was denied by the Ingham County Circuit Court ("Circuit Court"). On February 20, 1979 the Michigan Court of Appeals ("Court of Appeals") affirmed the Circuit Court's action, and on March 12, 1979 the Attorney General of Michigan ("Attorney General") petitioned the Michigan Supreme Court for leave to appeal the Court of Appeals' action. The Michigan Supreme Court granted leave to appeal and directed the parties to brief the issue of whether Registrant should be required to refund the rates collected under bond and subject to refund. Briefing has been completed and oral argument was held before the Michigan Supreme Court in January 1980. The Michigan Supreme Court has not yet decided the case.

(b) On April 24, 1978 the Court of Appeals affirmed actions taken by the Circuit Court with respect to an order issued by the MPSC on July 21, 1975. The July 1975 order resulted from an application by Registrant for authority to amend the FCAC in Registrant's electric tariffs to reflect, among other things, changes in purchased and interchange power cost. The order remanded and consolidated the proceeding with Registrant's then pending electric rate proceeding (see following paragraph). Alleging, among other things, that Registrant had overrecovered more than $12,789,000 of FCAC revenue (through application of FCAC adjustments to all kilowatthours sold, whether generated or purchased), the Attorney General appealed the order to the Circuit Court, and requested that Registrant be restrained from recovering through the FCAC (i) revenues which exceed Registrant's increased cost of fuel burned by Registrant and (ii) higher fuel costs incurred as the result of Registrant's "unnecessary" renegotiation of coal purchase contracts. On February 27, 1976 the Attorney General amended his appeal to allege, among other things, that during the period January 1974 through November 1975 the FCAC had raised Registrant's rates $103,000,000 higher than the increased cost of fuel burned

by Registrant. The amount was based on an error in an MPSC Staff report which was later corrected to change the $103,000,000 to $12,881,000. The Attorney General's amended complaint also contained allegations that (i) during the period February 1975 through November 1975, Registrant's FCAC operated so as to raise its electric rates $57,700,000 higher than the increased cost of fuel burned by Registrant, and (ii) during the same period, Registrant's FCAC operated so as to raise Registrant's electric rates $17,200,000 more than the sum of (a) the cost of fuel burned by Registrant and (b) the estimated cost of the fuel expense portion of power purchased by Registrant from others. Registrant believes that if the amounts in clauses (i) and (ii) in the preceding sentence were calculated on a basis consistent with the corrected MPSC Staff report, they would be $9,893,000 and $4,759,000, respectively. In early 1977 the Circuit Court granted a motion by Registrant for accelerated judgment on the grounds that the July 1975 order was not final. The Court of Appeals' April 1978 opinion found the Circuit Court's actions proper because "all issues raised" in the proceeding were before the Circuit Court in the proceeding described in the following paragraph (c).

(c) Several appeals are pending before the Circuit Court of matters arising from an order issued by the MPSC on April 12, 1976 which authorized Registrant to increase its electric rates in the annual amount of $33,977,000. The order also (i) found that Registrant's existing FCAC had not resulted in any overrecoveries of cost by Registrant, (ii) authorized a purchased power adjustment clause ("PPAC") which operates, after notice and hearing, to pass through to customers 90% of monthly increases and decreases in such costs, (iii) replaced the existing FCAC with one which permits only 90% of monthly increases and decreases in such costs to be automatically passed through to customers and (iv) ordered "reconciliation" hearings which would result in refunds to customers of amounts collected through operation of the two clauses in excess of 90% of the amounts actually expended for fuel and purchased and interchange power over and above the basing points in the clauses. On May 12, 1976 Registrant appealed the order, requesting that it be granted additional rate relief in the annual amount of approximately $41,600,000. On May 12, 1976 the Attorney General appealed the order requesting, among other things, that: a refund be ordered of all amounts collected in excess of the rates in effect prior to April 1976; the monthly PPAC hearing procedures and any purchased power adjustment charges resulting therefrom be enjoined; and the MPSC be directed to investigate alleged "overcollection" under Registrant's FCAC. Registrant and the Attorney General appealed the first monthly order to the Circuit Court and the Attorney General has appealed each of the subsequent monthly orders which authorized a positive PPAC adjustment in Registrant's electric rates. Through December 31, 1980 Registrant had collected revenues authorized by positive PPAC adjustments of approximately $218,276,000. On January 16, 1981 the Circuit Court issued an opinion dismissing that portion of the Attorney General's appeal which challenged the validity of the PPAC hearing procedures and adjustment charges resulting from such procedures, and dismissing that portion of Registrant's appeal which challenged the reduction of purchased power expense in the two PPAC monthly hearings when Registrant's nuclear generating plants had been out of service for periods in excess of 90 days. Certain other issues remain to be decided by the Circuit Court. In orders issued following the first two of the monthly PPAC hearings, the MPSC authorized PPAC expense adjustments in Registrant's rates, after reducing such expense to reflect the cost of power purchased to replace generation from

Registrant's nuclear generating plants to the extent such plants had been out of service for periods in excess of 90 days. More recently the MPSC has allowed the recovery of PPAC expense even though it was attributable to generating plant outages extending for periods beyond 90 days (see following paragraph).

The Palisades Nuclear Plant was out of service from early September 1979 until late 1980 for refueling and maintenance, for inspections and reviews in connection with certain alleged license violations, and for modifications necessary to meet NRC seismic and other requirements. The Palisades Plant outage resulted in increases in Registrant's costs for replacement power, calculated by Registrant (net of offsetting nuclear fuel cost) to be approximately $7.5 million per month. In PPAC orders issued in February, March, April, May, June and July 1980, for the cost months of December 1979 and January, February, March, April and May 1980, respectively, the MPSC did not disallow the recovery of any replacement power costs attributable to the Palisades Plant outage. On May 13, 1980 the Attorney General petitioned the MPSC for rehearing of its April 1980 PPAC order for the cost month of February 1980. The Attorney General alleged that the Palisades Plant was shut down in February 1980 for the reason, in whole or in part, that Registrant had violated NRC safety regulations and requested, among other things, that the MPSC: (a) determine that the effect of the Palisades Plant outage on Registrant's PPAC expense for the month of February 1980 was $10,487,000 rather than the $6,679,70[illegible] determined by the MPSC in its April 1980 PPAC order; (b) redetermine the PPAC expense for February 1980 eliminating the PPAC expense occasioned by the plant outage; (c) cancel, revoke and rescind Registrant's PPAC; and (d) order Registrant to refund all amounts collected pursuant to the PPAC adjustment authorized by the MPSC's April 1980 PPAC order. The Attorney General's petition was denied on August 8, 1980. On June 27, 1980 the Attorney General appealed the MPSC's May 1980 PPAC order for the cost month of March 1980 to the Circuit Court requesting relief similar to that sought in his petition for rehearing of the April 1980 PPAC order. Similarly, on July 14, and August 25, 1980 the Attorney General appealed the MPSC's June and July 1980 PPAC orders to the Circuit Court. And on September 8, 1980 the Attorney General appealed an MPSC order dated August 8, 1980 on reconciliation of July-December 1979 fuel and purchased and net interchange power expenses. The Attorney General claimed, among other things, that upon reconciliation, the MPSC should have disallowed expenses incurred by Registrant as a result of the shutdown of the Palisades Plant during the month of December 1979.

(d) On January 23, 1975 the MPSC issued an order increasing Registrant's electric rates $66,231,000 on an annual basis. The Attorney General and UAW-CAP appealed the order to the Circuit Court, requesting that such rate increase be restrained and enjoined during the pendency of the litigation. At issue in the litigation are electric rates collected during the period January 1975 through April 1976. On February 2, 1981 the Circuit Court dismissed the appeal for lack of progress.

(e) On January 13, 1978 the Court of Appeals rejected an emergency appeal taken on December 23, 1977 by the Attorney General of a December 6, 1977 Circuit Court temporary injunction allowing Registrant to collect approximately $10,900,000, under bond and subject to refund, from its customers in the billing month of December 1977 through operation of Registrant's PPAC.

The Circuit Court acted because the temporary incapacity of one of the three MPSC Commissioners had resulted in the failure of the MPSC to issue any order following the PPAC hearings for that billing month. The Circuit Court has not yet issued a final order.

(f) On January 31, 1977 Registrant filed an application with the MPSC requesting authority to increase its rates for the sale of electricity. On July 31, 1978 the MPSC issued an order authorizing an increase in Registrant's return on common equity for its electric business from 12.75% to 13.50% and authorized Registrant to increase its rates for the sale of electricity $54,998,000, on an annual basis, which includes an interim electric rate increase in an annual amount of $15,212,000 granted in March 1978 which had previously been placed in effect under bond and subject to refund. An appeal by the Attorney General of the March interim rate order is currently pending before the Circuit Court. The July 1978 order also denied applications for rehearing of the interim rate order which had been filed by certain industrial customers who had requested that interim rate design be changed so that all classes of customers would pay an equal percentage surcharge and had further requested refunds of any amounts paid in excess of such equal percentage surcharge. The MPSC's July 1978 order also provided for a Consumer Price Indexing System ("Indexing System") pursuant to which Registrant will annually (in February) adjust its rates to reflect a percentage increase or decrease in the Other Operations and Maintenance Expense base in its rates equal to the annual increase or decrease (during the preceding 12 months, ending each August) of the Consumer Price Index. On August 30, 1978 the Attorney General and an industrial customer appealed certain aspects of the MPSC's July 1978 order, including the Indexing System and the "system availability incentive provision" (see paragraph (g) below), to the Circuit Court.

On January 29, 1979, in accordance with the Indexing System, the MPSC authorized an increase in Registrant's electric rates by the amount of approximately $12,279,000 for the 12 months beginning February 1979 to reflect changes in the Consumer Price Index occurring between August 1977 and August 1978. On February 7, 1979 the Attorney General appealed the MPSC's January 29, 1979 Indexing System order to the Circuit Court. On January 8, 1980 the MPSC issued an order increasing Registrant's electric rates by the amount of approximately $20,288,000 for the 12 months beginning February 1980 to reflect changes in the Consumer Price Index occurring between August 1978 and August 1979. On February 7, 1980, the Attorney General and Dow appealed the MPSC's January 8, 1980 order to the Circuit Court. On January 30, 1981 the MPSC issued another order increasing Registrant's electric rates by the amount of approximately $23,950,000 for the 12 months beginning February 1981 to reflect changes in the Consumer Price Index occurring between August 1979 and August 1980. On February 13, 1981, the Attorney General appealed the January 30, 1981 order to the Circuit Court. These three appeals are pending before the Circuit Court.

On October 26, 1978 the Attorney Genera[illegible]d a motion requesting that such proceeding be reopened to reduce Registr[illegible] rates to reflect the reduction from 48% to 46% in the federal income [illegible]plicable to corporations. The MPSC did not act on the motion. However, on January 3, 1979 the MPSC requested that Registrant furnish the [illegible] with information regarding the net impact of changed federal tax laws and further requested that Registrant

make application to reduce its rates to reflect such changes. In response to such request Registrant made application on January 11, 1979 to reduce its electric rates $1,665,000 on an annual basis, which reduction was ordered by the MPSC on January 29, 1979. Registrant did not make a similar filing with respect to its gas business because Registrant's current gas rate proceeding is pending before the MPSC.

In its July 1978 electric rate order, the MPSC also determined that it was appropriate that: (i) owners of single-family residences and duplexes should be classified as "residential" customers, (ii) owners of centrally-metered, multiple-family dwellings with three to four residences should (at their option) be classified as either "residential" or "general service" (commercial) customers, and (iii) owners of centrally-metered, multiple-family dwellings with five or more residences should be classified as "general service" customers. Under Registrant's tariffs, some apartment owners would, if classified as "residential," receive service at a lower rate than that at which they received service as "general service" customers. On August 31, 1978 certain intervenors in the electric rate proceeding ("Apartment Owners"), discussed above, appealed the MPSC's July 1978 order to the Circuit Court claiming, among other things, that the order was unconstitutional and that it prescribed rates for some residential uses (namely centrally-metered apartments) which were different from those prescribed for other (singly-metered and four-family-or-less) residential uses. In June 1979 the Circuit Court denied the Apartment Owners' request for injunctive relief and refused to require sequestration or segregation of the amounts in dispute during the pendency of the proceeding. The Circuit Court did not, however, rule on the question of whether the Apartment Owners could maintain their appeal as a class action, or on the ultimate question of whether residential end use mandates the classification of multiple-family dwellings with five or more apartments as "residential." Registrant is unable to predict the outcome of this proceeding but is advised that the total exposure of Registrant, should the Apartment Owners' appeal succeed, may be as high as $1,000,000 per year in lost revenue, commencing in July 1978.

(g) The July 1978 order discussed in paragraph (f) above also established a "system availability incentive provision" pursuant to which the authorized return on Registrant's common equity would be increased (or decreased) by specified amounts if Registrant's electric generating plants were available for the production of electricity during any calendar year at more (or less) than specified levels. The provisions of the availability incentive system have been reexamined in subsequent rate cases and changed where the MPSC found it appropriate. In an order issued August 19, 1980, the MPSC found that Registrant's electric generating plants had been available during calendar year 1979 between 80.1 and 85.0% of the time and, accordingly, authorized Registrant to increase its authorized rate of return on common equity by an increment of .25 percentage point through the imposition of a surcharge of .246 mill per kWh on all metered sales for the 12-month period commencing August 20, 1980. The surcharge is designed to collect approximately $6,000,000 in revenue. On September 18, 1980 the Attorney General appealed the MPSC's August 19, 1980 order to the Circuit Court. The matter is pending before the Circuit Court.

(h) On January 23, 1978 the MPSC, acting on an application pending since November 27, 1974, authorized Registrant to increase its rates for the sale of natural gas $10,995,000, on an annual basis, in addition to interim gas rate increases in the annual amounts of $29,194,000 and $4,928,000 granted in June 1975 and March 1977, respectively, which had previously been placed in effect under bond and subject to refund. The January 1978 order also established a purchased gas adjustment clause ("PGAC") reconciliation procedure which requires refunds in the event of overrecoveries but does not provide for the collection of underrecoveries. On February 22, 1978 Registrant appealed the MPSC's January 1978 PGAC reconciliation procedure determination to the Circuit Court. The matter is pending before the Circuit Court.

(i) In March 1978 Registrant filed an application with the MPSC requesting an increase in its rates for the sale of gas of not less than $76,200,000 on an annual basis. On July 10, 1978 the MPSC issued an order granting Registrant partial and immediate gas rate relief in the annual amount of $19,885,000 under bond and subject to refund. On August 9, 1978 the Attorney General appealed the MPSC's interim rate order to the Circuit Court. On June 27, 1979 the MPSC issued an order in the proceeding authorizing an increase in Registrant's gas rates of $29,162,000 on an annual basis, inclusive of an interim increase granted in July 1978. The MPSC's June 1979 order affirmed the interim increase and discharged the bond which Registrant had posted in connection therewith. In July 1979 several intervenors in the proceeding, including the Attorney General, appealed the MPSC's June 1979 order to the Circuit Court. The appeals alleged, among other things, that the Marysville Gas Reforming Plant was no longer "used and useful" in providing gas service to Registrant's customers, and that the MPSC's June 1979 order had erred in (a) affirming the July 1978 interim increase, (b) including Registrant's investment in the Marysville Plant in the rate base upon which rates were established and (c) recognizing as proper operating expenses Marysville Plant depreciation, feedstock cost and operating and maintenance ("O&M") expense. Injunctive relief was also sought, including a reduction in Registrant's gas rates by the amount of Marysville Plant O&M expense recognized by the MPSC's June 1979 order.

On September 5, 1979 Registrant announced its intention to "mothball" its Marysville Plant. On September 6, 1979 the MPSC issued an order reopening the gas rate proceeding and directing Registrant to file additional testimony regarding the effect of mothballing the Marysville Plant on the rates established by the June 1979 order. On September 7, 1979 the Circuit Court ordered Registrant to reduce its rates $11,212,000 annually, the Marysville Plant O&M expense reflected in the June 1979 order. (The other issues raised in the appeals of the MPSC's June 1979 order are pending before the Circuit Court.) On September 21, 1979 Registrant filed testimony with the MPSC indicating that the effect of the Marysville Plant mothballing on the rates established by the June 1979 order would be to reduce the annual revenue requirement found by that order by the amount of $23,914,000, inclusive of the $11,212,000 Marysville Plant O&M costs.

On October 2, 1979 the MPSC issued an order reducing Registrant's gas rates by the annual amount of $23,914,000, inclusive of the $11,212,000 Marysville Plant O&M costs, and ordering hearings to proceed to ascertain whether further rate reductions would be appropriate. On November 2, 1979 the

Attorney General petitioned the MPSC for rehearing of the October 2, 1979 order. The Attorney General alleged that (a) the reduction of Registrant's gas rates mandated by the order should be retroactive to June 27, 1979 and the difference in revenue that would result from such retroactive effectiveness should be refunded with interest; (b) Registrant should be required to refund the revenue difference attributable to the difference between the gas rates authorized in the July 10, 1978 interim order and those authorized by the October 2, 1979 order; (c) Registrant should be required to refund with interest all moneys it has collected pursuant to purchased gas adjustments during the years 1978 and 1979 resulting from the inclusion of feedstock costs for the Marysville Plant and the calculation of said purchased gas adjustments; and (d) Registrant should be required to file a bond to guarantee refunds with interest of revenues attributable to any difference between gas rates ultimately ordered in the reopened proceeding and those charged pursuant to the MPSC orders dated July 10, 1978, June 27, 1979 and October 2, 1979.

On August 19, 1980 the MPSC issued an order denying the Attorney General's application for rehearing of the MPSC's October 2, 1979 order reducing rates. On September 18, 1980 the Attorney General appealed both the MPSC's October 2, 1979 order reducing rates and the MPSC's August 19, 1980 order denying application for rehearing to the Circuit Court. The appeal is pending before the Circuit Court.

In the Marysville Plant hearing ordered by the MPSC's action of October 2, 1979, the MPSC Staff has taken the position that Registrant should not be allowed to earn a return on its net investment of approximately $104 million in the Marysville Plant, but should be allowed to amortize or "depreciate" such investment in utility cost of service over a period ending in 1988. Two industrial intervenors have taken the position that the Marysville Plant is no longer "used and useful" in providing utility service and should be eliminated from the rate base and cost of service. The Attorney General has taken the position that Registrant should have ceased operation of the Marysville Plant and removed it from the rate base no later than October 1, 1977. On that theory, a witness for the Attorney General has recommended that Registrant make refunds to its customers, reflecting the reduced cost of service and revenue requirement which would have existed had the Marysville Plant not operated, of up to $239 million. Registrant has taken the position that the Marysville Plant should be treated as plant held for future use, in which event Registrant would be allowed a return on its net investment in the facility. The only lawful alternative to treatment of the Marysville Plant as plant held for future use, in Registrant's view, is to treat Registrant's net investment as an extraordinary property loss. In the event it is so treated, Registrant's position is that Registrant is entitled to amortize the loss in cost of service and to receive a return on the unamortized portion of the loss.

On January 25, 1980 Registrant filed an application with the MPSC requesting an increase in its rates for the sale of gas of not less than $76,871,000 on an annual basis. In the application, Registrant asked the MPSC to either consider its request in a new gas rate proceeding or in the reopened phase of the prior gas rate proceeding. On March 7, 1980 the MPSC issued an order denying Registrant authority to file a new rate proceeding, but permitting Registrant to supplement the record in the prior gas rate proceeding on a

limited basis. In response to the March 7 order, Registrant filed an application with the MPSC on May 5, 1980 requesting an increase in its rates for the sale of gas of not less than $129,171,000 on an annual basis, and seeking a lesser amount on partial and immediate rate relief. On February 10, 1981 the MPSC issued an order granting Registrant a partial and immediate rate increase of $76,736,000, on an annual basis, under bond and subject to refund.

(j) On January 29, 1979 Registrant filed an application with the MPSC seeking increases in its retail electric rates to reflect increased costs of doing business and the anticipated placement in service of J H Campbell Plant Unit 3. On August 8, 1980 the MPSC issued an order increasing Registrant's electric rates $70,278,000 on an annual basis, inclusive of an interim rate increase granted in November 1979, and authorizing a further increase (to be implemented by means of a surcharge of 3.78 mills per kWh on all metered sales) in Registrant's electric rates in the annual amount of $97,452,000, under bond and subject to refund, on the date that Campbell Plant Unit 3 reached commercial operation status. The August 8, 1980 order further provided that further hearings would be held after the date of commercial operation of Campbell Plant Unit 3 to "verify and modify" the new rates. Campbell Plant Unit 3 went into commercial operation on September 26, 1980, at which time Registrant commenced applying the surcharge provided for in the August 8, 1980 order to the bills of Registrant's customers. During September 1980, several commercial and industrial intervenors appealed the MPSC August 8, 1980 order to the Circuit Court, alleging errors in the area of rate design, including error in implementing the rate increase attributable to the commercial operation of Campbell Plant Unit 3 by means of a uniform surcharge to all metered sales. This litigation is pending before the Circuit Court. On September 5, 1980 Registrant filed an application with the MPSC for rehearing of the August 8, 1980 order, alleging that the design of certain industrial rates provided for in the order was such that an underrecovery of revenues in the annual amount of approximately $6.3 million would result. On September 8, 1980 the Attorney General filed an application with the MPSC for rehearing of the August 8, 1980 order, alleging numerous grounds for error, including adoption in the order of improper levels of fuel and purchased power expense. On September 29, 1980 Registrant filed an answer to the Attorney General's application for rehearing in which Registrant indicated that it would not oppose the granting of a rehearing to the Attorney General for the limited purpose of determining appropriate current fuel and purchased power expense. On October 17, 1980, the MPSC granted partial rehearing. Registrant's petition for rehearing to address the alleged error in industrial rate design was granted. The Attorney General's request for rehearing was granted only with respect to his allegation that fuel and purchased power costs were improperly determined. Hearings have been held and by order issued December 30, 1980, the industrial rates were redesigned as requested by Registrant. The MPSC kept the matter of the fuel and purchased power expense under advisement.

The calculations in (a) through (j) pertaining to amounts of rate relief granted or requested are based on the test years governing the respective rate cases, and revenues actually realized depend upon actual unit sales of electricity and gas.

(k) Effective January 1, 1978, in connection with its FCAC and PPAC, Registrant began to record as revenue the differences between actual FCAC and PPAC expenses billable in subsequent periods under such clauses, which include a three-month lag, and the amounts billed currently. The differences (lag correction) were previously not recorded until billed or credited due to uncertainty with respect to the disposition of such amounts in the event Registrant's adjustment clauses were changed pursuant to a general rate order or otherwise. The accounting, which is a modification of the calculation of unbilled revenue, provides a better matching of revenues with related costs and is based upon an MPSC order issued May 1, 1978, in Case No U-5609, which permitted the modification and expressed the MPSC's expectation that a future change in the FCAC and PPAC would provide for the working out of the lag correction. On May 31, 1978, the Attorney General filed an application with the MPSC asking for a rehearing of the May 1, 1978 order.

(l) On April 14, 1978 Registrant filed an application with the MPSC seeking authority to amend the PGAC in Registrant's tariffs to more appropriately reflect Registrant's book cost of gas. On August 21, 1979 the MPSC issued an order revising the PGAC in Registrant's tariffs. On September 20, 1979 the Attorney General and two industrial customers filed petitions for rehearing of the MPSC's August 1979 order, alleging that the amounts spent by Registrant for feedstock for the Marysville Plant were "unnecessary and imprudent" and citing purported MPSC precedent for excluding "excessive" manufactured gas costs from the rates charged customers. On November 27, 1979 the MPSC issued an order denying such petitions and commenting that the issues raised by the petitioners as to Marysville feedstock costs and their inclusion in the PGAC could be raised in Registrant's reopened gas rate proceeding. On December 27, 1979 the Attorney General appealed the denial of his petition and the matter is currently pending before the Circuit Court. (See also paragraph (i) above.)

(m) On December 11, 1979 Registrant filed an application with the MPSC requesting authority to issue and sell $250,000,000 of long-term debt, 1,000,000 shares of preferred stock, 4,000,000 shares of preference stock, and 8,500,000 shares of common stock. The Attorney General and several "public interest" groups have intervened in opposition to the request. In a partial final order issued May 10, 1980, the MPSC authorized the issue and sale of $75,000,000 principal amount of Registrant's First Mortgage Bonds, the proceeds to be used to refund a like amount of Registrant's First Mortgage Bonds maturing on July 1, 1980. In a second partial final order issued August 8, 1980, the MPSC authorized the issue and sale of up to 2,000,000 shares of preference stock and up to 4,000,000 shares of common stock. A motion for a third partial final order is pending. On August 18, 1980 the Attorney General and another intervenor filed motions to dismiss the case.

(n) On December 29, 1980 Registrant filed three applications with the MPSC requesting authority (i) to issue and sell $336,521,000 of long-term or intermediate debt, 8.5 million shares of common stock and 4 million shares of preference stock; (ii) to issue and sell $38,479,000 of First Mortgage Bonds, to enter into installment sales contracts in connection with $59,000,000 and $12,500,000 principal amounts of Pollution Control Revenue Bonds, and to issue and sell unsecured long-term notes, to mature on

December 31, 1988, to refund $175,000,000 of short-term notes maturing on December 31, 1982; and (iii) to increase the credit available under two existing nuclear fuel leasing arrangements from $50,000,000 to $75,000,000 and from $60,000,000 to $100,000,000, respectively, and to enter into a third nuclear fuel leasing arrangement in the amount of $140,000,000. On February 18, 1981 the MPSC issued an order, ex parte, authorizing Registrant to issue and sell $38,479,000 principal amount of First Mortgage Bonds, solely for the purpose of refunding a like amount of First Mortgage Bonds maturing on April 1, 1981, and authorizing Registrant to enter into installment sales contracts in connection with the issue and sale of $59,000,000 and $12,500,000 principal amounts of Pollution Control Revenue Bonds. On March 11, 1981, the Attorney General appealed the MPSC's February 18, 1981 order to the Court of Appeals.

(o) The MPSC approved sales of gas to Registrant by Michigan Consolidated Gas Company, a gas distribution company operating in Michigan, as follows: August 26, 1974 - 12.2 billion cubic feet ("Bcf") at a price of $.87 per Mcf; April 24, 1975 - 2.6 Bcf at a price of $.87 per Mcf plus purchased gas adjustment; and January 3, 1977 - 10.0 Bcf at a price of $1.17 per Mcf plus purchased gas adjustment. On September 25, 1974, May 23, 1975, and February 2, 1977, respectively, the Attorney General appealed the MPSC orders to the Circuit Court, requesting that Registrant be restrained from charging its customers approximately $4,000,000, $1,000,000 and $3,700,000 with regard to the respective sales. No action has been taken by the Circuit Court relative to any of these appeals and the suits are pending.

(p) The Conservation Manager of the Geological Survey has ordered a Unitization Agreement pertaining to certain natural gas production in Vermillion Blocks 320 and 321, in offshore Louisiana. Under the proposed Unitization Agreement, a group in which Registrant's subsidiary, Northern, is participating would be entitled to only 31.86% of production, retroactive to November 14, 1975. Because the group has produced and is producing more than 31.86% of the gas produced, the effect of the order would be to create a contingent liability on Northern's part of approximately $2,820,000 as of December 31, 1980. Such liability will increase by approximately $40,000 per month until it is finally determined whether the percentage of production assigned to the group is as large as it should be and whether the Geological Survey has the power to impose this unitization. The group appealed to the Director of the Geological Survey, who affirmed the order of the Conservation Manager. The group requested that the Director modify his decision and filed an appeal with the Board of Land Appeals, US Department of the Interior. The Board of Land Appeals remanded the matter to the Director for reconsideration and issued an order staying implementation of the unitization plan pending such reconsideration.

(q) In March 1976 the FPC issued an order in a Trunkline proceeding approving a permanent curtailment plan (reflecting a settlement agreement among Trunkline's customers) which assigned equal weight to end-use and to contract demand factors. In July 1977 the FPC issued an order in a Panhandle proceeding making permanent a curtailment plan based on five end-use categories. Storage Company has not submitted any proposed curtailment plan to the FPC or the FERC.

(r) Approximately 82% of the gas purchased in 1980 for sale to Registrant's customers was purchased by Registrant from interstate pipeline suppliers regulated by the FERC, namely Trunkline and Storage Company. In turn, Storage Company has a FERC approved cost-of-service tariff pursuant to which it sells gas purchased from its sole supplier, Panhandle, to its sole customer, Registrant. During 1980, substantial increases in the cost of gas purchased from both Trunkline and (through Storage Company) Panhandle occurred. Pursuant to purchase gas adjustment clauses in Registrant's retail gas tariffs, Registrant expects to recover substantially all of such increases in cost of gas from its retail gas customers.

(s) Reference is made to Item 1. Business. Midland Plant. which is incorporated herein by reference.

(t) Registrant's license from the NRC to operate the Palisades Nuclear Plant is provisional in nature and will continue in effect until the NRC acts on Registrant's pending application for a full-term, 40-year operating license.

On January 3, 1979 Registrant requested NRC review and approval of a proposal to replace the steam generators at the Palisades Plant, a request entailing issuance of an amendment to the plant's operating license. In an order issued July 23, 1979, an NRC ASLB granted the Great Lakes Energy Alliance's request for intervention and issued a notice that a hearing will be conducted in this proceeding. See Item 1. Business. Regulation. Nuclear Regulatory Commission.

In November 1979 evidence of minute cracks was detected in three discs of a turbine rotor supplied by Westinghouse Electric Corporation ("Westinghouse") at Registrant's Palisades Plant. Similar deterioration has been detected in turbines manufactured by Westinghouse for use at other nuclear generating facilities. An increased frequency of turbine inspection will be used to detect any change in crack size. In addition, Registrant has determined that the discs evidencing deterioration may have to be replaced at some time in the future. It is estimated that the cost of a replacement rotor will be $6,500,000. Registrant is unable at this time to determine the total cost of necessary turbine repair. Registrant has determined that this loss will not be compensated by insurance.

(u) In December 1972 the AEC amended the Big Rock Point Nuclear Plant operating license to authorize the use of a full core loading of mixed-oxide nuclear fuel containing plutonium as well as uranium. The transition to the use of such fuel was planned to extend over a period of several years, with a few fuel assemblies having been installed in 1973 and with greater use of such fuel to occur in 1974 and later years. In March 1973 an organization began suit in the US District Court for the Western District of Michigan ("Western District Court") to prevent the use of such mixed-oxide fuel at the Big Rock Point Plant. In June 1974 the Western District Court ordered the lawsuit held in abeyance pending completion of the AEC proceeding on the amendment. In March 1975 the NRC ordered the administrative hearing held in abeyance until its further order. The NRC initiated a generic rulemaking hearing on the environmental effects of the use of mixed-oxide fuel ("GESMO") which was terminated in December 1977 as a result of the adoption by the

federal government of a policy disfavoring nuclear fuel reprocessing and the commercial use of plutonium in significant quantities. The termination of the rulemaking proceeding was appealed to the US Court of Appeals for the Third Circuit. In an opinion filed April 19, 1979 the US Court of Appeals for the Third Circuit upheld the termination of the GESMO rulemaking. Registrant, with other utilities, is a party to litigation pending in the US Court of Appeals for the Second Circuit concerning the licensing of uses of mixed-oxide fuel, and such litigation may be mooted. Registrant's ability to utilize small quantities of plutonium in mixed-oxide fuel as authorized prior to December 1972 has not been precluded by the new United States policy, the NRC proceedings, or related court proceedings. However, the inability to use mixed-oxide fuel in Registrant's nuclear generating plants in full core-load quantities has substantially increased Registrant's expense for nuclear fuel.

(v) By submittals of April 23, 1979 and June 26, 1979, Registrant requested NRC approval of a proposed amendment to the Big Rock Point Nuclear Plant operating license to allow the addition of storage racks to the Plant's spent fuel pool to increase the storage capacity from 193 to 441 fuel assemblies, in order to permit continued operation past November 1982 in the event off-site spent fuel storage or disposal is not made available. By order dated January 18, 1980 an NRC ASLB granted certain petitions for leave to intervene in the proceeding in opposition to the amendment, and public hearings will be held. The question of whether an environmental impact statement must be prepared in connection with the request, as ordered by the ASLB, has been certified to the Atomic Safety and Licensing Appeal Board for decision.

(w) On November 4, 1979 and January 6, 1980, during two separate outages of Registrant's Big Rock Point Plant, two individuals requested that the NRC order Registrant to delay a restart of the Big Rock Point Plant until certain alleged safety questions were resolved. Since it did not receive the first petition before the plant was returned to service, the NRC gave notice on December 4, 1979 that it is treating the petition as a request for an order to show cause why the operating license for the plant should not be suspended pending resolution of the issues raised. The petition is being treated as a request for action under Title 10 of the Code of Federal Regulations, Section 2.206, upon which action will be taken "within a reasonable time." On March 5, 1980 the NRC Staff notified the petitioners that their January 6 petition would be consolidated with their November 4 petition for consideration. The NRC Staff also concluded that there was sufficient assurance of safety to permit the plant to continue operating pending final disposition of the issues raised. On April 1, 1980 the Concerned Citizens for the Charlevoix Area requested that the Big Rock Point Plant be shut down immediately because, they contended, the plant does not meet minimal NRC requirements relating to containment integrity. On June 26, 1980 the NRC issued a notice that the request was also being treated under 10 CFR 2.206. On December 18, 1980, the NRC's Director of Nuclear Reactor Regulation denied all of the aforementioned petitions. Pursuant to 10 CFR 2.772, the NRC extended until February 27, 1981 the time in which it must decide whether to review the Director's decision regarding the November 4, 1979 and January 6, 1980 petitions. By order effective January 26, 1981, the NRC declined to review the Director's decision regarding the April 1, 1980 petition.

(x) On October 18, 1979 the NRC issued a notice announcing that it is conducting a generic proceeding to reassess its degree of confidence that radioactive wastes produced by nuclear facilities will be safely disposed of, to determine when any such disposal will be available, and whether such wastes can be safely stored until they are safely disposed of. In its notice, the NRC stated that during the generic proceeding the safety implications and environmental impacts of radioactive waste storage on site for the duration of a license will continue to be subjects for adjudication in individual facility licensing proceedings. The NRC decided that during the generic proceeding, the issues being considered in the generic proceeding should not be addressed in individual licensing proceedings. Registrant is a participant in the generic proceeding.

(y) On December 21, 1979, at the request of Registrant, the Office of General Counsel of the DOE issued an interpretation that a portion of the feedstock utilized in Registrant's Marysville Plant should properly have been included in the Entitlements Program. On May 27, 1980 the Office of General Counsel of the DOE denied a petition for reconsideration submitted on behalf of Ashland Oil, Inc, Clark Oil and Refining Corp, and Energy Cooperative, Inc, and a petition for reconsideration submitted on behalf of Amoco Oil Company. In August 1980, Registrant was able to complete its filings with the DOE. On the basis of those filings Registrant has received approximately $12,000,000 through operation of the Entitlements Program. It is anticipated that the money received by Registrant, as a result of retroactive inclusion in the Entitlements Program to June 1976 and attributable to feedstock which was processed into synthetic natural gas, will flow through to its natural gas customers through operation of its purchased gas adjustment clause.

(z) In January 1972 the US Equal Employment Opportunity Commission ("EEOC") charged Registrant and the Union with violation of Title VII of the 1964 Civil Rights Act alleging discrimination against Negroes and females in matters of hiring, promotion, training, compensation, membership, referral representation and other terms and conditions of employment. An investigation was conducted and an ex parte decision was rendered by the EEOC finding reasonable cause to believe that Registrant discriminated against females and that the Union failed to equally represent females. EEOC proposed a conciliation agreement be negotiated with Registrant as a means of correcting the alleged discrimination. In late 1976 an agreement was reached between Registrant and the EEOC subject to the concurrence of the Union, but the Union did not concur. It is Registrant's understanding that during the summer of 1977 the EEOC terminated its efforts to reach a conciliation agreement.

(aa) In 1978, the MAPCC approved five-year extensions, until January 1, 1985, of the date by which Registrant's J H Campbell Plant Units 1 and 2 and B C Cobb Plant must comply with an MAPCC regulation which requires power plants to use fuel with a sulfur content of 1% or less. In August 1979, a consultant retained by Registrant revealed that an error had been made in the entering of information into the consultant's computer and that the error had resulted in incorrect information being furnished to the MAPCC regarding the two extension requests. The effect of the error on the two extensions was then evaluated by Registrant and the MAPCC. No changes were made in the extension agreement for the Cobb Plant, and on December 10, 1979 the agreement was submitted to the EPA for approval as a revision to the State Plan for air

quality. The agreement for the Campbell Plant, which had been previously submitted to the EPA for approval, was also allowed to stand, and the EPA proposed in the November 19, 1979 Federal Register to approve the agreement. On December 18, 1979, the MAPCC approved a modification to the Campbell agreement in which Registrant agreed to reduce the 24-hour daily average of sulfur content of coal burned at the plant from 3.8% to 3.6%. In response to this action, the EPA on April 22, 1980 reopened the public comment period on the Campbell agreement for 30 days. In the December 24, 1980 Federal Register, the EPA announced its approval, effective January 23, 1981, of the Campbell extension agreement. The State of New York filed a petition dated January 16, 1981 with the EPA requesting that the EPA reconsider its final action regarding the Campbell extension agreement. On February 20, 1981 the State of New York petitioned the D C Court of Appeals for review of the EPA action which approved the revised State Plan for the Campbell Plant. The EPA has given Registrant written assurances that it expects to approve the Cobb extension agreement. The EPA has stated that, while it is reviewing the agreement as a revision to the State Plan, it does not intend to enforce the unrevised State Plan so long as Registrant operates in accordance with the terms of the extension. If EPA approval of the agreement for the Cobb Plant is not obtained and no other appropriate actions are taken by the EPA or Registrant, Registrant could become subject to penalties under the Federal Clean Air Act. By petition dated January 16, 1981 the State of New York requested that the EPA disapprove the Cobb extension agreement.

(bb) By letter dated December 26, 1980, the State of New York notified Registrant of its intent to sue Registrant after 60 days for its alleged failure to comply with regulations of the DNR established pursuant to the requirements of the Federal Clean Air Act, with respect to SO_2 emission limits at Registrant's B C Cobb Plant. Registrant is unable at this time to estimate the possible loss, if any, which Registrant may incur by the reason of or the ultimate outcome of this matter.

(cc) In April 1980 the Staff of the MWRC recommended to the MWRC that it determine that the cooling water intake of Registrant's J R Whiting Plant has not been demonstrated to reflect the best technology available for minimizing adverse environmental impact in accordance with Section 316(b), PL 92-500, 33 USCA 1251 et seq, as amended. The MWRC directed that the matter be referred to a hearing officer of the DNR.

The hearing officer scheduled a hearing which began in October 1980 on the issue of whether the cooling water intake at Registrant's J R Whiting Plant reflects the best technology available for minimizing adverse environmental impact. The outcome of this proceeding is in doubt. If the outcome is adverse to Registrant, Registrant could be required to invest additional amounts, which could be substantial, to achieve compliance.

(dd) On March 3, 1978 Registrant filed a suit in Jackson County Circuit Court against certain insurers alleging it is entitled to insurance coverage in the amount of $1,500,000 for losses incurred in January 1977 as the result of damage to the boiler's economizer at Registrant's D E Karn Plant Unit 4 which was under construction at that time. The defendant insurers removed the suit to the US District Court for the Eastern District of Michigan ("Eastern District Court"), but the Eastern District Court remanded the case

back to the Jackson County Circuit Court. Defendant insurers petitioned the Eastern District Court to reconsider its remand, but their petition for reconsideration was denied. The suit is in the discovery stage.

(ee) In June 1975 the FPC, predecessor of FERC, issued an order permitting "comprehensive interperiod tax allocation" in wholesale gas and electric rate proceedings involving interstate suppliers of gas and electric energy. The order allowed electric utilities, such as Registrant, to "normalize" income tax benefits in rate cases establishing wholesale rate levels. Under normalization, a utility may receive the benefits of these tax deferrals but charge rates as though the postponed taxes had been paid. In response to an application for rehearing filed by several municipally-owned utilities ("Petitioners"), the FPC issued a new order in the proceeding in January 1976. This order attempted to define the appropriate factual showings needed by interstate suppliers of gas and electricity to qualify for comprehensive interperiod tax allocation. In response to a further application for rehearing filed by Petitioners, the FPC issued a new order in July 1976 adopting a general policy of permitting normalization. This order was appealed to the D C Court of Appeals. On October 26, 1976 Registrant filed a petition for leave to intervene in this proceeding before the D C Court of Appeals and on June 24, 1977 filed its brief with that Court. On February 16, 1979 the D C Court of Appeals remanded the proceeding to the FERC, finding that the FPC's order failed to "(1) assess the consequences of its action for the industry and (2) indicate 'fully and carefully' the purposes behind the order." On April 3, 1980, FERC published its notice of proposed rulemaking in which it reiterated its support for normalization tax accounting and proposed to permit utilities to elect normalizing accounting for all tax timing differences not covered by earlier orders. In the notice of proposed rulemaking, FERC also attempted to remedy the deficiencies the D C Court of Appeals had found in the July 1976 order.

ITEM 4(a). SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Registrant has filed definitive copies of its Proxy Statement with the Commission, pursuant to Regulation 14A, which Statement has been incorporated by reference.

ITEM 4(b). EXECUTIVE OFFICERS OF REGISTRANT.

Name	Age	Position	Effective Date of Election to Present Position
J D Selby	59	Chairman of the Board, President and Chief Executive Officer and Director	October 3, 1979
J B Falahee	56	Vice Chairman of the Board and Director	October 3, 1979
R C Youngdahl	56	Executive Vice President and Director	December 4, 1974
W R Boris	59	Executive Vice President and Director	March 5, 1975
S H Howell	48	Executive Vice President	October 1, 1980
J W Reynolds	57	Executive Vice President	March 4, 1981
L L Shepard	53	Vice President	December 10, 1974
R C Lincoln	46	Vice President	December 10, 1974
C R Bilby	59	Vice President	January 1, 1976
R J Fitzpatrick	60	Vice President	January 1, 1976
L B Lindemer	59	Vice President and General Counsel	January 17, 1977
J W Cook	40	Vice President	March 1, 1977
M D Gwinn	58	Vice President	March 1, 1978
R J Odlevak	47	Vice President	March 1, 1978
S N Spring	53	Vice President and Controller	August 2, 1978
R B DeWitt	56	Vice President	July 11, 1979
G L Heins	51	Vice President	July 11, 1979
P A Perry	51	Secretary and Assistant Treasurer	May 1, 1968
R M Griswold	49	Treasurer and Assistant Secretary	November 1, 1972

The present term of office of each of the above executive officers extends to the first meeting of Registrant's Board of Directors after the next annual election of directors (scheduled to be held April 14, 1981).

Each of the above executive officers, except Messrs Lindemer and Cook, have been employed by Registrant for more than five years. Prior to joining Registrant in January 1977, Mr Lindemer was a Justice of the Michigan Supreme Court until December 31, 1976 and, prior thereto, a partner in the law firm of Foster, Lindemer, Swift and Collins; prior to joining Registrant in March 1977, Mr Cook was a Nuclear Project Engineer with the firm of Stone & Webster Engineering Corp.

Prior to election to the positions shown above, the following executive officers held other positions with the Registrant since January 1, 1976: Mr Falahee was Vice President and General Counsel, Senior Vice President; Mr Howell was Vice President, Senior Vice President, Mr Reynolds was Senior Vice President; Mr Gwinn was Executive Manager of Gas Distribution, Executive Manager of Energy Distribution; Mr Odlevak was Executive Manager of Gas Production and Transmission, Executive Manager of Energy Production and Transmission, Executive Manager of Fuel Supply; Mr Spring was Controller; Mr DeWitt was Manager of Nuclear Production; and Mr Heins was Executive Manager of the Electric Planning Department, Executive Manager of System Planning.

There are no family relationships among executive officers of the Registrant.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS.

Market price of the Registrant's common stock and related security holder matters are incorporated by reference to Page 23 of Registrant's Annual Report to shareholders, which page is incorporated herein.

ITEM 6. SELECTED FINANCIAL DATA.

Selected financial data are incorporated by reference to Page 23 of Registrant's Annual Report to shareholders, which page is incorporated herein.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Management's discussion and analysis of financial condition and results of operations are incorporated by reference to Pages 21 and 22 of Registrant's Annual Report to shareholders, which pages are incorporated herein.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Consolidated financial statements, together with the report thereon of Arthur Andersen & Co. dated February 6, 1981, and supplementary data are incorporated by reference to Pages 8 to 20 of Registrant's Annual Report to shareholders, which pages are incorporated herein (except Statement of Management on Page 20).

PART III

Registrant has filed definitive copies of its Proxy Statement with the Commission, pursuant to Regulation 14A, which Statement has been incorporated by reference.

PART IV

ITEM 11. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) Consolidated Financial Statements.

The following consolidated statements are as of December 31, 1980 and 1979 or for each of the three years in the period ended December 31, 1980:

	Page
Consolidated statement of income	*
Consolidated statement of source of funds for gross property additions	*
Consolidated balance sheet	*
Consolidated statement of capitalization	*
Consolidated statement of capital in excess of par value of common stock	*
Consolidated statement of retained earnings	*
Notes to the consolidated financial statements	*
Report of Independent Public Accountants	*

*Refer to Pages 8 to 20 of the 1980 Annual Report to shareholders filed herewith.

The following schedules are for each of the three years in the period ended December 31, 1980:*

	Page
V - Property, plant and equipment	48 thru 50
VI - Accumulated depreciation, depletion and amortization	51 thru 53
VIII - Valuation and qualifying accounts	54
IX - Short-term borrowings	55 thru 57
X - Supplementary income statement information	58

*The following schedules are omitted as not applicable or not required: I, II, III, IV, VII, XI, XII and XIII.

(b) Reports on Form 8-K.

None

(c) Exhibits, Including Those Incorporated by Reference.

Exhibit Number

A	- Annual Report on Form 11-K covering Employees' Savings Plan of Registrant for the year ended December 31, 1980.
(3)(a)	- Restated Articles of Incorporation of the Registrant.
(3)(b)	- Certificates Giving Acquired Issued Shares Status of Authorized and Unissued Shares, filed August 28, 1969, April 22, 1970, August 23, 1971 and September 13, 1972. (Designated in Registration No. 2-37326 as Exhibit 2(c); in Registration No. 2-44136 as Exhibit 2(d); and in Registration No. 2-45643 as Exhibit 2(c)-1.)
(3)(c)	- Copy of By-Laws of the Registrant. (Designated in Registration No. 2-60884 as Exhibit (b)(6).)
(4)(a)	- Composite Working Copy of Indenture dated as of September 1, 1945, between the Registrant and Citibank, N.A., as Trustee, including therein indentures supplemental thereto through the Forty-third Supplemental Indenture dated as of May 1, 1979, and indentures supplemental thereto dated as of November 15, 1979 and January 15, 1980. (Designated in Registration No. 2-65973 as Exhibits (b)(1)-4 and (b)(1)-7; in Registration No. 2-68900 as Exhibit (b)(1)-5; and in Registration No. 2-69704 as Exhibit (4)(b).)
(4)(b)	- Forty-seventh Supplemental Indenture dated as of June 15, 1980.
(10)(a)	- Material Contracts not previously filed.
(10)(b)	- Amendments to Material Contracts previously filed.

Exhibit Number

(11) - Not applicable.

(12) - Not applicable.

(13) - Annual Report to Security Holders.

(19) - Not applicable.

(20) - Not applicable.

(22) - Subsidiaries of the Registrant.

Report of Independent Public Accountants

To Consumers Power Company:

In connection with our examination of the consolidated financial statements included in Consumers Power Company's Annual Report to shareholders and filed with this Form 10-K, we have also examined the supporting schedules listed above. In our opinion, these schedules present fairly, when read in conjunction with the related consolidated statements, the financial data required to be set forth therein, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Detroit, Michigan,
February 6, 1981.

EXPERTS

Statements contained in Part I under "Item 3. Legal Proceedings." as to matters of law and legal conclusions, have been reviewed by Lawrence B Lindemer, Esq, General Counsel for Registrant, and such statements are made on his authority as an expert.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 27th day of March 1981.

Consumers Power Company
Registrant

By J D Selby
J D Selby
Chairman of the Board
and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
(i) Principal executive officer:		
J D Selby (J D Selby)	Chairman of the Board and President and Director	March 27, 1981
(ii) Principal financial officer:		
W R Boris (W R Boris)	Executive Vice President and Director	March 27, 1981
(iii) Controller or principal accounting officer:		
S N Spring (S N Spring)	Vice President and Controller	March 27, 1981

Signature	Title	Date
(iv) A majority of the Directors including those named above:		
A H Aymond (A H Aymond)	Director	March 27, 1981
E Newton Cutler, Jr* (E Newton Cutler, Jr)	Director	March 27, 1981
Robert E Dewar* (Robert E Dewar)	Director	March 27, 1981
J B Falahee (J B Falahee)	Director	March 27, 1981
R M Gillett (R M Gillett)	Director	March 27, 1981
Martha W Griffiths (Martha W Griffiths)	Director	March 27, 1981
John W Hannon, Jr* (John W Hannon, Jr)	Director	March 27, 1981
W N Hubbard, Jr (W N Hubbard, Jr)	Director	March 27, 1981
Don T McKone* (Don T McKone)	Director	March 27, 1981
P S Mirabito* (P S Mirabito)	Director	March 27, 1981
John C Suerth* (John C Suerth)	Director	March 27, 1981

Signature	Title	Date
R B White (R B White)	Director	March 27, 1981
R C Youngdahl (R C Youngdahl)	Director	March 27, 1981

*By W R Boris
(W R Boris, Attorney-in-fact)

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report dated February 6, 1981, appearing in Consumers Power Company's Annual Report on Form 10-K for the year ended December 31, 1980, into the Company's previously filed Registration Statements No. 2-66930 and No. 2-67409.

ARTHUR ANDERSEN & CO.

Detroit, Michigan,
March 27, 1981.

CONSENT

I hereby consent to the reference made to me under "Experts" in the Form 10-K of Consumers Power Company for the year ended December 31, 1980 to be filed with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934 and to the incorporation by reference of this consent into Consumers Power Company's Registration Statement (Registration No 2-66930) previously filed with the Securities and Exchange Commission under the Securities Act of 1933 in accordance with its Dividend Reinvestment and Common Stock Purchase Plan and into Consumers Power Company's Registration Statement (Registration No 2-67409) previously filed with the Securities and Exchange Commission under the Securities Act of 1933 in accordance with its Employees' Savings Plan.

LAWRENCE B LINDEMER

March 27, 1981

CONSUMERS POWER COMPANY AND SUBSIDIARIES
Schedule V - Property, Plant and Equipment
Year Ended December 31, 1980
(Thousands of Dollars)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements	Other Changes - Add (Deduct) - Describe (Note)	Balance at End of Period
ELECTRIC UTILITY					
Consumers Power Company:					
Intangible	$ 1,542	$ 30	$ 4	$ 36 (a)	$ 1,604
Steam production	749,727	583,217 (b)	2,020	(209)(a)	1,330,715
Nuclear production	221,664	22,062	1,346	(3,613)(c)	238,767
Nuclear fuel	53,086	1,382	-	(1,048)(a)	53,420
Hydro production	160,925	508	5	(131)(a)	161,297
Other production	36,299	15	4	-	36,310
Transmission	546,377	54,779	2,471	57 (a)	598,742
Distribution	883,564	60,848	8,705	49 (a)	935,756
General	40,871	2,490	2,832	(40)(a)	40,489
Plant held for future use	23,462	2,518	19	(123)(a)	25,838
Total electric utility	$2,717,517	$ 727,849	$17,406	$ (5,022)	$3,422,938
GAS UTILITY					
Consumers Power Company:					
Intangible	$ 117	$ 3	$ 1	$ 57 (a)	$ 176
Natural gas production	18,038	92	287	2,884 (d)	20,727
Underground storage	127,005	527	622	(1)(a)	126,909
Transmission	166,261	2,089	296	(363)(a)	167,691
Distribution	638,128	58,344	3,734	(321)(a)	692,417
General	21,135	308	2,126	(26)(a)	19,291
Plant held for future use	162,118	496	159	(2,880)(d)	159,575
	$1,132,802	$ 61,859	$ 7,225	$ (650)	$1,186,7[illegible]
Michigan Gas Storage Company	$ 56,289	$ 894	$ 335	$ -	$ 56,[illegible]48
Total gas utility	$1,189,091	$ 62,753	$ 7,560	$ (650)	$1,24[illegible],634
OTHER					
Consumers Power Company	$ 58,819	$ 2,473	$ 1,892	$ [illegible]52 (a)	$ 59,952
Northern Michigan Exploration Company	134,769	17,521	1,454	6,198 (a)	157,034
Plateau Resources Limited	34,678	4,872	5,896	10,035 (e)	43,689
Total other	$ 228,266	$ 24,866	$ 9,242	$ 16,785	$ 260,675
Total plant	$4,134,874	$ 815,468	$34,208	$ 11,113	$4,927,247
CONSTRUCTION WORK IN PROGRESS					
Consumers Power Company	$1,942,330	$(110,463)		$ 11 (a) (81,249)(f) (40,859)(g)	$1,709,770
Michigan Gas Storage Company	213	147		-	360
Northern Michigan Exploration Company	6,297	3,284		-	9,581
Plateau Resources Limited	10,480	31,096		(298)(a)	41,278
	$1,959,320	$ (75,936)		$(122,395)	$1,760,989
Total plant including work in progress	$6,094,194	$ 739,532	$34,208	$(111,282)	$6,688,236

(a)Reclassification of accounts and functions.
(b)Campbell Unit 3 generating plant placed into service in September.
(c)Adjustment related to settlements of lawsuits.
(d)Write-off of abandoned leases.
(e)Property acquisitions.
(f)Sales of nuclear fuel.
(g)Sale of portion of Campbell Unit 3 generating plant.

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CONSUMERS POWER COMPANY AND SUBSIDIARIES
Schedule V - Property, Plant and Equipment
Year Ended December 31, 1979
(Thousands of Dollars)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements	Other Changes - Add (Deduct) - Describe (Note)	Balance at End of Period
ELECTRIC UTILITY					
Consumers Power Company:					
Intangible	$ 1,741	$ (199)		$ (5)(a) 5 (b)	$ 1,542
Steam production	736,816	13,153	$ 294	52 (b)	749,727
Nuclear production	224,053	7,777	31	(10,135)(c)	221,664
Nuclear fuel	21,554	1,103	-	30,429 (d)	53,086
Hydro production	160,630	311	10	(6)(b)	160,925
Other production	36,248	52	1	-	36,299
Transmission	507,598	39,[illegible]00	890	(231)(b)	546,377
Distribution	829,306	61,454	7,191	(5)(b)	883,564
General	41,225	1,858	2,341	129 (b)	40,871
Plant held for future use	22,906	641	(20)	(105)(b)	[illegible]3,462
Total electric utility	$2,582,077	$126,050	$10,738	$ 20,128	$2,717,517
GAS UTILITY					
Consumers Power Company:					
Intangible	$ 118	$ 6		$ (7)(a)	$ 117
Natural gas production	18,239	100	$ (6)	(307)(b)	18,038
Synthetic natural gas production	153,746	13	-	(153,759)(e)	-
Underground storage	123,144	3,499	49	411 (b)	127,005
Transmission	154,529	12,178	44	(402)(b)	166,261
Distribution	5[illegible],605	48,253	3,758	28 (b)	638,128
General	[illegible]2,446	311	1,357	(265)(b)	21,135
Plant held for future use	7,371	1,256	122	153,759 (e) (146)(b)	162,118
	$1,073,198	$ 65,616	$ 5,324	$ (688)	$1,132,802
Michigan Gas Storage Company	$ 56,048	$ 325	$ 84	$ -	$ 56,289
Total gas utility	$1,129,246	$ 65,941	$ 5,408	$ (688)	$1,189,091
OTHER					
Consumers Power Company	$ 56,776	$ 2,496	$ 1,174	$ 721 (b)	$ 58,819
Northern Michigan Exploration Company	115,403	15,160	-	4,206 (b)	134,769
Plateau Resources Limited	22,737	1,872	2,911	12,980 (f)	34,678
Total other	$ 194,916	$ 19,528	$ 4,085	$ 17,907	$ 228,266
Total plant	$3,906,2[illegible]9	$211,519	$20,231	$ 37,347	$4,134,874
CONSTRUCTION WORK IN PROGRESS					
Consumers Power Company	$1,329,392	$629,805		$ 114 (e) (16,981)(g)	$1,942,330
Michigan Gas Storage Company	169	44		-	213
Northern Michigan Exploration Company	3,541	2,756		-	6,297
Plateau Resources Limited	3,834	6,646		-	10,480
	$1,336,936	$639,251		$ (16,867)	$1,959,320
Total plant including work in progress	$5,243,175	$850,770	$20,231	$ 20,480	$6,094,194

(a) Write-off of franchises and consents.
(b) Reclassification of accounts and functions.
(c) Adjustment related to settlements of lawsuits.
(d) Nuclear fuel repurchased from lessor and related costs.
(e) Transfer to plant held for future use.
(f) Property acquisitions.
(g) Sales of nuclear fuel.

CONSUMERS POWER COMPANY AND SUBSIDIARIES
Schedule V - Property, Plant and Equipment
Year Ended December 31, 1978
(Thousands of Dollars)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements	Other Changes - Add (Deduct) - Describe (Note)	Balance at End of Period
ELECTRIC UTILITY					
Consumers Power Company:					
Intangible	$ 1,748	$ 2		$ (9)(a)	$ 1,741
Steam production	6?6,570	53,102	$ 849	(2,007)(b)	736,816
Nuclear production	206,039	21,056	47	(3,035)(c) 40 (b)	224,053
Nuclear fuel	21,521	12,553	-	(1,713)(d) (10,807)(e)	21,554
Hydro production	160,182	670	222	-	160,630
Other production	35,918	335	5	-	36,248
Transmission	490,329	18,371	1,170	68 (b)	507,598
Distribution	781,856	54,632	7,078	(9)(b) (95)(f)	829,306
General	42,286	892	2,060	107 (b)	41,225
Plant held for future use	21,389	1,871	14	(340)(b)	22,906
Total electric utility	$2,447,838	$163,484	$11,445	$ (17,800)	$2,582,077
GAS UTILITY					
Consumers Power Company:					
Intangible	$ 125			$ (7)(a)	$ 118
Natural gas production	16,634	$ 1,638	$ 192	159 (b)	18,239
Synthetic natural gas production	157,649	934	98	(4,739)(g)	153,746
Underground storage	123,342	133	348	17 (b)	123,144
Transmission	147,122	5,937	70	1,540 (b)	154,529
Distribution	562,081	35,705	2,531	(1,650)(b)	593,605
General	23,516	159	1,252	23 (b)	22,446
Plant held for future use	6,584	912	64	(61)(b)	7,371
	$1,037,053	$ 45,418	$ 4,555	$ (4,718)	$1,073,198
Michigan Gas Storage Company	$ 57,250	$ 108	$ 1,310	$ -	$ 56,048
Total gas utility	$1,094,303	$ 45,526	$ 5,865	$ (4,718)	$1,129,246
OTHER					
Consumers Power Company	$ 55,039	$ 2,105	$ 1,069	$ 701 (b)	$ 56,776
Northern Michigan Exploration Company	90,297	19,215	-	6,898 (b) (1,007)(h)	115,403
Plateau Resources Limited	16,150	1,676	1,047	5,958 (i)	22,737
Total other	$ 161,486	$ 22,996	$ 2,116	$ 12,550	$ 194,916
Total plant	$3,703,627	$232,006	$19,426	$ (9,968)	$3,906,239
CONSTRUCTION WORK IN PROGRESS					
Consumers Power Company	$ 930,778	$454,050		$ (55,436)(e)	$1,329,392
Michigan Gas Storage Company	120	49		-	169
Northern Michigan Exploration Company	11,075	(7,534)		-	3,541
Plateau Resources Limited	-	3,945		(111)(b)	3,834
	$ 941,973	$450,510		$ (55,547)	$1,336,936
Total plant including work in progress	$4,645,600	$682,516	$19,426	$ (65,515)	$5,243,175

(a)Write-off of franchises and consents.
(b)Reclassification of accounts and functions.
(c)Adjustment related to settlements of lawsuits.
(d)Record deferred tax accounting per Michigan Public Service Commission (MPSC) order.
(e)Sales of nuclear fuel and related costs.
(f)Write-off of acquisition adjustment on purchase of Allegan City Light Department.
(g)Write-off of plant investment disallowed by MPSC.
(h)Sale of minerals.
(i)Property acquisitions.

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CONSUMERS POWER COMPANY AND SUBSIDIARIES
Schedule VI - Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment
Year Ended December 31, 1980
(Thousands of Dollars)

Column A	Column B	Column C		Column D			Column E	Column F
		Additions Charged to		(Additions) Deductions				
Description	Balance at Beginning of Period	Consolidated Statement of Income	Clearing Accounts	Retirements	Removal Costs	Salvage	Other Changes - Add (Deduct) - Describe (Note)	Balance at End of Period
ELECTRIC UTILITY								
Consumers Power Company:								
Intangible	$ 169	$ 43		$ 5			$ 93 (a)	$ 300
Steam production	261,633	29,407		2,071	$ 133	$ (78)	(133)(a)	288,781
Nuclear production	49,059	7,082		1,346	12	(3)	31 (a)	54,817
Nuclear fuel	46,934	-	$2,282	-	-	-	(24)(a)	49,192
Hydro production	31,146	3,278	-	4	-	(2)	(1)(a)	34,421
Other production	13,995	1,472	-	182	-	-	-	15,285
Transmission	110,228	9,761	-	2,253	535	(1,155)	(23)(a)	118,333
Distribution	268,438	30,332	-	8,688	3,234	(4,129)	1 (a)	290,978
General	17,698	959	40	2,832	-	(396)	(415)(a)	15,846
Plant held for future use	1	-	-	-	-	-	1 (a)	2
Total electric utility	$ 799,301	$ 82,334	$2,322	$17,381	$3,914	$(5,763)	$ (470)	$ 867,955
GAS UTILITY								
Consumers Power Company:								
Natural gas production	$ 11,221	$ 1,111		$ 312	$ 11	$ (61)	$ (106)(a)	$ 11,964
Underground storage	30,980	1,647		622	-	(101)	111 (a)	32,217
Transmission	46,491	5,943		283	12	(290)	409 (a)	52,838
Distribution	215,336	25,734		3,715	2,051	(723)	(425)(a)	235,602
General	10,699	471	$ 93	2,13[illegible]	-	([illegible])	(116)(a)	9,312
Plant held for future use	49,859	-	159	15[illegible]	-	-	1 (a)	49,860
	$ 364,586	$ 34,906	$ 252	$ 7,[illegible]	$2,074	$(1,476)	$ (126)	$ [illegible]1,793
Michigan Gas Storage Company	$ 43,510	$ 1,471	$ 21	[illegible]	$ -	$ -	$ -	$ [illegible]631
Total gas utility	$ 408,096	$ 36,377	$ 273	$ 7,596	$2,074	$(1,[illegible])	$ (126)	$ 436,424
OTHER								
Consumers Power Company	$ 13,151	$ 1,782	$ 8	$ 930	$ 31	$ (167)	$ 689 (b)	$ 14,836
Northern Michigan Exploration Company	58,302	17,927	-	1,445	-	-	-	74,784
Plateau Resources Limited	2,076	389	942	655	-	-	-	2,752
Total other	$ 73,529	$ 20,098	$ 950	$ 3,030	$ 31	$ (167)	$ 689	$ 92,372
Total provision for accumulated depreciation, depletion and amortization	$1,280,926	$138,809	$3,545	$28,007	$6,019	$(7,404)	$ 93	$1,396,[illegible]51
Nonutility property accumulated depreciation	$ 124	-	8	$ 117	$ -	$ -	$ 72 (b)	$ 87
Write-off of deferred abandoned plant costs		1,223	-					
Depreciation, depletion and amortization		$140,032	$3,553					

(a) Reclassification of accounts and functions.
(b) Loss on disposition of property.

CONSUMERS POWER COMPANY AND SUBSIDIARIES
Schedule VI - Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment
Year Ended December 31, 1979
(Thousands of Dollars)

Column A	Column B	Column C		Column D			Column E	Column F
		Additions Charged to		(Additions) Deductions			Other Changes -	
Description	Balance at Beginning of Period	Consolidated Statement of Income	Clearing Accounts	Retirements	Removal Costs	Salvage	Add (Deduct) - Describe (Note)	Balance at End of Period
ELECTRIC UTILITY								
Consumers Power Company:								
Intangible	$ 130	$ 39						$ 169
Steam production	239,283	22,810		$ 294	$ 239	$ (76)	$ (3)(a)	261,633
Nuclear production	42,389	6,812		31	111	-	-	49,059
Nuclear fuel	13,924	-	$ 490	-	-	-	26,520 (b)	46,934
Hydro production	27,911	3,239	-	10	1	(7)	-	31,146
Other production	12,554	1,446	-	1	-	-	(4)(a)	13,995
Transmission	100,263	9,299	-	865	262	(1,640)	153 (c)	110,228
Distribution	246,462	29 097	-	7,196	3,919	(3,992)	2 (a)	268,438
General	17,628	899	1,098	2,326	-	(442)	(43)(a)	17,698
Plant held for future use	1	-	-	-	-	-	-	1
Total electric utility	$ 706,545	$ 73,641	$1,588	$10,723	$4,532	$(6,157)	$ 26,625	$ 799,301
GAS UTILITY								
Consumers Power Company:								
Natural gas production	$ 10,500	$ 619	$ 147	$ (6)	$ 19	$ (6)	$ (38)(a)	$ 11,221
Synthetic natural gas production	42,695	7,119	-	-	-	-	(49,814)(d)	-
Underground storage	28,994	2,039	-	49	-	-	(4)(a)	30,980
Transmission	41,262	5,315	-	42	13	(2)	(33)(a)	46,491
Distribution	199,324	21,153	-	3,757	2,193	(786)	23 (a)	215,336
General	10,265	444	1,182	1,378	7	(215)	(22)(a)	10,699
Plant held for future use	45	-	122	122	-	-	49,814 (d)	49,859
	$ 333,085	$ 36,689	$1,451	$ 5,342	$2,232	$(1,009)	$ (74)	$ 364,586
Michigan Gas Storage Company	$ 41,877	$ 1,467	$ 11	$ (155)	$ -	$ -	$ -	$ 43,510
Total gas utility	$ 374,962	$ 38,156	$1,462	$ 5,187	$2,232	$(1,009)	$ (74)	$ 408,096
OTHER								
Consumers Power Company	$ 12,143	$ 1,738	$ 27	$ 908	$ 11	$ (116)	$ 46 (a)	$ 13,151
Northern Michigan Exploration Company	45,098	13,195	-	(9)	-	-	-	58,302
Plateau Resources Limited	941	239	1,852	956	-	-	-	2,076
Total other	$ 58,182	$ 15,172	$1,879	$ 1,855	$ 11	$ (116)	$ 46	$ 73,529
Total provision for accumulated depreciation, depletion and amortization	$1,139,689	$126,969	$4,929	$17,765	$6,775	$(7,282)	$ 26,597	$1,280,926
Nonutility property accumulated depreciation	$ 144	-	(12)	$ 70	$ 1	$ -	$ 63 (a)	$ 124
Write-off of franchises and consents		12	-					
Write-off of deferred abandoned plant costs		1,222	-					
Depreciation, depletion and amortization		$128,203	$4,917					

(a)Reclassification of accounts and functions.
(b)Adjustment for amortized portion of nuclear fuel repurchased from Wolverine Energy Co.
(c)Settlements.
(d)Transfer of Marysville synthetic gas production plant from plant in service to plant held for future use.

CONSUMERS POWER COMPANY AND SUBSIDIARIES

Schedule VI - Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment

Year Ended December 31, 1978

(Thousands of Dollars)

Column A	Column B	Column C		Column D			Column E	Column F
		Additions Charged to		(Additions) Deductions				
Description	Balance at Beginning of Period	Consolidated Statement of Income	Clearing Accounts	Retirements	Removal Costs	Salvage	Other Changes - Add (Deduct) - Describe (Note)	Balance at End of Period
ELECTRIC UTILITY								
Consumers Power Company:								
Intangible	$ 90	$ 40						$ 130
Steam production	219,011	21,270		$ 853	$ 154	$ (51)	$ (42)(a)	239,283
Nuclear production	36,137	6,281		47	2	(4)	16 (a)	42,389
Nuclear fuel	18,916	-	$1,008	-	-	-	-	19,924
Hydro production	24,910	3,227	-	222	3	3	2 (a)	27,911
Other production	11,126	1,429	-	1	-	-	-	12,554
Transmission	91,948	8,806	-	1,105	242	(831)	25 (a)	100,263
Distribution	226,343	27,075	-	7,076	2,878	(3,025)	(27)(a)	246,462
General	16,945	82[illegible]	1,558	2,06[illegible]	-	(309)	55 (a)	17,628
Plant held for future use	1	-	-	-	-	-	-	1
Total electric utility	$ 645,427	$ 68,[illegible]50	$2,566	$11,365	$3,279	$(4,217)	$ 29	$ 706,545
GAS UTILITY								
Consumers Power Company:								
Natural gas production	$ 10,389	$ 437	$ 280	$ 194	$ 13	$ (12)	$ (411)(a)	$ 10,500
Synthetic natural gas production	41,470	10,213	-	98	-	-	(8,890)(b)	42,695
Underground storage	26,581	2,331	-	348	4	(6)	428 (a)	28,994
Transmission	37,805	3,510	-	81	-	(15)	13 (a)	41,262
Distribution	185,612	17,963	-	2,531	[illegible],276	(583)	(27)(a)	199,324
General	10,770	396	1,019	1,252	-	(180)	(848)(a)	10,265
Plant held for future use	45	-	94	94	-	-	-	45
	$ 312,672	$ 34,850	$1,393	$ 4,598	$2,293	$ (796)	$ (9,735)	$ 333,085
Michigan Gas Storage Company	$ 41,671	$ 1,498	$ 8	$ 1,300	$ -	$ -	$ -	$ [illegible],877
Total gas utility	$ 354,343	$ 36,348	$1,401	$ 5,898	$2,293	$ (796)	$ (9,735)	$ 374,962
OTHER								
Consumers Power Company	$ 10,015	$ 1,654	$ 264	$ 571	$ 80	$ (70)	$ 791 (a)	$ 12,143
Northern Michigan Exploration Company	31,668	13,420	-	(10)	-	-	-	45,098
Plateau Resources Limited	1,208	135	-	402	-	-	-	941
Total other	$ 42,891	$ 15,209	$ 264	$ 963	$ 80	$ (70)	$ 791	$ 58,182
Total provision for accumulated depreciation, depletion and amortization	$1,042,661	$120,507	$4,231	$18,226	$5,652	$(5,083)	$ (8,915)	$1,139,689
Nonutility property accumulated depreciation	$ 359	-	25	$ 231	$ -	$ -	$ (9)(a)	$ 144
Write-off of franchises and consents		12	-					
Write-off of deferred abandoned plant costs		1,222	-					
Depreciation, depletion and amortization		$121,741	$4,256					

(a)Reclassification of accounts and functions.

(b)Adjustment to reflect unrecognized plant reserves as ordered by the Michigan Public Service Commission.

CONSUMERS POWER COMPANY AND SUBSIDIARIES
Schedule VIII - Valuation and Qualifying Accounts and Reserves
Years Ended December 31, 1980, 1979 and 1978
(Thousands of Dollars)

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses	(2) Charged to Other Accounts(a)	Deductions(b)	Balance at End of Period
Accumulated provision for uncollectible accounts (Consumers Power Company):					
1980	$2,746	$137	$2	$1	$2,884
1979	2,602	140	5	1	2,746
1978	2,557	41	9	5	2,602

(a)Recoveries of amounts written off in prior years.

(b)Accounts receivable written off in connection with merchandise sales. Net uncollectible amounts of $8,132,000 in 1980, $5,677,000 in 1979 and $5,211,000 in 1978 were charged directly to operating expense and credited to accounts receivable.

CONSUMERS POWER COMPANY AND SUBSIDIARIES
Schedule IX - Short-Term Borrowings
Year Ended December 31, 1980
(Thousands of Dollars)

Column A	Column B	Column C	Column D	Column E	Column F
Category of Aggregate Short-Term Borrowings	Balance at End of Period	Weighted Average Interest Rate	Maximum (Daily) Amount Outstanding During the Period	Average (Daily) Amount Outstanding During the Period	Weighted (Daily) Average Interest Rate During the Period
Consumers Power Company:					
Notes payable	$ 40,000	22.6%	$209,600	$141,081	14.3%
Commercial paper	-	-	183,206	29,456	14.8%
Bankers' acceptance drafts	144,233	20.1%	144,233	61,228	13.9%
	$184,233				
Michigan Gas Storage Company:					
Notes payable	$ 18,750	20.4%	23,250	5,424	16.6%
Commercial paper	11,837	22.3%	34,170	17,436	13.3%
Bankers' acceptance drafts	19,624	14.5%	19,624	3,829	13.5%
	$ 50,211				
	$234,444				

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CONSUMERS POWER COMPANY AND SUBSIDIARIES
Schedule IX - Short-Term Borrowings
Year Ended December 31, 1979
(Thousands of Dollars)

Column A	Column B	Column C	Column D	Column E	Column F
Category of Aggregate Short-Term Borrowings	Balance at End of Period	Weighted Average Interest Rate	Maximum (Daily) Amount Outstanding During the Period	Average (Daily) Amount Outstanding During the Period	Weighted (Daily) Average Interest Rate During the Period
Consumers Power Company:					
Notes payable	$174,000	15.1%	$188,600	$35,011	14.0%
Commercial paper	110,150	14.5%	166,857	45,303	13.6%
Bankers' acceptance drafts	4,989	12.0%	5,000	356	14.0%
	$289,139				
Michigan Gas Storage Company:					
Notes payable	$ 18,000	15.1%	19,000	8,492	13.2%
Commercial paper	23,810	16.5%	34,353	10,731	12.[illegible]
	$ 41,810				
	$330,949				

CONSUMERS POWER COMPANY AND SUBSIDIARIES
Schedule IX - Short-Term Borrowings
Year Ended December 31, 1978
(Thousands of Dollars)

Column A	Column B	Column C	Column D	Column E	Column F
Category of Aggregate Short-Term Borrowings	Balance at End of Period	Weighted Average Interest Rate	Maximum (Daily) Amount Outstanding During the Period	Average (Daily) Amount Outstanding During the Period	Weighted (Daily) Average Interest Rate During the Period
Michigan Gas Storage Company:					
Notes payable	$12,830	11.2%	$13,330	$4,558	10.5%
Commercial paper	15,536	12.1%	16,928	5,966	8.7%
	$28,366				

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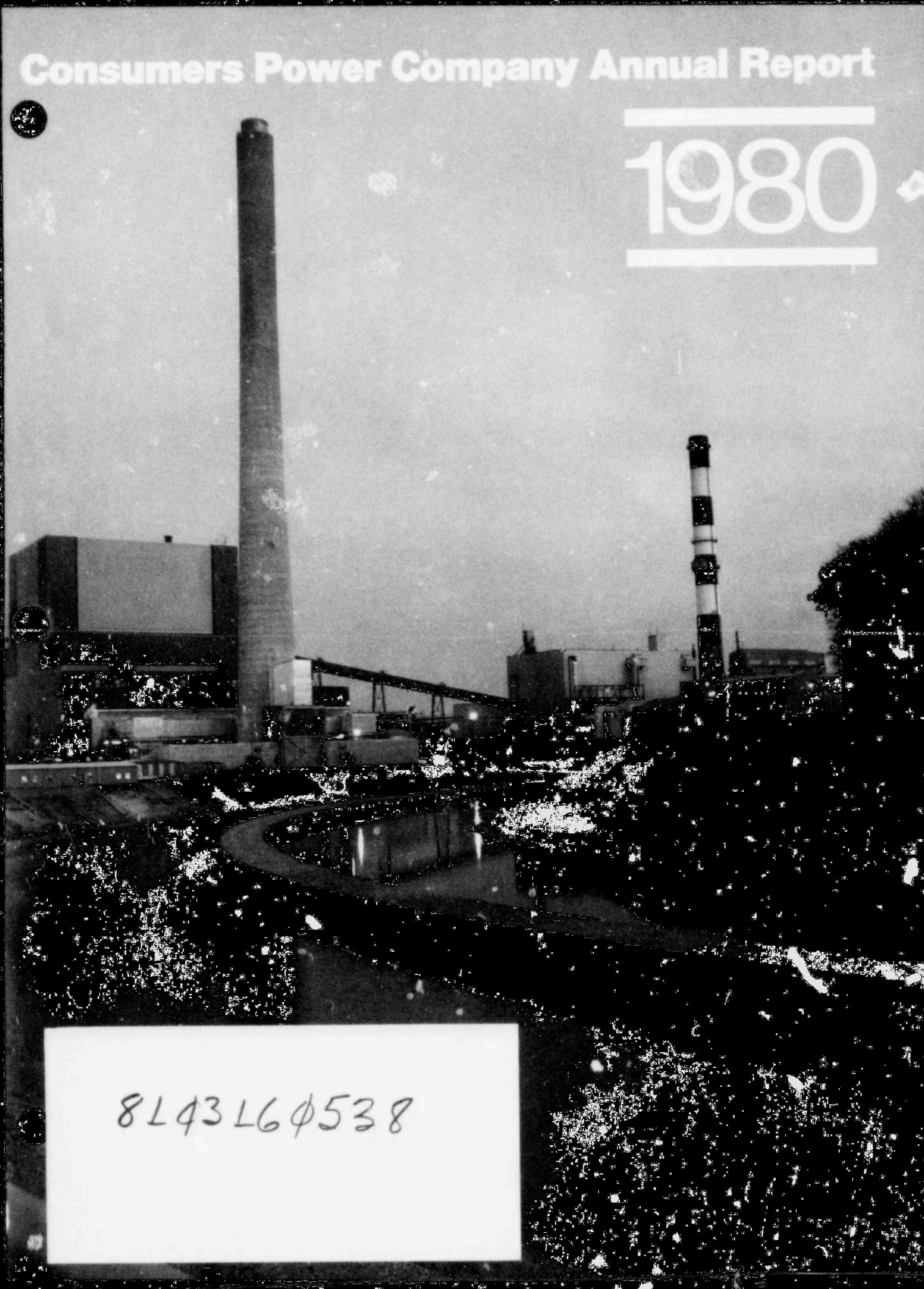
CONSUMERS POWER COMPANY AND SUBSIDIARIES
Schedule X - Supplementary Income Statement Information
For the Years Ended December 31, 1980, 1979 and 1978
(Thousands of Dollars)

Column A	Column B		
	Charged to Costs and Expenses		
Description(a)	1980	1979	1978
Real and personal property taxes (substantially all Consumers Power Company)	$76,807	$70,868	$68,024

(a)Other items covered by this schedule are either less than 1% of total operating revenue or are disclosed in the consolidated financial statements.

Consumers Power Company Annual Report

1980



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When Unit 3 (left foreground) at the James H. Campbell generating complex was placed in commercial service on September 26, 1980, it increased the Company's total generating capacity by slightly more than 11 percent. Units 1 and 2 (rig... background) have been in service since 1962 and 1967, respectively.

Contents

CONSOLIDATED FINANCIAL HIGHLIGHTS	1980	1979	1978
	Thousands, Except per Share Amounts		
Operating Revenue	**$2,303,983**	$2,021,234	$1,889,861
Net Income	**$ 223,798**	$ 203,787	$ 185,131
Earnings per Average Common Share	**$ 3.08**	$ 3.24	$ 3.21
Average No. of Common Shares Outstanding	**54,251**	48,003	43,743
Cash Dividends Paid per Common Share	**$ 2.36**	$ 2.30	$ 2.18
Return on Average Common Equity	**11.1%**	11.4%	11.5%
Gross Property Additions	**$ 739,532**	$ 850,770	$ 682,516
Net Investment in Plant at Year-End	**$5,291,485**	$4,813,268	$4,103,487
Total Capitalization at Year-End	**$4,765,103**	$4,157,925	$3,930,081

Consumers Power Company Annual Report 1980
212 West Michigan Avenue, Jackson, Michigan 49201 (517) 788-0550

Company Description

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 5.3 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, fabricated metal products, pharmaceuticals, machinery, oil refining, paper and paper products, food products, and a diversified group of other industries. Consumers Power also serves a large rural area with more than 58,000 farms.

Overall the Company has about 1.3 million electric customers and 1.1 million gas customers. Approximately 425,000 of these are both electric and gas customers.

In 1980 about 55 percent of consolidated operating revenue was derived from the electric business, about 43 percent from the gas business, and about 2 percent from other sources.

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 within the contiguous 48 states and in several foreign countries. Plateau Resources Limited is engaged in the acquisition, exploration, and development of properties for the mining, milling, 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 an interstate pipeline supplier. Michigan Utility Collection Service Co. Inc. is engaged in a special collection service for past-due utility bills.

Shown in orange on the map is Consumers Power Company's service area. It encompasses 31,535 square miles in 67 of the 68 counties in Michigan's lower peninsula.

Dear Shareholder:

The Company's financial performance for the year 1980, while not adequate, was better than we had forecast in view of the economic slump and the significant decrease in gas and electric sales to Michigan industries – particularly auto and auto parts manufacturers. Operating income, which showed improvement in late 1980, was higher than in 1979. However, earnings per share were $3.08 in comparison with $3.24 one year ago. The principal reasons for the decrease were a larger number of common shares outstanding and significantly higher nonoperating costs, particularly interest charges. Arranging financing to support our construction program became more difficult as interest rates rose above the 20 percent level.

An electric rate order issued by the Michigan Public Service Commission (MPSC) in August 1980 authorized an annual rate increase of $70.3 million, including a $29.3 million interim increase approved in November 1979. Although the 18-month period that elapsed before the final order was issued was far too long, and the final amount authorized by the commission was much less than we needed, it did help to cover some of our increased costs during the last five months of the year. On the gas side of the business, no action on our gas rate filing, which was updated in May 1980, was taken during the year. However we did receive an order for an interim increase of $76.7 million annually in February 1981, and we expect to receive a final order on our total request for $122 million later in the year.

As inflation has continued to push costs upward, the length of time required to process a rate increase application before the MPSC has become an issue of increasing concern. In the early 1970s, rate cases could be concluded in approximately 9 to 12 months, but today – with increased intervention and MPSC workload – even the most routine case requires approximately 18 months to complete. Under these circumstances, the timely recovery of increasing costs has become virtually impossible and, as a result, the Company's earnings and credit ratings have deteriorated. The seriousness of this situation is becoming recognized and – through the mutual efforts of the utility industry, the MPSC, and some intervenor interests – legislation which will permit rates to remain more nearly current with cost levels is now being considered by some Michigan legislators.

On the positive side, we are extremely pleased that the new 770-megawatt, coal-fired Campbell Unit 3 went into commercial service on September 26 according to schedule. Most importantly, the electric rate order issued by the MPSC in August also included an annual increase of $97.4 million to cover a significant portion of the costs relating to the new plant. The increase became effective on the day the unit went into commercial operation. A hearing on the balance of the Campbell costs is now pending, and we expect to receive an additional rate increase covering these costs in early 1981.

Nineteen eighty saw us making an intensive effort to continue construction of the Midland Nuclear Plant so that the units will be ready for commercial operation in December 1983 and July 1984. On-site construction progress continued throughout the year, and special emphasis was given to advancing the detailed engineering related to implementing numerous regulatory requirements – including those resulting from Company and Nuclear Regulatory Commission studies of the Three Mile Island accident. This design effort will enable us to accelerate construction activities in remaining major work areas. By getting the plant on line as soon as possible, we should be able to reduce construction costs which result from inflation and the cost of funds used for construction, to increase revenues by reflecting the cost of the plant and its operations in our rates, and to lower our fuel costs with the increased use of nuclear generation.

Among the year's other positive achievements was the outstanding performance of our subsidiary Northern Michigan Exploration Company (NOMECO). During 1980 NOMECO produced 1.5 million barrels of oil and 11.5 billion cubic feet of gas. In addition, the company participated


John D. Selby


James B. Falahee

the drilling of 93 new wells and found oil or gas in 36 of them for a success ratio of 39 percent. At the end of 1980 NOMECO had 240 productive wells, plus proven reserves of 8 million barrels of oil and 62.2 billion cubic feet of gas, and had drilling rights on 11 million gross acres in the United States, Tonga, Belize, and Australia.

As we view the outlook for 1981 and beyond, we recognize the need to obtain more adequate and more timely increases in our rates. We plan to file a new electric rate case early in the year, and we expect to receive a final order on our updated gas filing by fall. The direct relationship of adequate rates to adequate service must be understood and acknowledged by the public and the regulatory authorities, and we will continue our efforts to accomplish that objective.

We are also encouraged by the position of the new administration in Washington—particularly its pledge to achieve economic improvement and its endorsement of nuclear power. If we are able to proceed under an effective, rational, federal energy policy, and if the economy does begin to recover during 1981, we will be in a much stronger position to carry out our major construction project, to improve our operating results, and to meet our service responsibilities to customers.

In addition, we will continue our efforts to hold down expenses and to work under stringent cost control measures. These include reduced supplies and inventories, cutbacks in maintenance programs, reduction of overtime and standby crews, strict limitations on travel, curtailed office services, and restrictions on hiring. New service connections may be delayed in some cases and we may not be able to respond as promptly as we would like to customer calls for service. But we can and we will continue to take care of emergencies and to do the best job possible with the resources available to us. We remain firmly committed to a policy of efficient, cost-effective management, one we believe will, in the long run, provide good service for our customers and a fair return for our shareholders.

Sincerely,

JD Selby

John D. Selby
Chairman of the Board

James B Falahee

James B. Falahee
Vice Chairman of the Board

February 13, 1981

1980—A BRIEF REVIEW

Corporate News

Dividends and Shareholders

During 1980 Consumers Power Company paid $127,479,000, or $2.36 per share, in regular quarterly dividends of 59 cents per share to holders of its common shares. Dividends for the Company's preference and preferred shareholders amounted to $56,747,000. The Company has estimated that 100 percent of the dividends paid on common stock in the last three quarters of the year and 26 percent of the first quarter dividends were nontaxable for federal income tax purposes and constituted a return of capital. All dividends paid on preference and preferred stock were fully taxable.

At year-end common shareholders numbered 172,000; preference and preferred shareholders totaled 45,000. Approximately 55 percent of CP Co. shareholders are Michigan residents.

As of December 31, 1980, 26,000 shareholders were enrolled in the Company's Dividend Reinvestment and Common Stock Purchase Plan, an increase of 13 percent over 1979. Those participating in the dividend reinvestment plan may purchase additional shares of the Company's common stock by reinvesting their dividends and/or by making cash purchases without incurring any brokerage fees or service charges. During 1980 plan participants reinvested $10,957,000 in dividends and made cash payments of $4,270,000, for a total of $15,227,000, to purchase 856,000 shares of common stock. Information about the plan may be obtained by writing to the Company's Stock Transfer Department.

Annual Meeting

Consumers Power Company's 1980 annual meeting of shareholders was held on April 8 in Jackson, Michigan. Represented at the meeting were 71.2 percent of all shares entitled to vote. During the business session, shareholders authorized an increase in the number of common shares from 60 million to 100 million and re-elected 15 incumbent members of the board of directors. After the annual meeting, regional shareholder meetings took place in Jackson, Pontiac, Grand Rapids, Lansing, and Saginaw. At each regional meeting, the chairman or vice chairman spoke on Company matters and shareholders had the opportunity to ask questions about the Company's activities.

The 1981 annual meeting of shareholders will take place on April 14 at 2:00 PM in the Parnall Office Building, 1945 West Parnall Road, Jackson, Michigan. Because the Company is operating under strict cost control measures, no regional shareholder meetings will be held in 1981.

Management Changes

Several changes in Company management took place during 1980. L. C. Roll, in accordance with the board of directors' retirement policy, retired from the board on the day of the 1980 annual meeting. His many valuable contributions to the Company's growth and progress during his more than 17 years as a director are greatly appreciated.

John B. Simpson, executive vice president—energy distribution and general services and a member of the board of directors, resigned from both those positions on June 4 in order to devote full time to serving as president and director of Northern Michigan Exploration Company, a wholly-owned subsidiary of CP Co.

In August Robert E. Dewar, former chairman of the board and chief executive officer of K mart Corporation, was elected to the Board of Directors of Consumers Power Company. His election became effective September 1.

At the October board meeting, two officers of the Company—Stephen H. Howell and James W. Cook—were given increased responsibilities. Howell, who was senior vice president—projects, engineering and construction, was elected executive vice president—energy distribution and general services. He is now responsible for general services, customer services, and region operations and for electric and gas distribution to the Company's 1.3 million electric and 1.1 million gas customers. Cook, formerly vice president—Midland project, was named vice president—projects, engineering and construction. The major project under his direction is the Midland Nuclear Plant, and he is now responsible for all the Company's projects, engineering and construction activities for production, generation, and transmission facilities. In addition he is in charge of the Company's environmental services and activities.

Shareholder Information/ Action Program

The issues and information program initiated in 1979 for shareholders, employees, and retirees continued throughout 1980 and involved some 23,000 participants at year-end. *Energy Update*, the program newsletter, provided data on social, economic, political, environmental, and energy issues important to the Company, and *Take Action*, a separate publication for participants who request it, offered suggestions for ways to become actively involved in the resolution of such issues.

All concerned shareholders, employees, and retirees are invited to take part in the program. Those who have not yet joined but wish to do so should write to the Information/Action Program at the Company address.

Rates and Regulatory Matters

Gas Rate Case

In February 1981 Consumers Power received an interim increase in gas rates amounting to $76.7 million annually. In addition the authorized overall rate of return on the Company's gas business was raised from 8.84 percent to 9.58 percent.

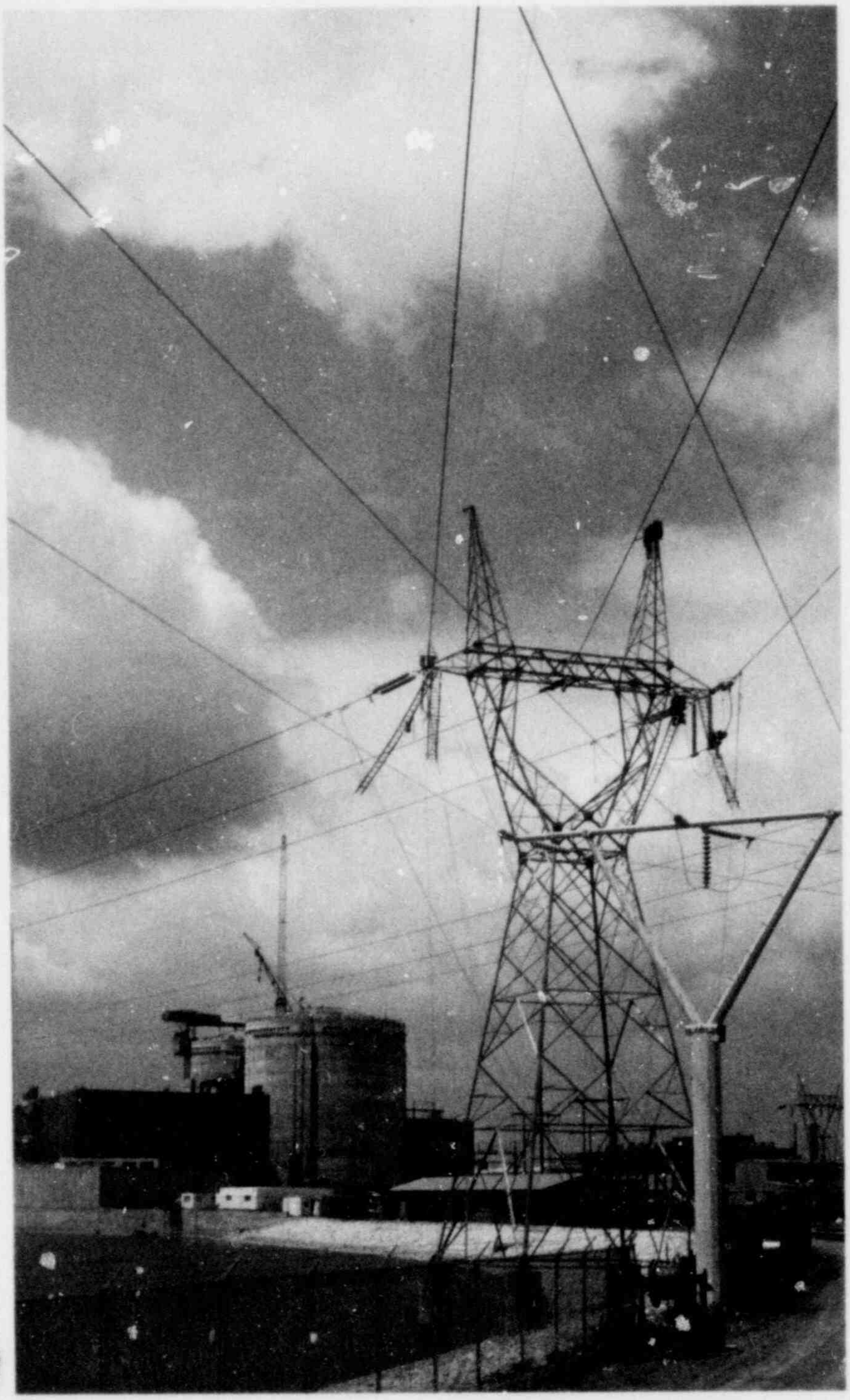
The gas rate case to which the February 1981 interim increase applied was originally filed in March 1978. Because the filing was based on a test year ended July 1977, the deficiency in the Company's gas revenue continued to worsen as a result of cost increases. Although the Michigan Public Service Commission (MPSC) issued a final order for $29.2 million in rate relief in June 1979, it reopened the case in September of that year after the Company announced the mothballing of its Marysville Gas Reforming Plant, reduced gas rates by $23.9 million in October to reflect estimated savings from the Marysville shutdown, and ordered further hearings to determine more precisely what the reductions in the cost of service resulting from the shutdown would be. Since hearings in the reopened case were delayed past January 1980, Consumers Power asked for and received permission from the commission to submit updated financial information on the case in May 1980.

A final order on the Company's request for a total gas rate increase of $122 million is expected in the fall of 1981.

Electric Rate Case

A final order on an electric rate application which the Company filed in January 1979 was received from the MPSC in August 1980. The commission's ruling, which came 18 months after the Company had filed its case, granted an annual increase of approximately $70.3 million in electric rates, including a $29.3 million interim increase approved in November 1979, to reflect increases in general cost levels.

Also authorized by the commission was an additional increase of $97.4 million to cover a substantial part of the costs relating to the new Campbell Unit 3. This latter amount became effective



Construction of the Midland Nuclear Plant continued throughout 1980 as the Company intensified its efforts to bring this project's two units into service on schedule in 1983 and 1984.

when the new unit was placed in service on September 26. A hearing, at which the MPSC will review the balance of the costs associated with the unit and adjust the amount of the rate increase accordingly, is pending.

The Company expects to file a new electric rate case, which will be based on 1982 projected cost levels, in early 1981.

Indexing Adjustment

A hearing on an operation and maintenance expense indexing adjustment equal to the percentage increase or decrease in the Consumer Price Index for the 12 months ending August 1980 was held on December 11. With MPSC approval, the Company increased its electric rates for a period of 12 months, beginning in February 1981, by approximately $24 million.

Customers and Sales

Customers

At year-end Consumers Power was serving 1,327,713 electric customers, of which 1,189,061 were residential, 129,647 commercial, 8,145 industrial, and 860 other (street and highway lighting, sales for resale). The total number of electric customers increased 1.4 percent over the number served in 1979, and the total number of gas customers increased 3.6 percent. Most of the increase in gas customers came in the residential category which grew by 42,292 customers to 1,062,221. Commercial and industrial gas customers numbered 68,654 and 7,234, respectively. The Company served a total of 1,138,109 gas customers at year-end.

Sales

Total electric sales for 1980 decreased 4.8 percent – to 25.5 billion kilowatt-hours – from those in 1979. The largest portion of the decrease was in industrial sales which declined 11.4 percent from the previous year.

On the gas side, overall sales increased 3 percent to 340.8 billion cubic feet. Because of sales to utilities outside of Michigan, total industrial gas sales increased about 1 percent. However gas sales to Michigan industries decreased 11.7 percent. Although the number of residential customers increased markedly during the year, residential gas sales rose only 1.8 percent as a result of conservation efforts. Electric and gas sales for the coming year are projected to be slightly lower than those for 1980.

The System

Electric Generation

During 1980, 68.5 percent of the Company's electric generation was provided by coal, 13.6 percent by nuclear, 16.1 percent by oil and gas, and 1.8 percent by hydroelectric power. In addition the Ludington Pumped Storage Hydroelectric Plant was available to provide power at periods of peak demand. The Company's nuclear plants generated 2.7 billion kilowatthours at a fuel cost of .6 cents per kilowatthour, and fuel costs for coal-fired plants were 1.78 cents per kilowatthour. The amount of coal burned by the Company's plants in 1980— 5.8 million tons—decreased 5 percent from that burned in 1979 while the amount of oil used for generation—5.6 million barrels—decreased 32 percent.

Palisades

The Company's Palisades Nuclear Plant returned to service in May 1980 after an extended outage. The refueling portion of the outage was completed in December 1979. However, five more months were needed to perform inspections required to meet new seismic requirements imposed by the Nuclear Regulatory Commission (NRC) on all nuclear plants and to make modifications resulting from studies of the Three Mile Island accident. While these activities did extend the outage, they also enhanced the overall safety of the plant. During the same period of time, a comprehensive review of operating and maintenance procedures was completed.

After Palisades returned to service in May, its availability factor for the remaining seven months of the year—even with the plant being off line for the entire month of November—was 71.2 percent. Palisades had its best year in 1977 when availability was 91.4 percent.

Nuclear Emergency Plan

In response to a new NRC rule requiring each state with nuclear power facilities to develop and test a nuclear emergency preparedness plan which incorporates the lessons learned at Three Mile Island, the Company cooperated with the state of Michigan in conducting two such tests during 1980. The first test, which took place on June 24, involved the simulation of a "worst case" accident at the Company's Big Rock Point Nuclear Plant, and the second, which took place on December 9, involved a simulated water leak at the Company's Palisades Nuclear Plant. An official of the Federal Energy Management Agency who monitored the Palisades test said that state and local officials did a "magnificent job" and that "the public is unquestionably protected." The Big Rock Point test was also a success.

Campbell Unit 3

The Company's new coal-fired Campbell Unit 3, which has a nameplate rating of 770 megawatts, went into commercial operation on September 26. Located in Port Sheldon Township between Holland and Grand Haven on Lake Michigan, the plant will burn up to 7,200 tons of low sulfur coal per day. It has the latest available air pollution equipment—an electrostatic precipitator that will remove about 99 percent of the particulates from the plant stack emissions. In addition, the plant has one of the nation's largest deepwater intake and discharge systems. The discharged cooling water is diffused through several nozzles so that the temperature of the lake water will not be increased more than three degrees outside a radius of 1,000 feet from the point of discharge. The system complies with federal and state water pollution requirements.

Land Sales

The sale of approximately 25,700 acres of land along Michigan's Au Sable and Manistee rivers to the United States Forest Service for $13.5 million was finalized at the end of 1980. During the course of the year, three separate sales totaling approximately 19,100 acres of land were made to the Michigan Department of Natural Resources for $8.5 million.

During the year, the Company added more than 42,000 new residential gas customers, including 19,000 who converted from oil to gas for space heating.

Financing and Construction

Security Ratings

In mid-April Standard & Poor's announced that it was lowering its rating on Consumers Power Company's first mortgage bonds from A− to BBB, on the Company's preferred stock from A− to BBB−, and on the Company's preference stock from BBB− to BB. In December Moody's Investors Service lowered its rating on the Company's first mortgage bonds from A to Baa. Moody's ratings on Consumers Power preferred and preference stocks remained at baa and ba. The principal reasons cited by both firms for the lowered ratings were depressed sales of energy, inadequate regulatory responses to requests for rate increases and approval of financing plans, and the large external financing requirement associated with the Midland nuclear project.

Financing

While the Company applied to the MPSC in late 1979 for permission to sell securities to finance $598 million (revised to $567 million) of construction expenditures in 1980, intervenors prolonged the hearings to the point that it was not possible to obtain a final order on the Company's request in 1980. However, during the year – through a prior order granted in 1979 and through interim orders granted in 1980 – the Company was allowed to issue securities to finance its construction program and to refund a maturing bond issue and short-term debt.

The Company sold $100 million of first mortgage bonds, 12.50 percent series, due 2010, and $70 million of first mortgage bonds, 12.10 percent series, due 1987, in January; $39.5 million of first mortgage bonds, 10⅝ percent series, due 1999, in February; $55 million of $3.85 preference stock in May; $75 million of first mortgage bonds, 12⅜ percent series, due 2010, in June; $73 million of common stock in September; and $52 million of $3.98 preference stock in November. In December the Company completed negotiations for a $175 million long-term loan with a group of five banks.

Construction Expenditures

The Company's construction expenditures for 1981 are expected to be $619 million, and those for 1981-1985 are estimated to be $2.8 billion. These amounts do not include the cost of leased nuclear fuel.

Midland Nuclear Plant

The year 1980 was a time of major re-evaluation, reorganization, and replanning for the Midland project.

In January Bechtel Power Corporation, prime contractor for the plant, submitted a revised cost estimate and schedule projection to the Company, as was announced in the 1979 annual report. The Bechtel study, which was based on the project's status in the post Three Mile Island atmosphere, estimated a substantial cost increase and projected commercial operating dates of 1984 and 1985 for the two units. However a subsequent, more thorough study of the critical items in the construction schedule and more up-to-date information on NRC requirements indicated that Unit 2 could be ready for commercial operation by December 1983 and Unit 1 by July 1984. In July these conclusions were reviewed and adopted by the Company's board of directors and, in August, an NRC Caseload Forecast Panel – after visiting the plant and reviewing the projected schedule – expressed essential agreement with the Company's estimate of the completion dates for the two units. In October a revised cost estimate, consistent with the new project schedule and scope, of $3.1 billion was reviewed and approved as reasonable by the executive committee of the board of directors.

Completion of the plant according to schedule is one of the Company's top priorities, and all available resources are being committed to achieving this goal. A major reorganization involving the project teams of both the Company and its major contractors was effected during the year. Midland was 62 percent complete at the end of 1980.

Nuclear Training Center

Both the utility industry and the NRC have been focusing on more comprehensive, more flexible training for nuclear reactor operators. To provide this sort of training and to improve both the safety and efficiency of its nuclear operations, the Company plans to build a $38 million nuclear training center near the site of the Midland plant.

Through the use of simulators, which utilize high speed computers, and control panels which duplicate those at the Company's Palisades and Midland plants, trainees will experience and learn to respond to a variety of situations ranging from normal operations to postulated abnormal or accident conditions. Experienced operators will also participate in regular sessions at the center so that the effectiveness with which they handle normal, abnormal, and emergency procedures can be evaluated, updated, and improved. Present plans call for training at the complex to begin in mid-1983.

Subsidiaries

NOMECO

In 1980 Northern Michigan Exploration Company (NOMECO), a wholly-owned subsidiary now in its fourteenth year of operation, had net income of $17.1 million, in comparison with $11.3 million in 1979. In both 1979 and 1980 NOMECO paid $6 million in dividends to the Company.

During 1980 NOMECO acquired a 24 percent interest in the oil and gas lease rights on nearly 4.6 million gross acres in the Surat Basin in northeastern Australia and surrendered its lease rights in Belize to 1.3 million gross acres, approximately half of its acreage position in that country. In keeping with the company's objective to expand its exploration efforts throughout the United States and the rest of the world, in 1980, 66 percent of NOMECO's drilling activities – as compared to 47 percent in 1979 – took place outside of Michigan. Within Michigan, NOMECO helped initiate the passage of legislation which opened, under reasonable environmental guidelines, the Pigeon River Country State Forest for oil and gas development.

Plateau Resources Limited

During 1980 Plateau Resources Limited, the Company's wholly-owned uranium development subsidiary, continued to make significant progress on its mine and mill project in the Henry Mountains area of Garfield County, Utah. Construction of the uranium mill is ahead of schedule and on budget, and was approximately 90 percent complete as of year-end. However, because of the dramatic decrease in the market price of uranium concentrates during the past year, Plateau suspended virtually all activities outside the Henry Mountains area, with corresponding reductions in staff and in property positions. As of year-end, Plateau's plant investment was $82 million.

Consolidated Statement of Income

	Years Ended December 31		
	1980	1979	1978
	Thousands of Dollars		
OPERATING REVENUE (Notes 1 and 6)			
Electric utility	**$1,273,565**	$1,129,565	$1,057,240
Gas utility	**986,384**	870,316	806,485
Other	**44,034**	21,353	26,136
Total operating revenue	**$2,303,983**	$2,021,234	$1,889,861
OPERATING EXPENSES AND TAXES			
Operation:			
Fuel consumed in electric generation	**$ 418,814**	$ 385,944	$ 371,444
Purchased and interchange power	**204,427**	159,944	151,249
Cost of gas sold (Note 1)	**657,249**	555,150	499,578
Other	**328,906**	286,553	[illegible],965
Total operation expenses	**$1,609,396**	$1,387,591	$1,277,236
Maintenance (Note 11)	**117,025**	116,120	102,910
Depreciation, depletion and amortization (Note 11)	**140,032**	128,203	121,741
General taxes	**103,465**	85,784	82,614
Income taxes (Note 8)	**15,621**	30,565	62,324
Total operating expenses and taxes	**$1,985,539**	$1,748,283	$1,646,825
NET OPERATING INCOME			
Electric utility	**$ 235,106**	$ 200,851	$ 163,627
Gas utility	**71,699**	64,950	70,137
Other	**11,639**	7,150	9,272
Total net operating income	**$ 318,444**	$ 272,951	$ 243,036
OTHER INCOME			
Allowance for other funds used during construction (Note 1)	**$ 71,088**	$ 66,168	$ 43,710
Gain on reacquisition of long-term debt	**2,910**	2,617	2,558
Other, net	**16,007**	7,526	15,279
Total other income	**$ 90,005**	$ 76,311	$ 61,547
INTEREST CHARGES			
Interest on long-term debt	**$ 216,553**	$ 177,973	$ 150,653
Other	**39,234**	17,021	2,422
Allowance for borrowed funds used during construction (Note 1)	**(71,136)**	(49,519)	(33,623)
Net interest charges	**$ 184,651**	$ 145,475	$ 119,452
Net income	**$ 223,798**	$ 203,787	$ 185,131
DIVIDENDS ON PREFERRED AND PREFERENCE STOCK	**56,747**	48,419	44,881
Net income after dividends on preferred and preference stock	**$ 167,051**	$ 155,368	$ 140,250
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	**54,251,000**	48,003,000	43,743,000
EARNINGS PER AVERAGE COMMON SHARE	**$3.08**	$3.24	$3.21

The accompanying notes are an integral part of this statement.

Consolidated Statement of Source of Funds for Gross Property Additions

		Years Ended December 31		
		1980	1979	1978
		Thousands of Dollars		
FUNDS GENERATED FROM OPERATIONS	Net income	**$ 223,798**	$ 203,787	$ 185,131
	Principal noncash items:			
	Depreciation, depletion and amortization—			
	Per Consolidated Statement of Income	**140,032**	128,203	121,741
	Charged to other accounts	**3,553**	4,917	4,256
	Deferred income taxes, net	**33,627**	26,549	24,001
	Deferred investment tax credit, net	**(24,097)**	(5,257)	46,568
	Allowance for other funds used during construction (Note 1)	**(71,088)**	(66,168)	(43,710)
		$ 305,825	$ 292,031	$ 337,987
	Less:			
	Dividends on preferred and preference stock	**56,747**	48,419	44,881
	Dividends on common stock	**127,479**	109,698	95,050
	Retirement of preference and preferred stock and long-term debt	**24,375**	18,198	23,140
		$ 97,224	$ 115,716	$ 174,916
FUNDS OBTAINED FROM NEW FINANCING	Issuance of common stock	**$ 83,015**	$ 94,830	$ 106,031
	Issuance of preference stock	**107,000**	—	58,000
	Issuance of preferred stock	**—**	46,000	50,000
	Sale of first mortgage bonds	**284,500**	138,500	100,000
	Refunded first mortgage bonds	**(75,000)**	—	—
	Net proceeds from installment sales contracts	**8,154**	337	7,825
	Increase in bank term loans	**175,000**	—	100,000
	Increase in revolving bank loans	**38,500**	7,000	—
	Increase (decrease) in other long-term debt	**(1,387)**	3,677	235
	Increase (decrease) in notes payable due within one year	**(96,505)**	302,583	10,312
		$ 523,277	$ 592,927	$ 432,403
OTHER SOURCES (USES) OF FUNDS	Changes in net current assets and liabilities, excluding obligations expected to be refinanced:			
	Temporary cash investments	**$ (3,865)**	$ 155,312	$ (20,433)
	Accounts receivable	**(36,463)**	(23,487)	(40,312)
	Accrued revenues	**(57,801)**	(19,560)	(9,949)
	Gas in underground storage	**13,737**	(53,767)	16,080
	Generating plant fuel stock	**(11,987)**	(13,005)	(6,420)
	Accounts payable	**27,641**	45,357	25,418
	Accrued taxes	**9,387**	11,011	(9,500)
	Deferred income taxes	**31,742**	10,817	2,054
	Other, net	**(26,987)**	(41,388)	11,524
		$ (54,596)	$ 71,290	$ (31,538)
	Sale of portion of generating plant (Note 12)	**40,859**	—	—
	Property sold under leaseback arrangements (Note 5)	**81,263**	16,985	66,323
	Other, net	**(19,583)**	(12,316)	(3,298)
		$ 47,943	$ 75,959	$ 31,487
Total funds from above sources		**$ 668,444**	$ 784,602	$ 638,806
Allowance for other funds used during construction (Note 1)		**71,088**	66,168	43,710
GROSS PROPERTY ADDITIONS		**$ 739,532**	$ 850,770	$ 682,516
GROSS PROPERTY ADDITIONS BY SEGMENT				
Electric utility		**$ 617,784**	$ 750,552	$ 617,125
Gas utility		**63,138**	68,032	44,715
Other		**58,610**	32,186	20,676
		$ 739,532	$ 850,770	$ 682,516

The accompanying notes are an integral part of this statement.

( ) Denotes deduction.

Consolidated Balance Sheet

		December 31 1980	December 31 1979
		Thousands of Dollars	
Assets			
PLANT (AT ORIGINAL COST)	Electric utility	**$3,422,938**	$2,717,517
	Gas utility	1,243,634	1,189,091
	Other	**260,675**	228,266
		$4,927,247	$4,134,874
	Less provision for accumulated depreciation	**1,396,751**	1,280,926
		$3,530,496	$2,853,948
	Construction work in progress (Notes 2 and 3)	**1,760,989**	1,959,320
		$5,291,485	$4,813,268
CURRENT ASSETS	Cash	**$ 25,529**	$ 21,671
	Temporary cash investments at cost, which approximates market	10,205	6,340
	Accounts receivable, less reserves of $2,884,000 in 1980 and $2,746,000 in 1979	**227,914**	191,451
	Accrued revenues (Note 1)	185,995	128,194
	Gas in underground storage, at average cost	**199,406**	213,143
	Generating plant fuel stock, at average cost	93,373	81,386
	Materials and supplies, at average cost	**93,682**	72,780
	Prepayments and other	111,467	98,391
		$ 947,571	$ 813,356
OTHER	Principally deferred debits	$ 37,540	$ 38,822
		$6,276,596	$5,665,446
Stockholders' Investment and Liabilities			
CAPITALIZATION	(See Consolidated Statement of Capitalization)		
	Common stockholders' equity	$1,586,495	$1,461,266
	Redeemable preference stock	**128,409**	28,924
	Nonredeemable preference stock	140,000	140,000
	Redeemable preferred stock	**137,955**	138,355
	Nonredeemable preferred stock	334,779	334,779
	Long-term debt	**2,437,465**	2,054,601
		$4,765,103	$4,157,925
CURRENT LIABILITIES	Current obligations expected to be refinanced:		
	Notes payable due within one year	**$ 234,444**	$ 330,949
	9½% First Mortgage Bonds, series due 1980	—	75,000
	3⅛% First Mortgage Bonds, series due 1981	**38,479**	—
	Revolving bank loans	45,500	—
	Bank term loan	**10,000**	—
		$ 328,423	$ 405,949
	Current maturities and sinking fund on long-term debt (Note 4)	**33,752**	32,850
	Accounts payable	234,017	206,376
	Accrued taxes (Note 8)	**103,534**	94,147
	Deferred income taxes (Note 8)	131,708	99,966
	Accrued interest	**56,819**	57,728
	Other	54,880	44,024
		$ 943,133	$ 941,040
DEFERRED CREDITS AND RESERVES	Deferred income taxes (Note 8)	$ 396,142	$ 363,080
	Deferred investment tax credit (Note 8)	**135,197**	164,924
	Other	37,021	38,477
		$ 568,360	$ 566,481
	Construction commitments and contingent liabilities (Notes 3 and 9)		
		$6,276,596	$5,665,446

The accompanying notes are an integral part of this statement.

Consolidated Statement of Capitalization (Note 4)

	December 31			
	1980	1979	**1980**	1979
	Shares Outstanding		Thousands of Dollars	
COMMON STOCKHOLDERS' EQUITY				
Common stock, $10 par value, authorized 100,000,000 shares	**57,634,040**	52,455,515	**$ 576,340**	$ 524,555
Capital in excess of par value			**555,298**	516,572
Retained earnings			**479,580**	440,008
Less capital stock expense			**24,723**	19,869
Total common stockholders' equity			**$1,586,495**	$1,461,266
PREFERENCE STOCK—Cumulative, $1 par value, authorized 15,000,000 shares				
Redeemable:				
$ 6.00 Convertible, $50 stated value, conversion price $12.50	**—**	21,096	**$ —**	$ 1,055
5.50 Convertible, $50 stated value, conversion price $15.50	**68,182**	197,380	**3,409**	9,869
85.00 Nonconvertible, $1,000 stated value	**18,000**	18,000	**18,000**	18,000
3.85 Nonconvertible, $27.50 stated value	**2,000,000**	—	**55,000**	—
3.98 Nonconvertible, $26 stated value	**2,000,000**	—	**52,000**	—
Total redeemable preference stock			**$ 128,409**	$ 28,924
Nonredeemable, nonconvertible, $25 stated value:				
$2.43	**2,000,000**	2,000,000	**$ 50,000**	$ 50,000
2.23	**2,000,000**	2,000,000	**50,000**	50,000
2.50	**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:				
$4.52	**99,550**	103,550	**$ 9,955**	$ 10,355
9.25	**320,000**	320,000	**32,000**	32,000
9.00	**500,000**	500,000	**50,000**	50,000
9.70	**100,000**	100,000	**10,000**	10,000
8.625	**360,000**	360,000	**36,000**	36,000
Total redeemable preferred stock			**$ 137,955**	$ 138,355
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			**$2,001,236**	$1,812,560
Installment sales contracts, average interest rate 6.7%, net of $355,000 in 1980 and $1,309,000 in 1979 held in trust pending certification of construction expenditures			**129,745**	124,141
4⅝% Sinking Fund Debentures due 1994			**33,400**	34,000
Bank term loans, at banks' prime rates and ½% to ¾% above due 1981 through 1988			**360,000**	185,000
Revolving bank loans, at 110% to 115% of bank's prime rate due 1981			**45,500**	7,000
Other			**4,235**	5,622
			$2,574,116	$2,168,323
Deduct:				
Current maturities of first mortgage bonds			**38,479**	75,000
Sinking fund for first mortgage bonds			**22,525**	20,825
Current maturities of revolving bank loans			**45,500**	—
Current maturities of bank term loans			**17,500**	7,500
Current maturities of installment sales contracts			**2,550**	2,550
Sinking fund for debentures			**600**	600
Other current maturities			**577**	1,375
Unamortized net debt discount			**8,920**	5,872
Total long-term debt			**$2,437,465**	$2,054,601
Total capitalization			**$4,765,103**	$4,157,925

The accompanying notes are an integral part of this statement.

Consolidated Statement of Capital in Excess of Par Value of Common Stock

	Years Ended December 31					
	1980	1979	1978	**1980**	1979	1978
	Shares Outstanding			Thousands of Dollars		
Balance at January 1	**52,455,515**	47,176,203	42,199,870	**$516,572**	$467,607	$405,502
Issuance of common stock through:						
Sales through underwriters	**4,000,000**	4,000,000	4,000,000	**30,720**	38,440	52,780
Dividend Reinvestment and Common Stock Purchase Plan	**198,982**	628,990	415,957	**1,472**	6,949	5,265
Employee Stock Ownership Plan	**245,042**	103,225	161,085	**2,002**	1,215	2,216
Employees' Savings Plan	**244,900**	46,000	—	**1,932**	444	—
Conversions of $6.00 Preference Stock	**80,712**	333,252	173,040	**202**	833	433
Conversions of $5.50 Preference Stock	**408,889**	167,845	226,251	**2,249**	923	1,244
Net gain on reacquisition of preference and preferred stock	—	—	—	**149**	161	167
Balance at December 31	**57,634,040**	52,455,515	47,176,203	**$555,298**	$516,572	$467,607

Consolidated Statement of Retained Earnings

	1980	1979	1978
Balance at January 1	**$440,008**	$394,338	$349,13[illegible]
Net income	**223,798**	203,787	185,1[illegible]
	$663,806	$598,125	$534,269
Less cash dividends (Note 4):			
Preferred stock	**35,529**	32,009	31,007
Preference stock	**21,218**	16,410	13,874
Common stock ($2.36, $2.30 and $2.18 per share)	**127,479**	109,698	95,050
Balance at December 31	**$479,580**	$440,008	$394,338

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of Consumers Power Company (the Company) and all its subsidiaries, Northern Michigan Exploration Company, Michigan Gas Storage Company, Plateau Resources Limited and Michigan Utility Collection Service Co. Inc. (together with the Company, the Companies). The subsidiaries had previously been included in the financial statements under the equity method of accounting. This change had no material effect on any of the years presented and had no effect on net income. Except for intercompany profits in inventory of gas in underground storage, which is allowed in the rate-making policies of the Michigan Public Service Commission (MPSC), all significant intercompany accounts and transactions have been eliminated.

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

Allowance for funds used during construction (AFUDC) represents the cost of funds used to finance the Company's construction projects. Under established regulatory practices, AFUDC is capitalized as part of utility plant cost. The corresponding credit is allocated between an allowance for other (equity) funds and an allowance for borrowed funds. These amounts appear on the Consolidated State-

Notes to the Consolidated Financial Statements (continued)

ment of Income as other income and as a deduction from interest charges, respectively. During 1978-80, most of the AFUDC resulted from electric utility plant construction. It was computed at a rate of 8.50% of the AFUDC base to September 30, 1980 and at 9.23% for the remainder of 1980. The AFUDC base consists of construction work in progress expenditures, less previously capitalized AFUDC and certain other indirect, previously capitalized construction costs. The allowance for other funds is a noncash item. It contributes to future cash flows when utility plant is placed in service and the Company is permitted a return on and recovery of the capitalized AFUDC in the rates charged for utility services. Allowance for other funds expressed as a percentage of net income was 31.6%, 32.5%, and 23.6% in 1980, 1979, and 1978, respectively. Allowance for other funds used during construction appears as a deduction from funds generated from operations on the Consolidated Statement of Source of Funds for Gross Property Additions. The allowance for borrowed funds that was also included in this deduction in 1979 and 1978 has been reclassified so that the statement more clearly reflects the actual funds generated from operations.

Notes 7, 8 and 11 contain information on pension plans, income taxes and depreciation, respectively.

2. NUCLEAR GENERATING PLANTS

The Company's investment in the Midland Nuclear Plant, a twin-unit facility designed to provide 1,357 megawatts of capacity for the Company's electric system and to furnish process steam service to The Dow Chemical Company (Dow), was $1.57 billion at December 31, 1980. Nuclear Regulatory Commission (NRC) consideration of construction permits and operating licenses has been delayed by the NRC's concentration upon issues related to the Three Mile Island accident. On the basis of the estimated effects of licensing delays and expected design revisions resulting from licensing requirements, and certain other licensing assumptions, the Company estimates that Midland Unit 2 will be in commercial operation for electric service in December 1983, that Unit 1 will be in commercial operation for process steam service and electric service in July 1984, and that the plant will cost approximately $3.1 billion.

The Company's decision to continue design and construction of the plant assumes that necessary regulatory approvals will be obtained. The Company is vigorously pursuing efforts to identify and favorably resolve matters which could cause delays and cost increases. There can be no assurance, however, that further delays and further cost increases will not occur. If commercial operation of the plant for process steam service to Dow cannot begin until after 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 $218 million at December 31, 1980 to $430 million if the plant were completed at a cost of $3.1 billion. Should Dow terminate the agreement for such cause, the remaining portion of the investment in equipment allocable to process steam service, estimated to range from $157 million at December 31, 1980 to $310 million if the plant were completed at a cost of $3.1 billion, may not be salvageable.

In 1978, the Company discovered foundation soil problems at its Midland Plant and reported the discovery to the NRC. Thereafter, the NRC issued an order which, if made effective, would modify the plant's construction permits to prohibit remedial construction work undertaken to correct the problems. A Company request for a hearing on the order has been granted, thereby delaying the effectiveness of the order, and certain individuals have been permitted to intervene in the proceeding. 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.

Another pending Midland Plant issue relates to nuclear fuel cycle rules. The Company does not expect that further review of this issue will invalidate the plant construction permits.

Applications for full-term, 40-year operating licenses for the Palisades Nuclear Plant and the Midland Plant are pending before the NRC.

3. CONSTRUCTION PROGRAM AND SHORT-TERM BORROWING ARRANGEMENTS

The Companies' construction expenditures are estimated at approximately $66[illegible] million in 1981 and $3.0 billion for 1981-85, of which the Company's portion, net of leased nuclear fuel, is estimated at $619 million and $2.8 billion, respectively. Substantial commitments have been made for the construction program in future years. To finance this construction program and to meet debt maturing through 1985, the Company will need to issue substantial additional securities, the amounts, timing and nature of which have not yet been determined.

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 construction program at a reasonable cost. The Company's ability to obtain external financing is also dependent upon timely approval, which is not assured, of its financing applications by federal and state regulatory agencies. If adequate funds cannot be obtained from external financing and internal sources, the Company will, as in the past, curtail its construction program to the extent feasible, although any curtailment may affect adversely the reliability of service for future customer requirements. In the Company's judgment, deferrals of planned construction may result in near-term expenditure reductions, but increasing costs and inflation would ultimately increase the Company's required investment.

Currently, the Company cannot issue first mortgage bonds (except for refunding issues) or preferred stock under the earnings coverage restrictions contained in its First Mortgage Bond Indenture (Indenture) and its Articles of Incorporation (Articles), respectively. The ability to issue first mortgage bonds and preferred stock in the future will depend upon increases in earnings. The issuance of preference stock is not subject to any earnings coverage restriction. At December 31, 1980, the Company had MPSC authorization to issue the shares of common stock mentioned in Note 4. Requests for authorization for the issuance of additional securities are pending before the MPSC.

The Companies' arrangements with banks for short-term borrowings of up to $357 million and for acceptance draft commitments of up to $170 million are subject to periodic review. For the short-term borrowings, the Companies are generally required to maintain average compensating balances with the banks, over an unspecified period, 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. The acceptance drafts, which totaled $165 million at December 31, 1980, are secured by liens on certain of the Companies' fuel and natural gas inven[illegible]

4. CAPITALIZATION

Common Stock

At December 31, 1980, retained earnings of $52,057,000 out of total retained earnings of $479,530,000 could not be distributed as cash dividends on common stock under provisions of the Articles. There are also other restrictions as to payment of cash dividends which are presently less restrictive. At December 31, 1980, common stock was reserved as follows: 260,289 shares for the Employee Stock Ownership Plan, 109,100 shares for the Employees' Savings Plan, 73,050 shares for the Dividend Reinvestment and Common Stock Purchase Plan, and 219,942 shares for the conversion of the $5.50 Preference Stock.

Preference and Preferred Stock

All or part, at the Company's option, of its preference and preferred issues may be repurchased, 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 ranking prior to or on parity with the repurchased stock and having a lower interest or dividend rate. The Company's $5.50, $85.00, $3.85 and $3.98 Preference Stock and its $4.52, $9.25, $9.00, $9.70 and $8.625 Preferred Stock are redeemable at mandatory dates and prices.

FIVE-YEAR AGGREGATE AMOUNTS OF MANDATORY REDEMPTION REQUIREMENTS OF REDEEMABLE PREFERENCE AND PREFERRED STOCK
December 31, 1980

	Preference	Preferred
	Thousands of Dollars	
1981	$2,500	$ 411
1982	909	2,011
1983	—	4,511
1984	3,600	4,511
1985	8,950	4,511

Should the Company default in the performance of its obligations under the sinking fund provisions of the Articles, preferred shareholders and then preference shareholders have preference over common shareholders as to the payment of dividends or distribution of assets.

REPURCHASE AND REDEMPTION FEATURES
December 31, 1980

	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:						
$ 5.50	$ 52.50	June 1985	None	50,000[a]	$ 50.00	July 1980
85.00[b]	1,085.00	Sept. 1983	Sept. 1983	3,600	1,000.00	Oct. 1984
3.85[c]	31.35	April 1985	April 1990	100,000	27.50	May 1985
3.98[d]	29.98	Oct. 1985	Oct. 1985	100,000	26.00	Nov. 1985
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] The Company has the option to receive credit for any shares converted.
[b] Issued in October 1978.
[c] Issued in May 1980.
[d] Issued in November 1980.
[e] Issued in November 1979.
[f] Issued in July 1978.

Long-Term Debt

FIRST MORTGAGE BONDS OUTSTANDING

Series	Due	December 31 1980	December 31 1979
		Thousands of Dollars	
9¾%	1980	$ —	$ 75,000
3⅛%	1981	38,479	38,479
11¼%	1982	**50,000**	50,000
3%	1984	21,642	21,642
4%	1986	**23,984**	24,289
3¼%	1987	12,743	14,428
12$^1/_{10}$%	1987	**70,000**	—
4½%	1988	27,361	27,941
4⅝%	1989	**19,306**	21,822
3¾%	1990	21,057	21,287
4⅝%	1990	**14,023**	15,213
4⅛%	1991	18,933	24,070
11⅜%	1994	**54,000**	57,000
5⅛%	1996	46,901	49,578
9⅞%	1996	**70,000**	70,000
6%	1997	61,374	64,8[illegible]
8¾%	1997	**40,000**	40,000
6⅞%	1998	54,528	54,528
9⅛%	1998	**25,000**	25,000
6⅝%	1998	53,905	53,905
7⅝%	1999	**50,000**	50,000
[illegible]%	1999	55,000	55,000
10⅝%	1999	**78,000**	38,500
8⅝%	2000	50,000	50,000
11½%	2000	**75,000**	75,000
8⅛%	2001	60,000	60,000
7½%	2001	**60,000**	60,000
7½%	2002	70,000	70,000
7½%	2002	**50,000**	50,000
8⅝%	2003	75,000	75,000
9%	2006	**60,000**	60,000
9¾%	2006	60,000	60,000
8⅞%	2007	**85,000**	85,000
8⅝%	2007	100,000	100,000
9%	2008	**75,000**	75,000
10⅜%	2009	100,000	100,000
12½%	2010	**100,000**	—
12⅜%	2010	75,000	—
		$2,001,236	$1,812,560

The Company has executed $31,000,000 principal amount of installment sales contracts and has pledged a like amount of first mortgage bonds as security for its obligations under such contracts.

Under the terms of the Indenture, the Company is required by October 1 of each year to deposit with the trustee cash and/or bonds equal to 1% of the total principal amount of all first mortgage bonds authenticated before the preceding January 1, except refunding series. In addition, a $600,000 sinking fund deposit is due for the 4⅝% Sinking Fund Debentures by September 1 of each year.

FIVE-YEAR MATURITIES AND ANNUAL SINKING FUND REQUIREMENTS OF LONG-TERM DEBT, INCLUDING MANDATORY REDEMPTION FEATURES
December 31, 1980

	Maturities	Sinking Fund Requirements
	Thousands of Dollars	
1981	$104,606	$23,125
1982	68,324	23,125
1983	18,204	23,125
1984	47,352	23,125
1985	144,635	23,125

5. LEASE OBLIGATIONS AND RENTALS

The Company has three leasing arrangements for its nuclear fuel. The lessors' investment in the fuel at December 31, 1980 was approximately $199 million. The current term of one lease expires in November 1984, a second expires in August 1984, and a third lease, for which the lessor's investment was approximately $92 million at December 31, 1980, expires in May 1981. The first two leases have provisions for one-year extensions from time to time to November 2029 and August 2013, respectively, and all three leases are subject to earlier termination in certain events.

Quarterly lease charges consist of a fuel factor, which is based on heat production, plus interest costs and administrative fees and expenses incurred by the lessors. In the event of termination of any lease, the lessor would be entitled to an amount equal to its remaining investment. The Company is responsible for payment of taxes, maintenance, operating costs, risks of loss and insurance.

The Company leases two of its general office buildings. The initial terms of the leases expire 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. At the expiration of the basic or any renewal term, the Company has the option to purchase the buildings at the then fair market sales value. The annual rentals are subject to quadrennial escalation and currently approximate $2.9 million. Taxes, insurance and other operating costs are required to be paid by the Company.

The Companies also have operating leases for transportation, construction and other equipment, and other assets. Rentals for all leases, including amounts charged to clearing and other accounts, amounted to $53,144,000, $43,323,000 and $29,574,000 in 1980, 1979 and 1978, respectively, of which $10,485,000, $11,700,000 and $8,074,000, respectively, were contingent upon usage.

The Companies' minimum rental commitments for all leases will approximate $41,199,000 in 1981, $30,925,000 in 1982, $30,921,000 in 1983, $27,909,000 in 1984, $18,181,000 in 1985, $63,646,000 for the period 1986-90, $44,378,000 for the period 1991-95, $29,313,000 for the period 1996-2000 and $24,073,000 thereafter.

The Company's lease obligations are accounted for as operating leases in the rate-making process. Accordingly, financing lease payments are charged to expense as incurred. Had these leases been capitalized, the total assets and liabilities that would have been recorded at December 31, 1980, were $266,836,000 related to utility plant, net of accumulated depreciation and amortization, and $271,684,000 related to obligations under capital leases. If all financing leases were capitalized, the effect on expense would not be material.

6. RATE MATTERS

In September 1979, the Company announced plans to mothball its Marysville Gas Reforming Plant because adequate supplies of less expensive gas would be available until the mid-1980s. In response, the MPSC rolled back $23.9 million of a previously approved $29.2 million annual gas rate increase and ordered hearings to determine if further reductions or refunds were to be required. During the hearings, the Company has taken the position that it is entitled to earn a return on the Marysville Plant net investment (which currently approximates $104 million) and to recover its investment over the useful life of the plant. Intervenors' positions include allowing the Company no return on or recovery of its investment and requiring the Company to refund amounts that represent all revenues (up to $239 million) attributable to operation of the plant since October 1977.

Appeals and motions for rehearing of several other gas and electric rate orders are pending. These include litigation involving alleged over-collections under the fuel cost adjustment clause, alleged illegality of the purchased and interchange power adjustment clause (PPAC) applicable to electric rates, December 1977 PPAC revenue collected under protection of court order, replacement power costs attributable to a Palisades Plant outage extending beyond 90 days, 1980 and 1979 revenues collected 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, 1980 revenue collected under a generating plant availability incentive system, 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 have a materially adverse effect upon the consolidated financial position of the Companies or the consolidated results of operations for the periods involved.

7. PENSION PLANS

The Companies have trusteed noncontributory plans covering substantially all employees. Annual contributions are sufficient to cover current service costs, interest on unfunded prior service costs, and amortization of prior service costs. Unfunded prior service costs are being amortized over a 25-year period. Contributions to the plans were $26,742,000, $24,998,000 and $22,673,000 in 1980, 1979 and 1978, respectively. In the most recent actuaries' reports, dated as of January 1, 1980, the present values of vested and nonvested accumulated benefits, computed by using a 7.0% assumed rate of return, were $234,673,000 and $13,[illegible]2,000, respectively, and net assets available for benefits were $287,166,000.

8. INCOME TAX EXPENSE

COMPONENTS OF INCOME TAX EXPENSE

	Years Ended December 31		
	1980	1979	1978
	Thousands of Dollars		
Federal income taxes (credit)	**$ (16,878)**	$ (3,589)	$ 2,533
Deferred income taxes:			
Current, net —			
Accrued revenues	$ 26,588	$15,283	$ (1,613)
Revenue reserved for possible refund	**(591)**	(387)	(3,954)
Real and personal property taxes	5,520	1,276	1,344
	$ 31,517	$16,172	$ (4,223)
Noncurrent —			
Accelerated depreciation, depletion, and amortization —			
Deferred in current year	$ 38,609	$28,663	$26,581
Reversal of prior years' deferrals	**(12,858)**	(11,647)	(11,758)
Other, net	7,876	9,533	9,1[illegible]
	$ 33,627	$26,549	$24,0[illegible]
Deferred investment tax credit, net	$ (24,097)	$ (5,257)	$46,568
	$ 24,1[illegible]	$33,875	$68,879
Operating	$ 15,621	$30,585	$62,324
Nonoperating	**8,548**	3,290	6,555
	$ 24,169	$33,875	$68,879

The 1980 federal income tax credit includes $43 million related to the carryback of the 1980 net operating loss reduced by the loss of $26 million of net investment tax credits (ITC) which had been claimed in prior years. The 1979 credit reflects adjustments to prior years' provisions and ITCs.

The Companies use liberalized depreciation methods and the class life asset depreciation range system for income tax purposes. Income taxes deferred under these methods are charged to income tax expense and credited to deferred income taxes. As the timing differences giving rise to the tax deferrals reverse, the related deferred taxes are credited to income tax expense.

ITC used to reduce current income taxes payable is deferred and amortized over the life of the related property. As of December 31, 1980, unused ITC was approximately $54 million from credits generated in 1980, $81 million from 1979 and $39 million from 1977.

STATUTORY FEDERAL INCOME TAX RATES RECONCILED TO THE EFFECTIVE INCOME TAX RATES

	Years Ended December 31		
	1980	1979	1978
Statutory federal income tax rates	**46.0%**	46.0%	48.0%
Increase (decrease) in taxes from:			
Borrowed portion of AFUDC and other capitalized construction costs	(20.7)	(16.1)	(9.7)
Other portion of AFUDC	**(13.8)**	(13.4)	(8.3)
Customer connection fees	1.1	1.2	2.4
Other, net	**(2.8)**	(3.4)	(5.3)
Effective income tax rates	9.8%	14.3%	27.1%

Certain of the Company's indirect construction costs, principally interest, are capitalized for financial reporting purposes in accordance with the provisions of the MPSC's Uniform System of Accounts but are expensed for income tax purposes. Consistent with past rate-making policies of the MPSC, the resulting tax reduction has been reflected currently in the Consolidated Statement of Income. In a 1980 generic order, the MPSC ruled that deferred income taxes on indirect construction costs would be recognized in future rate cases except for those attributable to generating plants under construction at the time of the order.

9. CONTINGENT LIABILITIES

In addition to the matters disclosed elsewhere in these Notes to the Consolidated Financial Statements, the Companies are 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 and other matters; and various suits and claims arising in the ordinary course of business are pending against the Companies. Although the outcome of such proceedings, matters, suits and claims cannot be predicted, management does not expect that their ultimate effect upon the Companies' results of operations or financial condition will be materially adverse.

10. SEGMENTS OF BUSINESS

SEGMENT DATA
December 31, 1980, 1979 and 1978

	Depreciation, Depletion and Amortization	Income Taxes (Credit)[a]	Identifiable Assets
	Thousands of Dollars		
1980			
Electric utility	**$ 84,466**	**$(10,280)**	**$4,424,242**
Gas utility	37,147	15,707	1,037,939
Other	**18,419**	**10,194**	**814,415**
	$ 140,032	$ 15,621	$6,276,596
1979			
Electric utility	$ 75,763	$ 1,144	$ 3,994,924
Gas utility	38,904	23,744	1,026,924
Other	13,536	5,697	643,598
	$ 128,203	$ 30,585	$ 5,665,446
1978			
Electric utility	$ 71,032	$ 20,719	$ 3,317,245
Gas utility	37,051	33,847	953,471
Other	13,658	7,758	720,476
	$ 121,741	$ 62,324	$ 4,991,192

(a) Income taxes (and other corporate expenses) of the Company are allocated to segments in accordance with the accounting requirements of the MPSC and the Federal Energy Regulatory Commission.

Revenue from sales to General Motors Corporation amounted to 8.9%, 10.5%, and 11.0% of total operating revenue in 1980, 1979 and 1978, respectively.

11. MAINTENANCE AND DEPRECIATION, DEPLETION AND NUCLEAR FUEL AMORTIZATION

The cost of repairs and minor replacements is charged to maintenance expense. Property additions and major property replacements are charged to plant accounts. Property retired or disposed in the normal course of business is charged to the provision for accumulated depreciation, less net salvage credits.

The Company's depreciation provisions are based on straight-line rates approved by the MPSC. Its composite depreciation rates for electric and gas utility plant were 3.03% and 3.76% in 1980, 2.93% and 3.76% in 1979 and 2.87% and 3.60% in 1978, respectively. Prior to September 1980, the electric rate included an estimate, which the Company now considers to be inadequate, for the decommissioning costs of the Company's nuclear plants. The Company's request for recovery of higher decommissioning costs has been deferred and the amount included in past rates was discontinued by the MPSC in August 1980. Both actions are pending a final decision in a generic hearing now in progress.

Other plant is depreciated or depleted on the units-of-production method for capitalized oil and gas exploration and development costs and on straight-line rates for the remaining plant. The composite of these rates approximated 9.65% in 1980, 8.35% in 1979 and 9.37% in 1978.

In the opinion of management, the Companies' provision for accumulated depreciation is reasonably adequate to cover the

requirements for depreciation on the original cost of plant.

Nuclear fuel cost is amortized to fuel expense on the basis of the quantity of heat produced for electric generation. The amortization rate assumes that the spent fuel has no residual value and will require perpetual storage. Prior to August 1978, the rate was based upon the assumptions that spent fuel had a residual salvage value and would be chemically reprocessed. The MPSC has indicated that the Company will not be precluded from recovering such costs when they are actually incurred.

12. JOINTLY-OWNED UTILITY PLANTS

COMPANY'S PORTION OF JOINTLY-OWNED UTILITY PLANTS
December 31, 1980 and 1979

	Ludington Pumped Storage	Campbell Unit 3
In-service date	1973	1980
Undivided ownership interest	51.0%	93.3%
Investment (000):		
1980	**$119,767**	**$557,963**
1979	122,165	—
Accumulated depreciation (000):		
1980	**$ 20,517**	**$ 4,591**
1979	17,778	—

Operation, maintenance and other expenses of the plants are shared by the Company and the co-owners in the same proportion as the ownership interests. The Company's share of these expenses is included in operation and maintenance expense on the Consolidated Statement of Income.

13. 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 are intended to indicate the effect on the Companies 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 precise measurements. 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 is not intended to reflect a comprehensive application of either type of inflation accounting. Instead, it represents approximations of the price changes that have affected the Companies' businesses.

Constant dollar amounts represent historical costs stated in dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers (CPI-U). Current cost amounts, on the other hand, 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 CPI-U. The current cost of plant represents an estimated cost of replacing existing plant assets and was determined mainly by indexing the original cost of existing plant by the Handy-Whitman Index of Public Utility Construction Costs and other appropriate indexes. Nuclear plant amounts were restated by applying the estimated current construction cost per kilowatt of capacity to the existing plants' capacities. In 1979, the current cost of nuclear plant was estimated by using the Handy-Whitman Index.

The provisions for depreciation and depletion stated in constant dollars and current cost were determined by applying the Companies' functional class depreciation rates to the average indexed plant amounts. No other amounts on the Consolidated Statement of Income have been restated.

Inventories, the cost of fuel consumed in electric generation and the cost of gas sold have not been restated from their historical cost amounts because the inventory turnover periods are 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.

FASB Statement No. 33 does not require restatement of income tax expense. For tax purposes, only the historical cost of plant can be used to compute the tax deduction for depreciation and depletion. When these expenses are increased to recognize the write-off of the higher constant dollar and current cost of plant, income is reduced but there is no corresponding reduction to income tax expense. Without this reduction, income taxes are levied on the Companies at rates which, in real terms, exceed established statutory rates. During periods of persistent inflation and rapidly increasing prices, this tax policy effectively results in a tax on shareholders' investment.

Under the rate-making 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 1980 is reflected in the following schedules as a reduction of plant to net recoverable cost. This excess was computed by subtracting from the restated year-end net plant balances the total of the restated beginning-of-the-year net plant balances, plus the current year additions in average 1980 dollars, less the restated current year provisions for depreciation and depletion. The remaining shortfall is the assumed amount by which the adjusted value of the plant increased in excess of the amount recoverable in rates during the current year.

To properly reflect the economics of rate regulation, the reduction of plant to net recoverable cost is offset by a "gain" from the decline in purchasing power of net amounts owed by the Companies. 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 is primarily attributable to the substantial amount of debt and other fixed-return securities which were used to finance plant, which is considered a nonmonetary asset.

CONSTANT DOLLAR AND CURRENT COST ADJUSTMENTS TO 1980 INCOME

	Constant Dollars	Current Cost
	Millions of Average 1980 Dollars	
NET INCOME AFTER DIVIDENDS ON PREFERRED AND PREFERENCE STOCK ADJUSTED FOR CHANGING PRICES		
As reported on Consolidated Statement of Income	$ 167.1	$ 167.1
Less depreciation and depletion expense in excess of amount reported	150.3	202.5
As adjusted[a]	$ 16.8	$ (35.4)
OTHER ADJUSTMENTS FOR CHANGING PRICES		
Increase in specific prices of plant held during the year[b]		$1,216.7
Reduction of plant to net recoverable cost	$(446.6)	(373.8)
		$ 842.9
Less effect of increase in general price level of plant		1,212.9
Excess of increase in general price level over increase in specific prices after reduction of plant to net recoverable cost		$ (370.0)
"Gain" from decline in purchasing power of net amounts owed	419.6	419.6
Net other adjustments	$ (27.0)	$ 49.6

[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 $429.9 million loss.

[b] At December 31, 1980, plant, net of accumulated depreciation, was $11.0 billion on a current cost basis and $5.3 billion on a historical cost basis.

The following table presents selected financial information adjusted for changing prices. Readers may wish to compare these amounts to the historical amounts that appear in the tables on page 23.

FIVE-YEAR COMPARISON OF SELECTED FINANCIAL INFORMATION ADJUSTED FOR EFFECTS OF CHANGING PRICES

In Average 1980 Dollars (Millions, Except per Share Amounts)

	1980	1979	1978	1977	1976
AVERAGE CONSUMER PRICE INDEX	**246.8**	217.4	195.4	181.5	170.5
HISTORICAL INFORMATION ADJUSTED FOR GENERAL INFLATION					
Operating revenue	**$2,304.0**	$2,294.5	$2,387.1	$2,225.4	$2,289.0
Cash dividends per common share	**$2.36**	$2.61	$2.75	$2.84	$2.90
Year-end market price per common share (in year-end 1980 dollars)	**$16.63**	$21.26	$28.49	$33.50	$33.54
Net income after dividends on preferred and preference stock, excluding reduction of plant to net recoverable cost	**$16.8**	$43.7			
Earnings per average common share	**$.31**	$.91			
Net assets at year-end at net recoverable amount	**$1,518.5**	$1,583.9			
"Gain" from decline in purchasing power of net amounts owed	**$419.6**	$423.2			
CURRENT COST INFORMATION					
Net loss after dividends on preferred and preference stock, excluding reduction of plant to net recoverable cost	**$(35.4)**	$(21.6)			
Loss per average common share	**$(.65)**	$(.45)			
Excess of increase in general price level over increase in specific prices after reduction of plant to net recoverable cost	**$370.0**	$403.6			
Net assets at year-end at net recoverable cost	**$1,518.5**	$1,583.9			

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. Until a final decision is reached, the FASB has decided that primary financial statements will be stated on a historical cost basis.

Consumers Power Company

Statement of Management

The management of Consumers Power Company has prepared and is responsible for the consolidated financial statements and all the other information, whether audited or unaudited, in this annual report. The financial statements were prepared in accordance with generally accepted accounting principles and necessarily include amounts that are based on the Company's best estimates and judgments. Financial information included elsewhere in this annual report is consistent with the financial statements.

The Company has designed and maintains a system of internal accounting control, which, among other things, provides reasonable assurance that assets are safeguarded and that reliable financial records are maintained for preparing financial statements. The Company's internal audit staff continually reviews the system of internal accounting control to determine its adequacy. There are inherent limitations that must be recognized in considering the effectiveness of any system of internal accounting control. The concept of reasonable assurance recognizes that the cost of a system of internal control should not, in the judgment of management, exceed the benefits derived. The Company believes its system of internal accounting control appropriately balances this cost-benefit relationship.

Arthur Andersen & Co., the Company's independent public accountants, have audited the financial statements in accordance with generally accepted auditing standards. The responsibility of Arthur Andersen & Co. is limited to an expression of their opinion on the fairness of the financial statements as they are presented in this annual report.

The audit committee of the Company's board of directors, which consists solely of nonmanagement directors, meets periodically with management, the internal auditors and the independent public accountants to discuss audit, internal accounting control and financial reporting matters. The audit committee also reviews the Company's relationship with its independent public accountants with regard to their performance of nonaudit services, and recommends a selected independent public accounting firm to the board.

ARTHUR ANDERSEN & CO.

DETROIT, MICHIGAN

To the Board of Directors,
Consumers Power Company:

We have examined the consolidated balance sheet and statement of capitalization of CONSUMERS POWER COMPANY (a Michigan corporation) and subsidiaries as of December 31, 1980, and 1979, and the related consolidated statements of income, retained earnings, capital in excess of par value of common stock and source of funds for gross property additions for each of the three years in the period ended December 31, 1980. 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 and subsidiaries as of December 31, 1980, and 1979, and the results of their operations and source of funds for gross property additions for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

February 6, 1981.

Management's Discussion and Analysis

	Increase (Decrease) From Prior Year, Years Ended December 31 — 1980	1979
	Thousands of Dollars	
CONSOLIDATED STATEMENT OF INCOME		
Components of electric utility operating revenue:		
Amount related to sales	$ (25,024)	$ 23,757
Tariff rate	88,165	39,083
Fuel and purchased power adjustment clauses	78,473	9,573
Other	2,386	(88)
	$ 144,000	$ 72,325
Components of gas utility operating revenue:		
Amount related to sales	$ 38,912	$ (44,803)
Tariff rate	(15,860)	[illegible]0,281
Purchased gas adjustment clause	90,809	97,964
Other	2,207	389
	$ 116,068	$ 63,831
Fuel consumed in electric generation	$ 32,870	$ 14,500
Purchased and interchange power	44,483	8,695
Total power costs	$ 77,353	$ 23,195
Cost of gas sold	$ 102,099	$ 55,572
Allowance for funds used during construction (AFUDC), other and borrowed portions combined	$ 26,5[illegible]7	$ 38,354
Interest charges, excluding borrowed portion of AFUDC	$ 60,793	$ 41,919

Financial Statements

Electric utility sales decreased 1.3 billion kilowatthours (kWh), or 4.8%, in 1980 and increased .4 billion kWh, or 1.7%, in 1979. A decrease of 1.3 billion kWh, or 11.4%, in 1980 sales to industrial customers was due to the recession in the auto industry. In 1979, industrial sales were relatively flat.

SIGNIFICANT ELECTRIC RATE INCREASES RECEIVED SINCE 1978

Effective Date	Date Filed	Type	Amount[a] (Millions)
Mar. 1978	Jan. 1977	Interim	$15
Aug. 1978	Jan. 1977	Final	40
Feb. 1979	Nov. 1978	CPI Adjustment	12
Nov. 1979	Jan. 1979	Interim	29
Feb. 1980	Nov. 1979	CPI Adjustment	20
Aug. 1980	Jan. 1979	Final	41
Sept. 1980	Jan. 1979	Campbell 3 Interim[b]	97
Feb. 1981	Nov. 1980	CPI Adjustment	24

[a] Estimated annualized effect on revenue.
[b] Effective when the plant was placed in commercial operation. An additional final order for the balance of the costs associated with the plant is pending.

The Company's electric fuel and purchased power adjustment clauses provide, on a reasonably current basis, for the pass through of 90% of increases or decreases in these costs from the levels established in the Company's last general rate case.

Gas utility sales increased 9.9 billion cubic feet (cf), or 3.0%, in 1980 and decreased 22.2 billion cf, or 6.3%, in 1979. The 1980 increase includes an increase of 13.9 billion cf of sales to out-of-state utilities and the 1979 decrease includes a decrease of 12.3 billion cf of similar sales from 1978. With the exclusion of these out-of-state sales, sales to industrial customers decreased 9.5 billion cf, or 11.7%, in 1980 as a result of the recession in the auto industry, and decreased 8.3 billion cf in 1979.

The Company received a $20 million interim gas rate increase in July 1978 and, in June 1979, received the final $9 million increase from a case filed in March 1978. When the Company announced in September 1979 that it was mothballing its Marysville Gas Reforming Plant (see Note 6 to the consolidated financial statements), the Michigan Public Service Commission (MPSC) rolled back $24 million of the total $29 million increase to reflect savings in cost of service from closing the Marysville Plant and ordered hearings that are still in progress.

The Company's purchased gas adjustment clause allows for reasonably current recovery of changes in the commodity cost of gas sold from the level established in the Company's last general rate case. Annual hearings are held to reconcile actual cost of gas with amounts billed to customers. Any overrecoveries are refunded to customers, but underruns must be absorbed by the Company.

In 1980, the cost of fuel consumed in electric generation increased $70 million as a result of higher costs and decreased $37 million as a result of a 2.1 billion decrease in the number of kWh generated. The average fuel cost per kWh generated rose from 1.76 cents to 2.11 cents because of higher oil and coal costs, and generation decreased 9.6% because of lower sales, the availability of lower-cost purchased power in lieu of oil-fired generation, and a scheduled outage at the Palisades Nuclear Plant. In 1979, increased oil prices and increased

price and use of coal caused the average fuel cost per kWh generated to rise from 1.69 cents to 1.76 cents. The number of kWh generated remained relatively flat.

The 1980 increase in purchased and interchange power costs reflects a $24 million increase resulting from an increase, from 2.31 cents to 2.62 cents in the average cost per kWh purchased and a $20 million increase resulting from an increase of 12.7%, or .9 billion kWh, in the number of kWh purchased. The 1979 increase was the result of a .5 billion, or 7.1%, increase in kWh purchased. The average cost per kWh remained approximately the same as in 1978.

Supplier price increases were primarily responsible for increases of $87 million in both 1980 and 1979 in the cost of gas sold. The average cost rose from $1.39 to $1.65 per thousand cubic feet in 1979 and to $1.90 in 1980. The remainder of the changes resulted from higher sales in 1980 and lower sales in 1979.

The increases in AFUDC (see Note 1) were due to construction expenditures at the Midland Nuclear Plant during both years and at Campbell Unit 3 in 1979. Campbell Unit 3 was placed in service in September 1980.

Interest expense, exclusive of the AFUDC credit, increased in both years from additional first mortgage bonds and short-term borrowings, and from higher rates.

Liquidity and Capital Resources

The Company's short-term liquidity is dependent to a great extent upon the achievement of sales levels commensurate with those assumed when rates are established, and upon the receipt of adequate, timely rate increases. Since 1978, the continuing recession has depressed sales levels, especially in the more profitable industrial category. Moreover, delays in rate relief and the inadequacy of the amounts received have had a further detrimental effect on the Company's liquidity.

In addition to its fuel, purchased and interchange power, and cost of gas clauses, the Company is allowed a Consumer Price Index (CPI) adjustment to permit annual adjustments in the Company's rates to cover increases in electric operation and maintenance costs (exclusive of fuel, purchased power and generating plant maintenance) which are equivalent to changes in the CPI. The CPI adjustment has not been fully effective because of the low base period operating costs used by the MPSC and because sales levels have been lower than the base period sales. The recovery of increases in other costs—such as generating plant maintenance, a return on higher levels of inventory and the higher cost of money—is subject to rate hearings which, in recent years, have become lengthy and highly contested.

The timeliness with which new and pending rate requests are granted will have a significant bearing on the Company's short-term liquidity. The Company's gas business, as previously noted, has been subjected to extraordinary regulatory delay. Since October 1979, gas customers were being served at rates that, except for the commodity cost of gas, reflected 1978 cost levels. In a May 1980 updated filing, the Company requested an interim increase of $89 million annually and a total annual increase of $122 million. In February 1981, a $77 million interim rate increase was authorized and a final order is expected on the total request in the fall of 1981. The Company plans to file a new electric rate case in early 1981.

Because of inadequate rates, lower sales, and the delay in regulatory approval of long-term financing, the Company has had to fund many of its business and construction activities through short-term borrowings. As short-term debt and short-term interest rates have increased, the Company's commercial paper rating has been lowered to the point that its commercial paper is effectively excluded from the market. As a result, the Company has developed and is using a banker's acceptance facility to finance a majority of its fuel inventories at a substantially lower effective cost, and is pursuing the creation of a bank-backed arrangement to permit access to the commercial paper market. The Company has also imposed strict cost control measures and has reduced services to help conserve cash.

Net construction expenditures, which include substantial commitments, for the Company and its subsidiaries are estimated at $666 million in 1981 and $3.0 billion for the 1981-85 period of which the Company's portion is $619 million and $2.8 billion, respectively (see Note 3). The construction program has been carefully evaluated and expenditures will be made for only the Midland Plant (see Note 2) and other essential projects in the near future. The Midland Plant comprises $410 million and $1.5 billion, respectively, of the construction expenditures. The Company also has significant maturities and sinking fund requirements (see Note 4) during this five-year period.

Although the Company's 1981 financing program is tentative, the Company anticipates that it will need to issue approximately $200 million of long-term debt, $100 million of preference stock, $40 million of pollution control revenue bonds and nine million shares of common stock. The ability to issue first mortgage bonds and preferred stock depends upon receipt of timely and adequate rate relief or other increases in earnings. In addition, the MPSC must approve the Company's issuance of long-term securities. The Company's December 1979 application for authority to issue approximately $600 million of securities, which comprised the 1980 financing program, is still pending. Two partial final orders, which allowed the Company to issue limited amounts of securities, were received during 1980. Final approval for securities has been delayed by the intervention of several parties who object to the continued construction of the Midland Plant. This delay has required the increased use of short-term debt during this period and will likely require the use of more in the future. The Company applied to the MPSC for authority to issue additional securities in December 1980. Further, the Company plans to continue selling and leasing back its nuclear fuel, as well as leasing other equipment. The Company's objective is to obtain a near-term capitalization ratio of approximately 50% long-term debt, 15% preferred and preference stock and 35% common equity.

In addition, the Company has not been allowed to collect in rates, and therefore has not recorded on its books, deferred income tax expenses related to indirect construction costs (see Note 8). These indirect construction costs have been capitalized on the Company's books but expensed for income tax purposes. Customer rates have been lower because they have not reflected the cost of the deferred tax. As a result, the Company has not had the benefit of this source of cash flow. The Company believes that it will recover these taxes in rates when plant under construction is placed into service. In 1980, the MPSC ruled in a generic proceeding that deferred taxes on indirect construction costs would be recognized in future rate cases. However, the MPSC's ruling excluded generating plants then under construction.

In the long run, the Company's liquidity depends upon its ability to finance and complete the Midland Plant as scheduled, and upon the timely recognition of the investment in the completed plant in the Company's electric rates. Like most nuclear plants currently under construction, the Midland Plant's cost estimate has escalated and the scheduled completion dates for its two units have been extended because of modifications attributable to the Three Mile Island accident and other regulatory delays. The Company is concentrating its resources toward bringing the units on line in 1983 and 1984 as scheduled, and on staying within the $3.1 billion cost estimate.

Inflation

The estimated effects of inflation on the Company and its subsidiaries are described in Note 13.

Selected Financial Information

	1980	1979	1978	1977	1976
	(Thousands of Dollars, Except per Share Amounts)				
Total operating revenue	**$2,303,983**	$2,021,2[illegible]	$1,889,861	$1,636,610	$1,581,252
Net income	**223,798**	203,787	185,131	155,007	144,545
Earnings per average common share	**$3.08**	$3.24	$3.21	$3.18	$3.63
Total assets	**$6,276,596**	$5,665,446	$4,991,192	$4,429,400	$3,814,612
Long-term debt, excluding current maturities	**2,437,465**	2,054,601	2,012,738	1,825,786	1,569,881
Redeemable preference and preferred stock	**266,364**	167,279	128,453	66,526	48,744
Cash dividends per common share	**$2.36**	$2.30	$2.18	$2.09	$2.00

Quarterly Financial and Common Stock Information

	Quarters Ended							
	1980				1979			
	Mar. 31	**June 30**	**Sept. 30**	**Dec. 31**	Mar. 31	June 30	Sept. 30	Dec. 31
Total operating revenue (000)	**$708,5[illegible]**	**$444,684**	**$427,317**	**$723,415**	$625,172	$432,549	$390,038	$573,475
Total net operating income (000)	**92,411**	**61,741**	**65,302**	**98,990**	90,556	60,023	56,742	65,630
Net income (000)	**65,079**	**38,660**	**48,422**	**71,617**	74,016	45,418	43,490	40,863
Net income after dividends on preferred and preference stock (000)	**52,201**	**24,840**	**33,805**	**56,205**	61,950	33,397	31,578	28,443
Earnings per average common share	**$ .99**	**$ .47**	**$ .63**	**$ .98**	$1.31	$ .70	$ .66	$ .58
Cash dividends per common share	**.59**	**.59**	**.59**	**.59**	.56	.56	.59	.59
Common stock prices[a]								
High	**$20⅛**	**$21⅞**	**$21½**	**$18⅝**	$23⅝	$23½	$23¼	$22¾
Low	**15½**	**16⅜**	**17¾**	**15⅜**	22⅛	19	21⅜	18½

[a]Based on NYSE—Composite Transactions.

The common stock of the Company is listed on the New York and Midwest stock exchanges. The Company had approximately 172,000 common shareholders of record as of December 31, 1980.

Company Directors

A. H. AYMOND
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

ROBERT E. DEWAR
Chairman of the Executive and Finance Committees
K mart Corporation, Detroit, Michigan
(a general merchandise retail chain)

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
(a pharmaceutical and chemical manufacturer)

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

PAUL S. MIRABITO
Retired Chairman and Director
Burroughs Corporation, Detroit, Michigan
(a producer of business equipment)

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

JOHN C. SUERTH
Director and member of the Executive Committee
Gerber Products Company, Fremont, Michigan
(a 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, Accounting and Computer Services, Corporate Planning, and Regulation
RUSSELL C. YOUNGDAHL
Executive Vice President, Energy Supply
WALTER R. BORIS
Executive Vice President, Finance and Corporate Affairs
STEPHEN H. HOWELL
Executive Vice President, Energy Distribution and General Services
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, Projects, Engineering and Construction
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

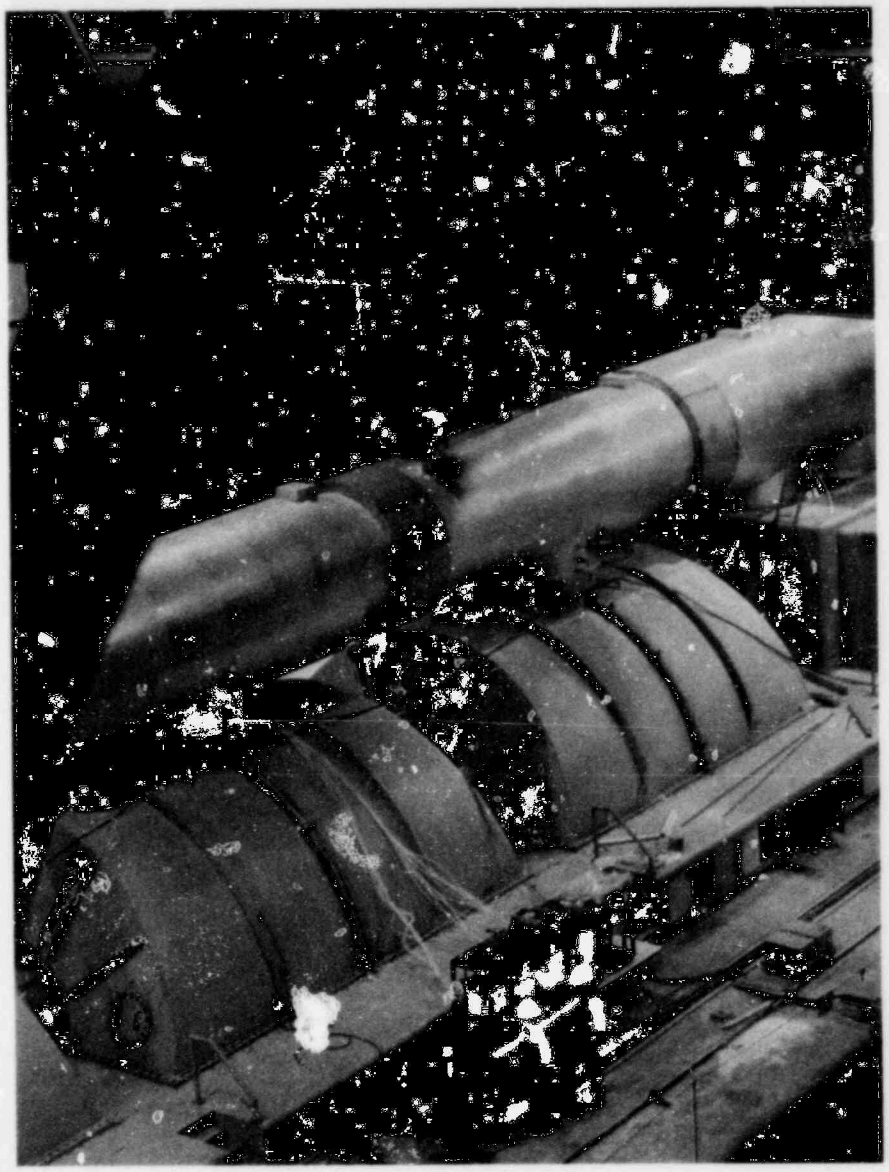
(Headquarters cities in parentheses)

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
ROBERT W. MONTROSS, Palisades Plant
JEROME M. SIMPSON, J. H. Campbell Plant

Campbell Unit 3 during final construction



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 10004

Registrars Common Stock

National Bank of Jackson
Jackson, Michigan 49201

Bradford Trust Company
New York, New York 10004

Registrars Preference and Preferred Stock

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

Bradford Trust Company
New York, New York 10004

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 14, 1981, 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 1981. The prompt return of signed proxies will be appreciated.

Annual Report on Form 10-K*

Consumers Power Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1980 is required to be filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934. A copy of this report, without exhibits, will be furnished by the Company at no charge after April 1, 1981 to any shareholder who so requests. Requests must indicate that, as of February 27, 1981, 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*

A *Financial and Statistical Supplement to the 1980 Annual Report* covering the years 1970-1980 is available to interested shareholders at no charge.

Cassette Recording*

A cassette recording of the 1980 Annual Report text is available free of charge to shareholders with impaired sight.

Shareholder Booklet*

Your Investment in Consumers Power Company, a booklet describing the Company's facilities, its history, and the nature of the utility business, is available to interested shareholders and others. The booklet also provides information on such things as what to do if you lose a stock certificate, fail to receive a dividend check, or change your address.

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

Plant electronic communications in full color are a unique aspect of the control room of new Unit 3 of the James H. Campbell Plant, which came on line on schedule in 1980.

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 1981 Commission file number 1-5611

CONSUMERS POWER COMPANY
(Exact name of registrant as specified in its charter)

State of Michigan
(State or other jurisdiction of incorporation or organization)

38-0442310
(I.R.S. Employer Identification No.)

212 West Michigan Avenue
Jackson, Michigan
(Address of principal executive offices)

49201
(Zip Code)

Registrant's telephone number, including area code (517) 788-1030

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X . NO___.

(APPLICABLE ONLY TO CORPORATE ISSUERS):

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common stock, $10 par value, 57,748,462 shares outstanding at April 30, 1981.

CONSUMERS POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

	Three Months Ended March 31		12 Months Ended March 31	
	1981	1980	1981	1980
	Thousands of Dollars			
OPERATING REVENUE (Note 5)				
Electric utility	$329,986	$328,130	$1,275,421	$1,177,880
Gas utility	481,590	373,289	1,094,685	899,580
Other	11,042	7,148	47,928	27,169
Total operating revenue	$822,618	$708,567	$2,418,034	$2,104,629
OPERATING EXPENSES AND TAXES				
Operation:				
Fuel consumed in electric generation	$104,924	$ 96,188	$ 427,550	$ 381,979
Purchased and interchange power	25,116	76,630	152,913	208,122
Cost of gas sold (Note 1)	340,713	255,115	742,847	586,339
Other	81,014	76,024	333,896	296,744
Total operation expenses	$551,767	$503,957	$1,657,206	$1,473,184
Maintenance	24,454	29,866	111,613	125,535
Depreciation, depletion and amortization (Notes 1 and 3)	47,464	37,799	149,697	127,018
General taxes (Note 1)	39,635	28,294	114,806	87,424
Income taxes (Note 6)	33,457	16,240	32,838	16,662
Total operating expenses and taxes	$696,777	$616,156	$2,066,160	$1,829,823
NET OPERATING INCOME				
Electric utility	$ 81,808	$ 58,124	$ 258,790	$ 204,117
Gas utility	39,580	31,638	79,641	62,966
Other	4,453	2,649	13,443	7,723
Total net operating income	$125,841	$ 92,411	$ 351,874	$ 274,806
OTHER INCOME				
Allowance for other funds used during construction (Note 1)	$ 16,746	$ 19,283	$ 68,551	$ 71,449
Other, net	5,405	2,559	21,763	10,151
Total other income	$ 22,151	$ 21,842	$ 90,314	$ 81,600
INTEREST CHARGES				
Interest on long-term debt	$ 66,242	$ 52,420	$ 230,375	$ 188,269
Other	8,527	11,123	36,638	26,741
Allowance for borrowed funds used during construction (Note 1)	(19,217)	(14,369)	(75,984)	(53,454)
Net interest charges	$ 55,552	$ 49,174	$ 191,029	$ 161,556
Net income	$ 92,440	$ 65,079	$ 251,159	$ 194,850
DIVIDENDS ON PREFERRED AND PREFERENCE STOCK	16,600	12,878	60,469	49,231
Net income after dividends on preferred and preference stock	$ 75,840	$ 52,201	$ 190,690	$ 145,619
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (000)	57,681	52,615	55,505	49,327
EARNINGS PER AVERAGE COMMON SHARE	$1.31	$.99	$3.44	$2.95

The accompanying condensed notes are an integral part of this statement.

CONSUMERS POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SOURCE OF FUNDS
FOR GROSS PROPERTY ADDITIONS (UNAUDITED)

	Three Months Ended March 31		12 Months Ended March 31	
	1981	1980	1981	1980
	Thousands of Dollars			
FUNDS GENERATED FROM OPERATIONS	$1[illegible],051	$ 93,142	$347,734	$272,111
Less:				
Dividends on preferred and preference stock	16,600	12,878	60,469	49,231
Dividends on common stock	34,014	30,970	130,523	114,22[illegible]
Retirement of preference and preferred stock and long-term debt	24,375	22,675	26,075	33,459
	$ 60,062	$ 26,619	$130,667	$ 75,192
FUNDS OBTAINED FROM NEW FINANCING				
Issuance of common stock	$ 1,545	$ 4,546	$ 80,014	$ 96,542
Issuance of preference stock	-	-	107,000	-
Issuance of preferred stock	-	-	-	46,000
Sale of first mortgage bonds	38,479	209,500	113,479	348,000
Refunded first mortgage bonds	-	-	(75,000)	-
Increase in bank term loan	-	-	175,000	-
Increase in revolving bank loans	4,500	5,500	37,500	12,500
Increase (decrease) in other long-term debt	(45)	1,271	5,451	5,100
Increase (decrease) in notes payable due within one year	(60,390)	(132,871)	(24,024)	198,078
	$(15,911)	$ 87,946	$419,420	$706,220
OTHER SOURCES (USES) OF FUNDS				
Changes in net current assets, excluding obligations expected to be refinanced	$ 54,542	$ 27,388	$(27,442)	$ 17,922
Sale of portion of generating plant	1,263	-	42,122	-
Property sold under leaseback arrangements	3,261	32	84,492	13,581
Other, net	27,639	34,404	(26,348)	(11,056)
	$ 86,705	$ 61,824	$ 72,824	$ 20,447
Total funds from above sources	$130,856	$ 176,389	$62[illegible],911	$801,859
Allowance for other funds used during construction	16,746	19,283	66,551	71,449
GROSS PROPERTY ADDITIONS	$147,602	$ 195,672	$691,462	$873,308
GROSS PROPERTY ADDITIONS BY SEGMENT				
Electric utility	$1[illegible]3,557	$ 167,623	$568,718	$762,241
Gas utility	7,623	12,749	58,012	69,566
Other	21,422	15,300	64,732	41,501
	$147,602	$ 195,672	$691,462	$873,308

The accompanying condensed notes are an integral part of this statement.

( ) Denotes deduction

CONSUMERS POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

	March 31 1981 (Unaudited)	December 31 1980	March 31 1980 (Unaudited)
	Thousands of Dollars		
ASSETS			
PLANT (at original cost)			
Electric utility	$3,440,038	$3,422,938	$2,716,060
Gas utility	1,248,471	1,243,634	1,188,774
Other	268,674	260,675	232,677
	$4,957,183	$4,927,247	$4,137,511
Less provision for accumulated depreciation	1,442,881	1,396,751	1,318,297
	$3,514,302	$3,530,496	$2,819,214
Construction work in progress (Notes 2 and 3)	1,872,376	1,760,989	2,150,230
	$5,386,678	$5,291,485	$4,969,444
CURRENT ASSETS			
Cash	$ 28,868	$ 25,529	$ 21,728
Temporary cash investments at cost, which approximates market	7,423	10,205	7,422
Accounts receivable, less reserves of $2,998,000, $2,884,000 and $2,821,000, respectively	290,164	227,914	212,747
Accrued revenues	99,525	185,995	131,586
Gas in underground storage, at average cost	100,081	199,406	95,028
Generating plant fuel stock, at average cost	97,777	93,373	65,818
Materials and supplies, at average cost	100,633	93,682	82,685
Prepayments and other	85,360	111,467	79,846
	$ 809,831	$ 947,571	$ 696,860
DEFERRED DEBITS	$ 33,625	$ 37,540	$ 39,037
	$6,230,134	$6,276,596	$5,705,341
STOCKHOLDERS' INVESTMENT AND LIABILITIES			
CAPITALIZATION			
Common stockholders' equity	$1,630,180	$1,586,495	$1,488,264
Redeemable preference stock	128,227	128,409	27,751
Nonredeemable preference stock	140,000	140,000	140,000
Redeemable preferred stock	137,555	137,955	137,955
Nonredeemable preferred stock	334,779	334,779	334,779
Long-term debt	2,474,968	2,437,465	2,266,651
	$4,845,709	$4,765,103	$4,395,400
CURRENT LIABILITIES			
Current obligations expected to be refinanced:			
Notes payable due within one year	$ 174,054	$ 234,444	$ 198,078
9-3/4% First Mortgage Bonds series due 1980	-	-	75,000
3-1/8% First Mortgage Bonds series due 1981	38,479	38,479	-
Revolving bank loans	50,000	45,500	-
Bank term loan	10,000	10,000	-
	$ 272,533	$ 328,423	$ 273,078
Current maturities and sinking fund on long-term debt (Note 4)	10,827	33,752	11,381
Accounts payable	133,131	234,017	122,569
Accrued taxes (Note 6)	175,562	103,534	115,598
Deferred income taxes (Note 6)	86,736	131,708	94,977
Accrued interest	55,682	56,819	55,274
Other	79,574	54,880	46,184
	$ 814,045	$ 943,133	$ 719,061
DEFERRED CREDITS AND RESERVES			
Deferred income taxes (Note 6)	$ 408,478	$ 396,142	$ 372,423
Deferred investment tax credit (Note 6)	134,039	135,197	163,937
Other	27,863	37,021	54,520
	$ 570,380	$ 568,360	$ 590,880
Construction commitments and contingent liabilities (Notes 3 and 7)			
	$6,230,134	$6,276,596	$5,705,341

The accompanying condensed notes are an integral part of this statement.

CONSUMERS POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CAPITAL IN EXCESS OF PAR VALUE OF COMMON STOCK (UNAUDITEL)

	1981	1980	1981	1980
	Number of Shares		Thousands of Dollars	
Three months ended March 31				
Balance at January 1	57,634,040	52,455,515	$555,298	$516,572
Issuance of common stock through:				
Dividend Reinvestment and Common Stock Purchase Plan . .	-	198,982	-	1,472
Employee Stock Ownership Plan . .	20,800	9,000	137	67
Employees' Savings Plan	71,800	53,000	482	397
Conversions of $6.00 Preference Stock	-	10,604	-	26
Conversions of $5.50 Preference Stock	11,730	67,036	64	369
Net gain on reaquisition of preferred stock	-	-	158	158
Balance at March 31	57,738,370	52,794,137	$556,139	$519,061
12 months ended March 31				
Balance at beginning of period . .	52,794,137	47,409,482	$519,061	$469,744
Issuance of common stock through:				
Sales through underwriters . . .	4,000,000	4,000,000	30,720	38,440
Dividend Reinvestment and Common Stock Purchase Plan . .	-	708,765	-	6,919
Employee Stock Ownership Plan . .	256,842	106,025	2,072	1,204
Employees' Savings Plan	263,700	99,000	2,017	841
Conversions of $6.00 Preference Stock	70,108	278,080	176	695
Conversions of $5.50 Preference Stock	353,583	192,785	1,944	1,060
Net gain on reacquisition of preference and preferred stock .	-	-	149	158
Balance at March 31	57,738,370	52,794,137	$556,139	$519,061

The accompanying condensed notes are an integral part of this statement.

CONSUMERS POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF RETAINED EARNINGS (UNAUDITED)

	Three Months Ended March 31		12 Months Ended March 31	
	1981	1980	1981	1980
	Thousands of Dollars			
Balance at beginning of period . .	$479,580	$440,008	$461,239	$429,849
Net income	92,440	65,079	251,159	194,850
	$572,020	$505,087	$712,398	$624,699
Less cash dividends:				
Preferred stock	8,882	8,882	35,529	33,019
Preference stock	7,718	3,996	24,940	16,212
Common stock	34,014	30,970	130,523	114,229
Balance at March 31	$521,406	$461,239	$521,406	$461,239

The accompanying condensed notes are an integral part of this statement.

CONSUMERS POWER COMPANY AND SUBSIDIARIES
CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements and notes should be read in conjunction with the consolidated financial statements and notes contained in the 1980 Annual Report to shareholders of Consumers Power Company (the Company). In the opinion of Management, the unaudited information herein reflects all adjustments necessary to assure the fair presentation of financial condition and results of operations.

The accompanying financial statements include the accounts of the Company and all its subsidiaries: Northern Michigan Exploration Company, Michigan Gas Storage Company, Plateau Resources Limited and Michigan Utility Collection Service Co. Inc. (together with the Company, the Companies). The subsidiaries had previously been included in interim financial statements under the equity method of accounting. This change had no material effect on any of the periods presented and had no effect on net income. Except for intercompany profits in inventory of gas in underground storage, which are allowed in the rate-making policies of the Michigan Public Service Commission (MPSC), all significant intercompany accounts and transactions have been eliminated.

The Company records certain annual fixed expenses, primarily depreciation and property taxes, in monthly periods on the basis of the relationship of monthly sales to estimated annual sales.

Allowance for funds used during construction (AFUDC) is an accounting convention that represents the cost of funds used to finance the Company's construction projects. Under established utility regulatory practices, AFUDC is capitalized as part of utility plant cost. The corresponding credit is allocated between an allowance for other (equity) funds and an allowance for borrowed funds. These amounts appear on the Condensed Consolidated Statement of Income as other income and as a deduction from interest charges, respectively. During the periods presented, most of the AFUDC resulted from electric utility plant under construction. AFUDC was computed at a rate of 8.50% of the AFUDC base to September 30, 1980, at 9.23% for the remainder of 1980 and at 10.0% in 1981. The AFUDC base consists of construction work in progress expenditures, less previously capitalized AFUDC and certain other indirect, previously capitalized construction costs. The allowance for other funds is a noncash item. It contributes to future cash flows when utility plant is accorded plant-in-service status by the regulatory commission and the Company is permitted a return on and recovery of the capitalized AFUDC in the rates charged for utility services. Allowance for other funds used during construction appears as a deduction from funds generated from operations on the Condensed Consolidated Statement of Source of Funds for Gross Property Additions. The allowance for borrowed funds that was also included in this deduction in periods ended prior to December 31, 1980 has been reclassified so that the statement more clearly reflects the actual funds generated from operations.

2. NUCLEAR GENERATING PLANTS

The Company's investment in the Midland Nuclear Plant, a twin-unit facility designed to provide 1,357 megawatts of capacity for the Company's electric system and to furnish process steam service to The Dow Chemical Company (Dow), was $1.66 billion at March 31, 1981. Nuclear Regulatory Commission (NRC) consideration of construction permits and operating licenses has been delayed by the NRC's concentration upon issues related to the Three Mile Island accident. On the basis of the estimated effects of licensing delays and expected design revisions resulting from licensing

requirements and certain other licensing assumptions, the Company estimates that Midland Unit 2 will be in commercial operation for electric service in December 1983, that Unit 1 will be in commercial operation for process steam service and electric service in July 1984, and that the plant will cost approximately $3.1 billion.

The Company's decision to continue design and construction of the plant assumes that necessary regulatory approvals will be obtained. The Company is vigorously pursuing efforts to identify and favorably resolve matters which could cause delays and cost increases. There can be no assurance, however, that further delays and further cost increases will not occur. If commercial operation of the plant for process steam service to Dow cannot begin until after 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 $230 million at March 31, 1981 to $430 million if the plant were completed at a cost of $3.1 billion. Should Dow terminate the agreement for such cause, the remaining portion of the investment in equipment allocable to process steam service, estimated to range from $165 million at March 31, 1981 to $310 million if the plant were completed at a cost of $3.1 billion, may not be salvageable.

In 1978, the Company discovered foundation soil problems at its Midland Plant and reported the discovery to the NRC. Thereafter, the NRC issued an order which, if made effective, would modify the plant's construction permits to prohibit remedial construction work undertaken to correct the problems. A Company request for a hearing on the order has been granted, thereby delaying the effectiveness of the order, and certain individuals have been permitted to intervene in the proceeding. Hearings are scheduled to begin in July 1981. The Company is presently unable to determine whether this matter will result in further delay in initial operation of the plant or in further increases in plant costs.

Another pending Midland Plant issue relates to nuclear fuel cycle rules. The Company does not expect that further review of this issue will invalidate the plant construction permits.

Applications for full term, 40-year operating licenses for the Palisades Nuclear Plant and the Midland Plant are pending before the NRC.

3. CONSTRUCTION PROGRAM

The Companies' construction expenditures are estimated at approximately $682 million for 1981 and $3.1 billion for 1981-85. The Company's portions, net of leased nuclear fuel, are estimated at $627 million and $2.8 billion, respectively. Substantial commitments have been made for the construction program in future years. To finance this construction program and to meet debt maturing through 1985, the Company will need to issue substantial additional securities. The amounts, timing and nature of these securities have not yet been determined.

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 construction program at a reasonable cost. The Company's ability to obtain external financing is also dependent upon timely approval, which is not assured, of its financing applications by federal and state regulatory agencies. If adequate funds cannot be obtained from external financing and internal sources, the Company will, as in the past, curtail its construction program to the extent feasible, although any curtailment may affect adversely the reliability of service for future customer requirements. In the Company's judgment, deferrals of planned construction may result in near-term expenditure

reductions, but increasing costs and inflation would ultimately increase the Company's required investment.

The Company cannot currently issue preferred stock under the earnings coverage restrictions contained in its Articles of Incorporation (Articles), and the Company's ability to issue first mortgage bonds, except for refunding issues, under the earnings coverage restrictions contained in its First Mortgage Bond Indenture is limited. The ability to issue first mortgage bonds and preferred stock in the future will depend upon increases in earnings. The issuance of preference stock is not subject to any earnings coverage restriction. The Company has MPSC authorization to issue 349,839 shares of common stock for shareholder and employee plans and $75 million of installment sales contracts. Requests for authorization for the issuance of additional securities are pending before the MPSC.

4. CAPITALIZATION

The number of preference shares authorized by the Articles was increased from 15,000,000 to 25,000,000 in April 1981. The Company sold $38,479,000 of 15% Series First Mortgage Bonds in March 1981 and used the proceeds to retire $38,479,000 of 3-1/8% Series First Mortgage Bonds in April 1981. The Company has completed its 1981 sinking fund requirements for first mortgage bonds and sinking fund debentures.

5. RATE MATTERS

In September 1979, the Company announced plans to mothball its Marysville Gas Reforming Plant because adequate supplies of less expensive gas would be available until the mid-1980s. In response, the MPSC rolled back $23.9 million of a previously approved $29.2 million annual gas rate increase and ordered hearings to determine if further reductions or refunds were to be required. During the hearings, the Company has taken the position that it is entitled to earn a return on the Marysville Plant net investment (which currently approximates $104 million) and to recover its investment over the useful life of the plant. Intervenors' positions include allowing the Company no return on or recovery of its investment and requiring the Company to refund amounts that represent all revenues (up to $239 million) attributable to operation of the plant since October 1977.

Appeals and motions for rehearing of several other gas and electric rate orders are pending. These include litigation involving: alleged overcollections under the fuel cost adjustment clause; alleged illegality of the purchased and interchange power adjustment clause (PPAC) revenue applicable to electric rates; December 1977 PPAC revenue collected under protection of court order; 1979-81 revenues collected 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; 1980 revenue collected under a generating plant availability incentive system; 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 have a materially adverse effect upon the consolidated financial position of the Companies or the consolidated results of operations for the periods involved.

6. INCOME TAX EXPENSE

Components of income tax expense for periods ended March 31:

	Three Months		12 Months	
	1981	1980	1981	1980
	Thousands of Dollars			
Federal income taxes (credit)	$ 69,712	$13,549	$ 39,285	$(13,524)
Deferred income taxes:				
Current, net-				
Accrued revenues	$(39,776)	$ 1,560	$(14,748)	$ 14,225
Revenue reserved for possible refund	(5,873)	(7,998)	1,534	118
Real and personal property taxes	677	1,395	4,802	2,362
	$(44,972)	$(5,043)	$ (8,412)	$ 16,705
Noncurrent-				
Accelerated depreciation, depletion and amortization-				
Deferred in current year	$ 13,033	$10,950	$ 40,692	$ 31,425
Reversal of prior years' deferrals	(4,088)	(3,105)	(13,841)	$(11,414)
Other, net	3,393	1,549	9,720	9,844
	$ 12,338	$ 9,394	$ 36,571	$ 29,855
Deferred investment tax credit, net	$ (1,148)	$ (983)	$(24,262)	$(13,293)
	$ 35,930	$16,917	$ 43,182	$ 19,743
Operating	$ 33,457	$16,240	$ 32,838	$ 16,662
Nonoperating	2,473	677	10,344	3,081
	$ 35,930	$16,917	$ 43,182	$ 19,743

The federal income tax credit in the 12 months ended March 31, 1980 is attributable to the subsequent reversal of income taxes provided in the three months ended March 31, 1979, and to adjustments of prior years' provisions and investment tax credits (ITC).

As of March 31, 1981, unused ITC was approximately $54 million from credits generated in 1980, $81 million from 1979 and $39 million from 1977.

The effective federal income tax rates were 28.0% and 20.6% for the three months and 14.7% and 9.2% for the 12 months ended March 31, 1981 and 1980, respectively. These amounts are less than the 46.0% statutory rate because certain of the Company's indirect construction costs, principally interest, are capitalized in accordance with the MPSC's Uniform System of

Accounts but are expensed for tax purposes. Consistent with past rate-making policies of the MPSC, the resulting tax reduction has been reflected currently in the Condensed Consolidated Statement of Income. Further, the other portion of AFUDC has no tax effect.

7. CONTINGENT LIABILITIES

In addition to the matters disclosed elsewhere in these Notes, the Companies are 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, and other matters. In addition, various suits and claims arising in the ordinary course of business are pending against the Companies. Although the outcome of such proceedings, matters, suits and claims cannot be predicted, Management does not expect that their ultimate effect upon the Companies' results of operations or financial condition will be materially adverse.

8. NUCLEAR FUEL AMORTIZATION AND PLANT DECOMMISSIONING

Nuclear fuel cost is amortized to fuel expense on the basis of the quantity of heat produced for electric generation. The amortization rate assumes that the spent fuel has no residual value and will require perpetual storage. Prior to August 1978, the rate was based upon the assumptions that spent fuel had a residual salvage value and would be chemically reprocessed. The MPSC has indicated that the Company will not be precluded from recovering such costs when they are actually incurred.

Prior to September 1980, the electric depreciation rates included an estimate, which the Company now considers to be inadequate, for the decommissioning costs of the Company's nuclear plants. The Company's request for recovery of higher decommissioning costs has been deferred and the amount included in past rates was discontinued by the MPSC in August 1980. Both actions are pending a final decision in a generic hearing now in progress.

CONSUMERS POWER COMPANY AND SUBSIDIARIES
Management's Discusssion and Analysis

This discussion should be read in conjunction with Management's Discussion and Analysis contained in Consumers Power Company's (the Company) 1980 Annual Report to shareholders.

	Increase (Decrease) From Prior Period	
	Three months ended March 31, 1981	12 months ended March 31, 1981
	(Thousands of Dollars)	
Condensed Consolidated Statement of Income (Unaudited)		
Components of electric utility operating revenue:		
Amount related to sales	$ 2,354	$ (8,844)
Tariff rate	35,661	105,322
Fuel and purchased power adjustment clauses	(36,471)	(1,158)
Other	312	2,221
	$ 1,856	$ 97,541
Components of gas utility operating revenue:		
Amount related to sales	$ 38,117	$ 77,832
Tariff rate	14,179	10,027
Purchased gas adjustment clause	54,867	104,305
Other	1,138	2,941
	$108,301	$195,105
Fuel consumed in electric generation	$ 8,736	$ 45,571
Purchased and interchange power	(51,514)	(55,209)
Total power costs	$(42,778)	$ (9,638)
Cost of gas sold	$ 85,598	$156,508

COMPARISON OF THE QUARTERS ENDED MARCH 31, 1981 AND 1980

Sales of electricity in the 1981 quarter were relatively flat in comparison with the 1980 quarter. Industrial sales were down 2.4%.

Natural gas sales increased 13.1 billion cubic feet (bcf) or 9.4%. The increase resulted from an additional 21.5 bcf being sold to out-of-state utilities. Gas sales to Michigan industrial customers decreased 8.3%. The Company received a $77 million interim gas rate increase in February 1981.

The increase in cost of fuel consumed in electric generation was the net result of a $45 million, or 46.8%, increase in the number of kilowatthours (kwh) generated and a $36 million decrease from lower costs. The Palisades Plant was out of service in the first quarter of 1980 and Campbell Unit 3 came on line in September 1980. The availability in 1981 of the lower cost generation from these two plants caused a decrease in fuel cost per kwh generated from 2.28 cents to 1.70 cents.

The decrease in purchased and interchange power costs reflects lower purchases because of the availability of generation from the Palisades and Campbell 3 plants.

Supplier price increases caused $6. million of the increase in the cost of gas sold and the remainder resulted from the increased sales. The average cost increased from $1.81 to $2.20 per thousand cubic feet.

COMPARISON OF THE 12 MONTHS ENDED MARCH 31, 1981 AND 1980

Sales of electricity decreased .9 billion kwh, or 3.4%, because of a 9.2% industrial sales decrease resulting from the recession in the auto industry.

Natural gas sales increased 26.9 bcf, or 8.2%. The increase includes an increase of 33.7 bcf sold to out-of-state utilities. With the exclusion of these out-of-state sales, sales to industrial customers decreased 7.3 bcf, or 9.3%, because of the depressed auto industry.

The increase in cost of fuel consumed in electric generation resulted from an increase of $38 million, or 9.9%, in the number of kwh generated and an increase of $8 million from a 1.8% increase in the average fuel cost per kwh.

The purchased and interchange power cost decrease reflects decreased purchases.

Supplier price increases accounted for the increase in cost of gas sold. The average cost rose from $1.91 to $2.27 per thousand cubic feet.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

(a) In March 1978 Registrant filed an application with the Michigan Public Service Commission ("MPSC") requesting an increase in its rates for the sale of gas of not less than $76,200,000 on an annual basis. On July 10, 1978 the MPSC issued an order granting Registrant partial and immediate gas rate relief in the annual amount of $19,885,000 under bond and subject to refund. On August 9, 1978 the Attorney General of Michigan ("Attorney General") appealed the MPSC's interim rate order to the Ingham County Circuit Court ("Circuit Court"). On June 27, 1979 the MPSC issued an order in the proceeding authorizing an increase in Registrant's gas rates of $29,162,000 on an annual basis, inclusive of an interim increase granted in July 1978. The MPSC's June 1979 order affirmed the interim increase and discharged the bond which Registrant had posted in connection therewith. In July 1979 several intervenors in the proceeding, including the Attorney General, appealed the MPSC's June 1979 order to the Circuit Court. The appeals alleged, among other things, that the Marysville Gas Reforming Plant was no longer "used and useful" in providing gas service to Registrant's customers, and that the MPSC's June 1979 order had erred in (a) affirming the July 1978 interim increase, (b) including Registrant's investment in the Marysville Plant in the rate base upon which rates were established and (c) recognizing as proper operating expenses Marysville Plant depreciation, feedstock cost and operating and maintenance ("O&M") expense. Injunctive relief was also sought, including a reduction in Registrant's gas rates by the amount of Marysville Plant O&M expense recognized by the MPSC's June 1979 order.

On September 5, 1979 Registrant announced its intention to "mothball" its Marysville Plant. On September 6, 1979 the MPSC issued an order reopening the gas rate proceeding and directing Registrant to file additional testimony regarding the effect of mothballing the Marysville Plant on the rates established by the June 1979 order. On September 7, 1979 the Circuit Court ordered Registrant to reduce its rates $11,212,000 annually, the Marysville Plant O&M

expense reflected in the June 1979 order. (The other issues raised in the appeals of the MPSC's June 1979 order are pending before the Circuit Court.) On September 21, 1979 Registrant filed testimony with the MPSC indicating that the effect of the Marysville Plant mothballing on the rates established by the June 1979 order would be to reduce the annual revenue requirement found by that order by the amount of $23,914,000, inclusive of the $11,212,000 Marysville Plant O&M costs.

On October 2, 1979 the MPSC issued an order reducing Registrant's gas rates by the annual amount of $23,[illegible],000, inclusive of the $11,212,000 Marysville Plant O&M costs, and ordering hearings to proceed to ascertain whether further rate reductions would be appropriate. On November 2, 1979 the Attorney General petitioned the MPSC for rehearing of the October 2, 1979 order. The Attorney General alleged that (a) the reduction of Registrant's gas rates mandated by the order should be retroactive to June 27, 1979 and the difference in revenue that would result from such retroactive effectiveness should be refunded with interest; (b) Registrant should be required to refund the revenue difference attributable to the difference between the gas rates authorized in the July 10, 1978 interim order and those authorized by the October 2, 1979 order; (c) Registrant should be required to refund with interest all moneys it has collected pursuant to purchased gas adjustments during the years 1978 and 1979 resulting from the inclusion of feedstock costs for the Marysville Plant and the calculation of said purchased gas adjustments; and (d) Registrant should be required to file a bond to guarantee refunds with interest of revenues attributable to any difference between gas rates ultimately ordered in the reopened proceeding and those charged pursuant to the MPSC orders dated July 10, 1978, June 27, 1979 and October 2, 1979.

On August 19, 1980 the MPSC issued an order denying the Attorney General's application for rehearing of the MPSC's October 2, 1979 order reducing rates. On September 18, 1980 the Attorney General appealed both the MPSC's October 2, 1979 order reducing rates and the MPSC's August 19, 1980

order denying application for rehearing to the Circuit Court. The appeal is pending before the Circuit Court.

In the Marysville Plant hearing ordered by the MPSC's action of October 2, 1979, the MPSC Staff has taken the position that Registrant should not be allowed to earn a return on its net investment of approximately $104 million in the Marysville Plant, but should be allowed to amortize or "depreciate" such investment in utility cost of service over a period ending in 1988. Two industrial intervenors have taken the position that the Marysville Plant is no longer "used and useful" in providing utility service and should be eliminated from the rate base and cost of service. The Attorney General has taken the position that Registrant should have ceased operation of the Marysville Plant and removed it from the rate base no later than October 1, 1977. On that theory, the Attorney General's witness has recommended that Registrant make refunds to its customers, reflecting the reduced cost of service and revenue requirement which would have existed had the Marysville Plant not operated, of up to $239 million. Registrant has taken the position that the Marysville Plant should be treated as plant held for future use, in which event Registrant would be allowed a return on its net investment in the facility. The only lawful alternative to treatment of the Marysville Plant as plant held for future use, in Registrant's view, is to treat Registrant's net investment as an extraordinary property loss. In the event it is so treated, Registrant's posi... Registrant is entitled to amortize the loss in cost of service and to receive a return on the unamortized portion of the loss.

On January 25, 1980 Registrant filed an application with the MPSC requesting an increase in its rates for the sale of gas of not less than $76,871,000 on an annual basis. In the application, Registrant asked the MPSC to either consider its request in a new gas rate proceeding or in the reopened phase of the prior gas rate proceeding. On March 7, 1980 the MPSC issued an order denying Registrant authority to file a new rate proceeding, but permitting Registrant to supplement the record in the prior gas rate proceeding on a

limited basis. In response to the March 7 order, Registrant filed an application with the MPSC on May 5, 1980 requesting an increase in its rates for the sale of gas of not less than $129,171,000 on an annual basis and seeking a lesser amount on partial and immediate rate relief. On February 10, 1981 the MPSC issued an order granting Registrant a partial and immediate rate increase of $76,736,000, on an annual basis, under bond and subject to refund. On March 11, 1981 the Attorney General appealed the MPSC's February 10, 1981 order to the Circuit Court, asking that the order be set aside.

(b) Several appeals are pending before the Circuit Court of matters arising from an order issued by the MPSC on April 12, 1976 which authorized Registrant to increase its electric rates in the annual amount of $33,977,000. The order also (i) found that Registrant's existing fuel cost adjustment clause ("FCAC") had not resulted in any overrecoveries of cost by Registrant, (ii) authorized a purchased power adjustment clause ("PPAC") which operates, after notice and hearing, to pass through to customers 90% of monthly increases and decreases in such costs, (iii) replaced the existing FCAC with one which permits only 90% of monthly increases and decreases in such costs to be automatically passed through to customers and (iv) ordered "reconciliation" hearings which would result in refunds to customers of amounts collected through operation of the two clauses in excess of 90% of the amounts actually expended for fuel and purchased and interchange power over and above the basing points in the clauses. On May 12, 1976 Registrant appealed the order, requesting that it be granted additional rate relief in the annual amount of approximately $41,600,000. On May 12, 1976 the Attorney General appealed the order requesting, among other things, that: a refund be ordered of all amounts collected in excess of the rates in effect prior to April 1976; the monthly PPAC hearing procedures and any purchased power adjustment charges resulting therefrom be enjoined; and the MPSC be directed to investigate alleged "overcollection" under Registrant's FCAC. In orders issued following the first two of the monthly PPAC hearings, the MPSC authorized PPAC expense adjustments in Registrant's rates, after reducing such expense to reflect the cost of power purchased to replace generation from Registrant's nuclear

generating plants to the extent such plants had been out of service for periods in excess of 90 days. More recently the MPSC has allowed the recovery of PPAC expense even though it was attributable to generating plant outages extending for periods beyond 90 days (see following paragraph). Registrant and the Attorney General appealed the first monthly order to the Circuit Court and the Attorney General has appealed each of the subsequent monthly orders which authorized a positive PPAC adjustment in Registrant's electric rates. On January 16, 1981 the Circuit Court issued an opinion dismissing that portion of the Attorney General's appeal which challenged the validity of the PPAC, the PPAC hearing procedures and adjustment charges resulting from such procedures, and dismissing that portion of Registrant's appeal which challenged the reduction of purchased power expense in the two PPAC monthly hearings when Registrant's nuclear generating plants had been out of service for periods in excess of 90 days. Certain other issues remain to be decided by the Circuit Court. As indicated above, in orders issued following the first two of the monthly PPAC hearings, the MPSC authorized PPAC expense adjustments in Registrant's rates, after reducing such expense to reflect the cost of power purchased to replace generation from Registrant's nuclear generating plants to the extent such plants have been out of service for periods in excess of 90 days. More recently the MPSC has allowed the recovery of PPAC expense even though it was attributable to generating plant outages extending for periods beyond 90 days. Through March 31, 1981 Registrant had collected revenues authorized by positive PPAC adjustments of approximately $241 million.

The Palisades Nuclear Plant was out of service from early September 1979 until late May 1980 for refueling and maintenance, for inspections and reviews in connection with certain alleged license violations, and for modifications necessary to meet Nuclear Regulatory Commission ("NRC") seismic and other requirements. The Palisades Plant outage resulted in increases in Registrant's costs for replacement power, calculated by Registrant (net of offsetting nuclear fuel cost) to be around $7.5 million per month. In PPAC orders issued in February, March, April, May, June and July 1980, for the cost

months of December 1979 and January, February, March, April and May 1980, respectively, the MPSC did not disallow the recovery of any replacement power costs attributable to the Palisades Plant outage. On May 13, 1980 the Attorney General petitioned the MPSC for rehearing of its April 1980 PPAC order for the cost month of February 1980. The Attorney General alleged that the Palisades Plant was shut down in February 1980 for the reason, in whole or in part, that Registrant had violated NRC safety regulations and requested, among other things, that the MPSC: (a) determine that the effect of the Palisades Plant outage on Registrant's PPAC expense for the month of February 1980 was $10,487,000 rather than the $6,679,709 determined by the MPSC in its April 1980 PPAC order; (b) redetermine the PPAC expense for February 1980 eliminating the PPAC expense occasioned by the plant outage; (c) cancel, revoke and rescind Registrant's PPAC; and (d) order Registrant to refund all amounts collected pursuant to the PPAC adjustment authorized by the MPSC's April 1980 PPAC order. The Attorney General's petition was denied on August 8, 1980. On June 27, 1980 the Attorney General appealed the MPSC's May 1980 PPAC order for the cost month of March 1980 to the Circuit Court requesting relief similar to that sought in his petition for rehearing of the April 1980 PPAC order. Similarly, on July 14, and August 25, 1980 the Attorney General appealed the MPSC's June and July 1980 PPAC orders to the Circuit Court. And on September 8, 1980 the Attorney General appealed an MPSC order dated August 8, 1980 on reconciliation of July-December 1979 fuel and purchased and net interchange power expenses. The Attorney General claimed, among other things, that upon reconciliation, the MPSC should have disallowed expenses incurred by Registrant as a result of the shutdown of the Palisades Plant during the month of December 1979.

(c) On January 31, 1977 Registrant filed an application with the MPSC requesting authority to increase its rates for the sale of electricity. On July 31, 1978 the MPSC issued an order authorizing an increase in Registrant's return on common equity for its electric business from 12.75% to 13.50% and authorized Registrant to increase its rates for the sale of electricity $54,998,000, on an annual basis, which includes an interim

electric rate increase in an annual amount of $15,212,000 granted in March 1978 which had previously been placed in effect under bond and subject to refund. An appeal by the Attorney General of the March interim rate order is currently pending before the Circuit Court. The July 1978 order also denied applications for rehearing of the interim rate order which had been filed by certain industrial customers who had requested that interim rate design be changed so that all classes of customers would pay an equal percentage surcharge and had further requested refunds of any amounts paid in excess of such equal percentage surcharge. The MPSC's July 1978 order also provided for a Consumer Price Indexing System ("Indexing System") pursuant to which Registrant will annually (in February) adjust its rates to reflect a percentage increase or decrease in the Other Operations and Maintenance Expense base in its rates equal to the annual increase or decrease (during the preceding 12 months, ending each August) of the Consumer Price Index. On August 30, 1978 the Attorney General and an industrial customer appealed certain aspects of the MPSC's July 1978 order, including the Indexing System, to the Circuit Court.

On January 29, 1979, in accordance with the Indexing System, the MPSC authorized an increase in Registrant's electric rates by the amount of approximately $12,279 000 for the 12 months beginning February 1979 to reflect changes in the Consumer Price Index occurring between August 1977 and August 1978. On February 7, 1979 the Attorney General appealed the MPSC's January 29, 1979 Indexing System order to the Circuit Court. On January 8, 1980 the MPSC issued an order increasing Registrant's electric rates by the amount of approximately $20,288,000 for the 12 months beginning February 1980 to reflect changes in the Consumer Price Index occurring between August 1978 and August 1979. On February 7, 1980, the Attorney General and Dow appealed the MPSC's January 8, 1980 order to the Circuit Court. On January 30, 1981 the MPSC issued another order increasing Registrant's electric rates by the amount of approximately $23,950,000 for the 12 months beginning February 1981 to reflect changes in the Consumer Price Index occurring between August 1979 and August 1980. On February 13, 1981, the Attorney General appealed the

January 30, 1981 order to the Circuit Court. These three appeals are pending before the Circuit Court.

(d) On January 23, 1975 the MPSC issued an order increasing Registrant's electric rates $66,231,000 on an annual basis. The Attorney General and UAW-CAP appealed the order to the Circuit Court, requesting that such rate increase be restrained and enjoined during the pendency of the litigation. At issue in the litigation were electric rates collected during the period January 1975 through April 1976. On February 2, 1981 the Circuit Court entered an order dismissing the appeal for lack of progress.

The calculations in (a) through (d) pertaining to amounts of rate relief granted or requested are based on the test years governing the respective rate cases, and revenues actually realized depend upon actual unit sales of electricity and gas.

(e) On December 29, 1980 Registrant filed three applications with the MPSC requesting authority (i) to issue and sell $336,521,000 of long-term or intermediate debt, 8.5 million shares of common stock and 4 million shares of preference stock; (ii) to issue and sell $38,479,000 of First Mortgage Bonds, to enter into installment sales contracts in connection with $59,000,000 and $12,500,000 principal amounts of Pollution Control Revenue Bonds, and to issue and sell unsecured long-term notes, to mature on December 31, 1988, to refund $175,000,000 of short-term notes maturing on December 31, 1982; and (iii) to increase the credit available under two existing nuclear fuel leasing arrangements from $50,000,000 to $75,000,000 and from $60,000,000 to $100,000,000, respectively, and to enter into a third nuclear fuel leasing arrangement in the amount of $140,000,000. The Attorney General and a "public interest" group have intervened in opposition to the request. On February 18, 1981 the MPSC issued an order, ex parte, authorizing Registrant to issue and sell $38,479,000 principal amount of First Mortgage Bonds, solely for the purpose of refunding a like amount of First Mortgage Bonds maturing on April 1, 1981, and authorizing Registrant to enter into installment sales contracts in connection with the issue and sale of

$59,000,000 and $12,500,000 principal amounts of Pollution Control Revenue Bonds. On March 11, 1981, the intervenors appealed the MPSC's February 18, 1981 order to the Court of Appeals. On March 24, 1981 the Court of Appeals denied the appeal for lack of merit. On March 26, 1981 the intervenors applied to the Michigan Supreme Court for leave to intervene, seeking an emergency stay of the February 18, 1981 order. The matter is pending before the Supreme Court. On March 26, 1981 the First Mortgage Bond refunding issue was issued and sold by Registrant.

(f) On December 6, 1979, the NRC issued an order which, if made effective, would modify Registrant's construction permits for the Midland Plant to prohibit remedial construction work undertaken to correct certain foundation soils problems at the Midland Plant, discovered in August 1978, pending Registrant's submittal of an amendment to its license application for the Midland Plant seeking approval for such work and pending issuance of an amendment to the construction permits authorizing such work. On December 19, 1979, Registrant filed an amendment to its application for construction permits and operating licenses for the plant seeking NRC approval for the remedial action prohibited by the NRC's December 6, 1979 order. In addition, on December 26, 1979 Registrant requested a hearing with respect to the NRC's order, thereby delaying the order's effectiveness and on March 14, 1980 the NRC issued a notice that a hearing will be held before an NRC Atomic Safety and Licensing Board ("ASLB"). Hearings are scheduled to begin in July 1981. Prehearing conferences were held in the matter in September 1980 and January 1981. Certain individuals have been permitted to intervene in the proceeding. The Staff of the NRC has raised an issue in the proceeding as to whether the seismic criteria applicable to the Midland Plant should be made more stringent. As part of the December 6, 1979 order, the NRC also issued two notices of violation, citing Registrant for several noncompliances, including an alleged material false statement in Registrant's license application for the plant, all related to the foundation soils problem. Registrant is unable to determine at this time whether these matters will result in further delay in initial operation of the Midland Plant or further increases in plant costs.

(g) On November 4, 1979 and January 6, 1980, during two separate outages of Registrant's Big Rock Point Plant, two individuals requested that the NRC order Registrant to delay a restart of the Big Rock Point Plant until certain alleged safety questions were resolved. Since it did not receive the first petition before the plant was returned to service, the NRC gave notice on December 4, 1979 that it was treating the petition as a request for an order to show cause why the operating license for the plant should not be suspended pending resolution of the issues raised. The petition was treated as a request for action under Title 10 of the Code of Federal Regulations, Section 2.206, upon which action would be taken "within a reasonable time." On March 5, 1980 the NRC Staff notified the petitioners that their January 6 petition would be consolidated with their November 4 petition for consideration. The NRC Staff also concluded that there was sufficient assurance of safety to permit the plant to continue operating pending final disposition of the issues raised. On April 1, 1980 the Concerned Citizens for the Charlevoix Area requested that the Big Rock Point Plant be shut down immediately because, they contended, the plant does not meet minimal NRC requirements relating to containment integrity. On June 26, 1980 the NRC issued a notice that the request was also being treated under 10 CFR 2.206. On December 18, 1980, the NRC's Director of Nuclear Reactor Regulation denied all of the aforementioned petitions. By order effective January 26, 1981, the NRC declined to review the Director's decision regarding the April 1, 1980 petition. By order effective March 3, 1981, the NRC declined to review the Director's decision regarding the November 4, 1979 and January 6, 1980 petitions.

(h) By submittals of April 23, 1979 and June 26, 1979, Registrant requested NRC approval of a proposed amendment to the Big Rock Point Nuclear Plant operating license to allow the addition of storage racks to the plant's spent fuel pool to increase the storage capacity from 193 to 441 fuel assemblies, in order to permit continued operation past November 1982 in the event off-site spent fuel storage or disposal is not made available. By order dated January 18, 1980 an NRC ASLB granted certain petitions for leave to intervene in the proceeding in opposition to the amendment, and public hearings will be

held. The Atomic Safety and Licensing Appeal Board ("ASLAB") has ruled that the fact that granting the amendment would permit operation for a longer period than would otherwise be the case does not, of itself, call for preparation of an environmental impact statement under the National Environmental Policy Act. The ASLAB remanded to the ASLB other issues affecting the scope of environmental review that will be required.

(i) In light of "undesirable past regulatory performance and personnel errors," the NRC, effective March 9, 1981, issued an order confirming various short-term and long-term actions Registrant has taken and intends to take to upgrade regulatory performance at the Palisades Plant. The order provided that any person having an interest affected by the order could request a hearing within 25 days of the order's issuance. On March 31, 1981, the Utility Workers Union of America, AFL-CIO, and its Michigan State Utility Workers Council requested a hearing on the order, asking that it be reconsidered and vacated insofar as it restricts the amount of overtime that may be worked by union members at the Palisades Plant.

(j) On December 21, 1979, at the request of Registrant, the Office of General Counsel of the Department of Energy ("DOE") issued an interpretation that a portion of the feedstock utilized in Registrant's Marysville Plant should properly have been included in the Entitlements Program. On May 27, 1980 the Office of General Counsel of the DOE denied a petition for reconsideration submitted on behalf of Ashland Oil, Inc, Clark Oil and Refining Corp, and Energy Cooperative, Inc, and a petition for reconsideration submitted on behalf of Amoco Oil Company. In August 1980, Registrant was able to complete its filings with the DOE. On the basis of those filings Registrant has received approximately $12,000,000 through operation of the Entitlements Program. It is anticipated that any money received by Registrant, as a result of retroactive inclusion in the Entitlements Program to June 1976 and attributable to feedstock which was processed into synthetic natural gas, will flow through to its natural gas customers through operation of its purchased gas adjustment clause. On February 12, 1981 the Economic Regulatory

Administration denied Registrant's request to be included in the Entitlements Program for the period beginning February 1, 1976 and ending June 16, 1976. On February 20, 1981 Registrant appealed that denial to the Office of Hearings and Appeals of the DOE.

(k) The Conservation Manager of the Geological Survey has ordered a Unitization Agreement pertaining to certain natural gas production in Vermillion Blocks 320 and 321, in offshore Louisiana. Under the proposed Unitization Agreement, a group in which Registrant's subsidiary, Northern Michigan Exploration Company ("Northern"), is participating would be entitled to only 31.86 percent of production, retroactive to November 14, 1975. Because the group has produced and is producing more than 31.86 percent of the gas produced, the effect of the order would be to create a contingent liability on Northern's part of approximately $2,940,000 as of March 31, 1981. Such contingent liability will increase by approximately $40,000 per month until it is finally determined whether the percentage of production assigned to the group is as large as it should be and whether the Geological Survey has the power to impose this unitization. The group appealed to the Director of the Geological Survey, who affirmed the order of the Conservation Manager. The group requested that the Director modify his decision and filed an appeal with the Board of Land Appeals, US Department of the Interior. The Board of Land Appeals remanded the matter to the Director for reconsideration and issued an order staying implementation of the unitization plan pending such reconsideration.

(l) Pursuant to the terms of performance contracts entered into with the Michigan Air Pollution Control Commission ("MAPCC") in 1973, Registrant on January 1, 1980 completed the conversion of D E Karn Units 1 and 2 and J C Weadock Units 7 and 8 to allow utilization of low-sulfur (less than 1%) rather than high-sulfur coal. In 1979, the MAPCC approved agreements providing for further extensions, until January 1, 1985, of the date by which Registrant's J H Campbell Plant Units 1 and 2 and B C Cobb Plant must comply with MAPCC regulations which in general would require the use of fuel with a sulfur

content of 1% or less. The Campbell and Cobb Plants are now being operated in accordance with the extension agreements. Under the Federal Clean Air Act, the extension agreements must also be approved by the Environmental Protection Agency ("EPA") as revisions to the Michigan State Implementation Plan ("State Plan") for air quality. The Campbell agreement was approved effective January 23, 1981. Although the State of New York made no comments during the time limits prescribed for such comments, it filed a petition dated January 16, 1981 requesting the EPA to reconsider its final action regarding the J H Campbell Plant extension agreement, based on an allegation that the Campbell Plant contributes to acid rain in the State of New York. Registrant is taking the position that the petition should be dismissed on both procedural and factual grounds. On February 20, 1981 the State of New York petitioned the US Court of Appeals for the District of Columbia Circuit for review of the EPA action which approved the revised State Plan for the J H Campbell Plant. Although it has not yet formally approved the Cobb extension agreement, the EPA has assured Registrant in writing that it expects to approve the agreement and does not intend to enforce the unrevised Michigan State Plan while it is reviewing the agreement so long as the plant is operated in accordance with the agreement. The State of New York has submitted a late pleading asking the EPA not to approve the Cobb extension agreement based on an allegation that the Cobb Plant contributes to acid rain in the State of New York. Further, the State of New York has notified the EPA and Registrant that it intends to bring a legal action for the purpose of compelling the EPA to force Registrant to utilize low-sulfur coal at the Cobb Plant. If EPA approval of the agreement is not obtained and no other appropriate actions are taken by the EPA or Registrant, Registrant could become subject to substantial penalties under the Federal Clean Air Act. Since the publication of final EPA regulations in 1980, an additional "noncompliance penalty" equivalent to the amount of money saved by a source because of its noncompliance could be imposed for the violation of any requirement of the Michigan State Plan.

(m) On March 12, 1981 the Province of Ontario, Canada, filed "A Submission to the United States Environmental Protection Agency Opposing Relaxation of SO_2 Emission Limits in State Implementation Plans and Urging Enforcement." In that submission Ontario alleges that 18 US power plants, including Registrant's J H Campbell and B C Cobb Plants, significantly contribute to acid deposition in Ontario and that any increase in emissions of sulfur dioxide from these sources will further impair the Ontario environment. Ontario bases its claim to be heard upon: (1) the Federal Administrative Procedure Act; (2) Section 115 of the Federal Clean Air Act; (3) United States judicial decisions; and (4) international law. Ontario urges that the Administrator disapprove any revisions to the State Plans in these proceedings which would result in any increase of permissible emissions of sulfur dioxide and that the Administrator reconsider any SIP revisions already approved in these proceedings which result in any increase of permissible emissions of sulfur dioxide and disapprove such revisions. The proposed revision to the Michigan State Plan involving the B C Cobb Plant and the final revision to the Michigan State Plan involving the J H Campbell Plant extend the compliance date to January 1, 1985 for these plants to meet the State of Michigan's sulfur dioxide emission limitations (see Paragraph (l) above).

(n) In 1979, Registrant entered into an agreement with various Michigan municipal electric utilities and rural electric cooperatives settling antitrust issues raised by some of these utilities as intervenors before the NRC in proceedings for the licensing of the Midland Nuclear Plant. Among other things, this settlement agreement offered the municipal and cooperative utilities an option to purchase a portion of the J H Campbell Plant Unit 3 and other related facilities. On May 29, 1980, the Michigan Public Power Agency ("MPPA"), an association of municipal electric utilities, exercised its option under the settlement agreement by finalizing the purchase of a 4.8% undivided interest in Campbell Unit 3, as it existed on March 31, 1980, and a 58.06% undivided ownership interest in other related facilities. As of March 31, 1981, Registrant had received a total of $30,300,000 from the MPPA for such purchase. On March 30, 1981, Northern Michigan Electric Cooperative, Inc

("NMEC") and Wolverine Electric Cooperative, Inc ("Wolverine") exercised their options under the settlement agreement by finalizing the purchase of a 1.26% undivided ownership interest on the part of NMEC, and a 0.63% undivided ownership interest on the part of Wolverine, in Campbell Unit 3 as it existed on January 31, 1981. At the same time NMEC and Wolverine acquired, respectively, 20.410% and 10.205% undivided ownership interests in other facilities related to Campbell Unit 3, as they existed at January 31, 1981. . . of March 31, 1981, Registrant had received from NMEC a total of $8,000,000 and from Wolverine a total of $4,000,000 for such purchases.

Item 5. Other Information.

(a) In connection with Registrant's generating units which burn petroleum products, Registrant is importing two types of residual fuel oil from Canada. Registrant imported approximately 5.5 million barrels in 1980 and expects to import approximately 5.5 million barrels in 1981. Canadian export licenses and US import licenses are required to be renewed from time to time and the receipt of such licenses is not necessarily assured. Long-term export licenses from the National Energy Board of Canada permit the exportation to Registrant of one type of residual fuel oil through 1981 and the other type of residual fuel oil through August 1982. Registrant has a long-term contract through 1987 to purchase from 10,000 to 19,000 barrels per day of the second type of Canadian residual oil and a long-term contract ending on December 31, 1982 to purchase 5,500 barrels per day of the first type of residual fuel oil, both to be burned at the D E Karn Plant. The Canadian government began curtailing exports of crude oil in January 1973 and has announced that further curtailments can be expected and that it expects to end exports of light crude oil entirely in 1981. These curtailments should not have any adverse effect on Registrant's residual fuel oil deliveries.

Canadian export taxes applicable to residual fuel oil imported by Registrant were revised after February 1, 1981. The Canadian export tax for one type of residual fuel oil increased from $13.45 per barrel to $16.45 per barrel (Canadian dollars) from February 1, 1981 to April 1, 1981. A second

type of residual fuel oil imported by Registrant is taxed partly at the $16.45 per barrel rate and partly at a higher rate applicable to partially processed oil. From February 1 to April 1, 1981 the average rate applicable to this second type of oil increased from $16.02 to $18.10 per barrel (Canadian dollars). If the export tax rates remain unchanged during the 12 months beginning April 1, 1981, Registrant will pay approximately $60 million ($51 million in US dollars) in Canadian export taxes for the exportation to the US of the first type of residual fuel oil, and approximately $33 million ($28 million in US dollars) in Canadian export taxes for the exportation to the US of the second type of residual fuel oil.

(b) Approximately 83 percent of the gas purchased during the 12 months ended March 31, 1981 for sale to Registrant's customers was purchased by Registrant from interstate pipeline suppliers regulated by the Federal Energy Regulatory Commission ("FERC"); namely, Trunkline Gas Company ("Trunkline"), a wholly-owned subsidiary of Panhandle Eastern Pipe Line Company ("Panhandle"), and Michigan Gas Storage Company ("Storage Company"), a wholly-owned subsidiary of Registrant. In turn, Storage Company has a FERC approved cost-of-service tariff pursuant to which it sells gas purchased from its sole supplier, Panhandle, to its sole gas customer, Registrant. During the 12 months ended March 31, 1981, substantial increases in the cost of gas purchased from both Trunkline and (through Storage Company) Panhandle occurred. Pursuant to purchased gas adjustment clauses in Registrant's retail gas tariffs, Registrant expects to recover substantially all of such increases in cost of gas from its retail gas customers.

(c) Investment in the Midland Nuclear Plant, a twin-unit facility designed to generate 1,357 megawatts for Registrant's electric system and to furnish process steam service to The Dow Chemical Company ("Dow"), was $1.66 billion at March 31, 1981. Because of the accident at the Three Mile Island Unit 2 Nuclear Plant ("TMI"), the NRC has been concentrating its resources toward handling TMI issues; therefore, consideration of construction permits and operating licenses, including Registrant's application for Midland

Plant operating licenses, has been delayed. 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, and certain other licensing assumptions, Registrant estimates that Midland Plant Unit 2 will be in commercial operation for electric service in December 1983 and Unit 1 will be in commercial operation for process steam service and electric service in July 1984, and that the plant will cost approximately $3.1 billion. Registrant's decision to continue design and construction of the plant assumes that necessary regulatory approvals will be obtained. Registrant is vigorously pursuing efforts to identify and favorably resolve matters which could cause delays and cost increases. There can be no assurance, however, that further delays and further cost increases will not occur. If commercial operation of the plant for process steam service to Dow cannot begin until after December 31, 1984, Dow would have the right to terminate its agreement with Registrant for such service; however, Dow would be obligated to pay an amount estimated to range from $230 million at March 31, 1981 to $430 million if the plant were completed at a cost of $3.1 billion. Should Dow terminate the agreement for such cause, the remaining portion of the investment in equipment allocable to the process steam service, estimated to range from $165 million at March 31, 1981 to $310 million if the plant were completed at a cost of $3.1 billion, may not be salvageable.

Item 6. Exhibits and Reports on Form 8-K.

(a) List of Exhibits.

Exhibit Number	
A	- Letter of independent public accountants.
B	- Letter re unaudited financial information.
(2)-(3)	- Not applicable.
(4)(a)	- Restated Articles of Incorporation of the Registrant.
(4)(b)	- Certificates Giving Acquired Issued Shares Status of Authorized and Unissued Shares, filed August 28, 1969, April 22, 1970, August 23, 1971 and September 13, 1972. (Designated in Registration No 2-37326 as Exhibit 2(c); in Registration No 2-44136 as Exhibit 2(d); and in Registration No 2-45643 as Exhibit 2(c)-1.)
(4)(c)	- Copy of the By Laws of the Registrant. (Designated in Registration No 2-60884 as Exhibit (b)(6).)
(6)-(22)	- Not applicable.

(b) Reports on Form 8-K.

None

EXPERTS

Statements contained in Part II under "Item 1. Legal Proceedings." and "Item 5. Other Information." as to matters of law and legal conclusions, have been reviewed by Lawrence B Lindemer, Esq, General Counsel for Registrant, and such statements are made on his authority as an expert.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CONSUMERS POWER COMPANY
(Registrant)

Date May 13, 1981

Stephen H Howell
Stephen H Howell
Executive Vice President

Date May 13, 1981

S N Spring
S N Spring
Vice President and
Chief Accounting Officer

CONSENT

I hereby consent to the reference made to me under "Experts" in the Form 10-Q of Consumers Power Company for the quarter ended March 31, 1981 to be filed with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934 and to the incorporation by reference of this consent into Consumers Power Company's Registration Statement (Registration No 2-66930) previously filed with the Securities and Exchange Commission under the Securities Act of 1933 in accordance with its Dividend Reinvestment and Common Stock Purchase Plan and into Consumers Power Company's Registration Statement (Registration No 2-67409) previously filed with the Securities and Exchange Commission under the Securities Act of 1933 in accordance with its Employees' Savings Plan.

LAWRENCE B LINDEMER

May 13, 1981

APPENDIX E
BASIS FOR COMPLETION DATE EXTENSION

The Applicant hereby requests an extension of the earliest and latest completion dates for the Midland Plant Units 1 and 2 as follows:

		Earliest	Latest	
Unit 1	from	10/01/81	10/01/82	Change = 26 mo
	to	12/01/83	12/01/84	
Unit 2	from	10/01/80	10/01/81	Change = 33 mo
	to	07/01/83	07/01/84	

CAUSES OF SCHEDULE DELAY

The first request for a construction completion extension for Units 1 and 2 was made by the Applicant in August of 1977 and approved by the NRC in November of 1978. Since that time, the Applicant has experienced several schedule delays, many of which were beyond the Applicant's control. The resulting schedule growth since March of 1978 for key project milestones is shown in Figure E-1. Some of the items that contributed substantially to
2 these delays include:

- o increases in bulk commodity quantities
- o design evolution changes
- o a major work stoppage

The construction schedule delay shown in Figure E-1 is largely due to a projected increase in the quantity of bulk commodities to be installed, such as large and small pipe, cable tray, conduit and wire and cable. Several of the factors responsible for this projected quantity increase include additional or revised licensing requirements, design evolution, refinements in projections, and operational efficiency improvements. The Applicant's improved estimates in the magnitude of the design and construction effort since mid-1977 were developed after an extensive review of the remaining project scope during the first half of 1980. Table E-1 shows the estimated increases in bulk commodity quantities since the last construction completion extension was granted. The potential schedule delay associated with each commodity is calculated using the currently planned sustained installation rates. However, the schedule delays shown in Table E-1 are not cumulative.

Only one work stoppage (labor strike) having a significant impact on the project schedule has occurred since the last request for a construction completion date extension. In May 1978, the laborers struck for 44 days. Since the trades did not participate in the strike, the job was not shut down. However, the lack of laborer support required the layoff of certain trades. Manpower levels did not return to pre-strike conditions until three months

after the strike began. As a result, the strike caused an estimated three-month delay in the overall schedule.

Although the causes of delay discussed above result in a schedule extension of 33 months, an earlier study evaluated the potential impact of continued Unit 1 construction during the late phase of Unit 2 testing. Because of the interferences identified in this study, the security requirements, and the potential for major inefficiencies in both the Unit 1 construction completion effort and the Unit 2 startup test program, the Applicant decided to merge the Units 1 and 2 preoperational test program. As a result, specialized test equipment and trained personnel are retained on site to perform the various tests in a tandem fashion. This integrated test schedule reduces the overall construction duration for Unit 1 by seven months resulting in a five-month span between Unit 2 and Unit 1 fuel load dates rather than 12 months as previously planned. The seven month improvement in the Unit 1 fuel load date causes Unit 1 systems to be constructed in parallel with Unit 2 systems. This seven month shift in the Unit 1 fuel load date provides a schedule improvement and increased confidence that the preoperational test program will proceed with minimum interferences between the two units.

2 CASELOAD FORECAST PANEL PROJECTIONS

The current construction completion schedule was presented to the NRC caseload Forecast Panel at the Plant Site on July 29, 1980 and confirmed in an August 22, 1980 letter from J W Cook to D G Eisenhut. A followup meeting in Bethesda, Maryland on August 22, 1980 resulted in projections from the Caseload Forecast Panel that were about three months later than the completion dates shown in Figure E-1. These projections as well as the NRC's licensing schedule were discussed at an August 25, 1980 meeting between high level management from both the NRC and the Applicant. The minutes of this meeting, dated September 16, 1980, reflect the NRC's finding of reasonable agreement with the applicant's projected construction completion schedule.

SUMMARY

The schedule delays described above are chiefly the result of factors outside the Applicant's control. As such, the Applicant believes that these factors constitute good cause shown for extending the completion dates for a reasonable period of time as contemplated by 10 CFR 50.55(b).

TABLE E-1 SUMMARY OF INCREASED BULK COMMODITY QUANTITIES
AND ASSOCIATED SCHEDULE DELAYS

Commodity	Forecast # 5 March 1978 (Lineal Feet)	Current[a] Forecast (Lineal Feet)	Quantity Increase (Lineal Feet)	Sustained[b] Installation Rate (Lineal Feet/Month)	Schedule Delay (Months)	Current[c] Status (% Complete)
Large Pipe	261,000	277,000	16,000	6,500	2.5	96
Small Pipe	227,000	310,000	83,000	6,900	12	75
Cable Tray	64,000	85,000	2[illegible],000	2,100	10	100
Exposed Conduit	294,000	534,000	240,000	11,000	22	68
Wire & Cable	4,900,000	10,300,000	5,400,000	271,000	20	34

2

[a] Adjusted Forecast #6, August 1980

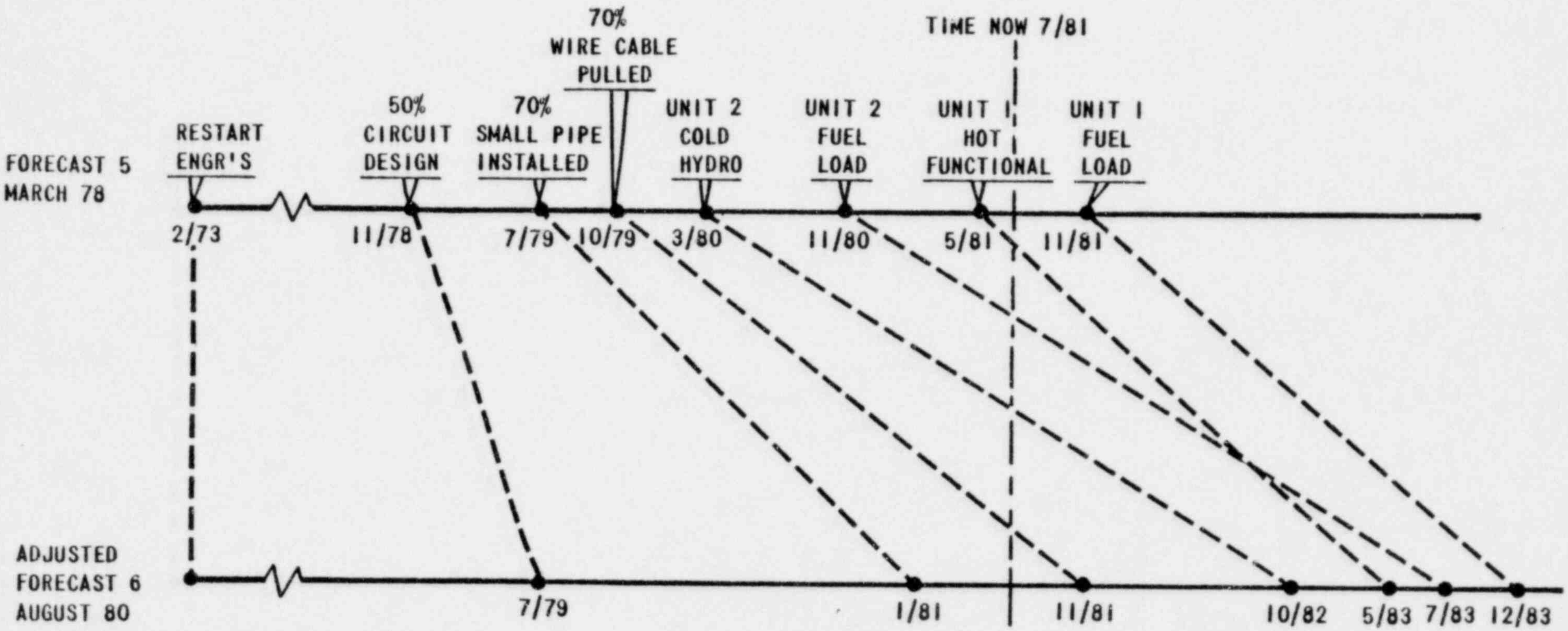
[b] 10% to 90%

[c] As of June 1981

FIGURE E-1

CONSUMERS POWER COMPANY
MIDLAND UNITS 1&2

SCHEDULE GROWTH



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APPENDIX F

TRADE AND NEWS PUBLICATIONS

1. Trade Publications

   Electric Light and Power
   Electrical World
   Engineering News-Record
   Nuclear Industry
   Power
   Public Utilities Fortnightly

2 Transmission and Distribution

2. News Publications

County	Publication
Alcona	Alcona County Review (Harrisville)
Allegan	Allegan County News-Gazette
Alpena	The Alpena News
Antrim	Antrim County News (Bellaire)
Arenac	Arenac County Independent (Standish)
Barry	Hastings Banner
Bay	The Bay City Times
Benzie	Benzie Record-Banner (Beulah)
Berrien	The Herald-Palladium (Benton Harbor)
	The Daily Star (Niles)
Branch	Coldwater Daily Reporter
Calhoun	Battle Creek Enquirer and News
	Marshall Evening Chronicle
Cass	Dowagiac Daily News
Charlevoix	Charlevoix County Press (Boyne City)
	Charlevoix Courier
Cheboygan	Cheboygan Daily Tribune
Chippewa	The Evening News (Sault Ste Marie)
Clare	Clare Sentinel
Clinton	Clinton County News (St Johns)
Crawford	Crawford County Avalanche (Grayling)
Eaton	Charlotte Republican-Tribune
Emmet	Petoskey News-Review
	The Harbor Light (Harbor Springs)
Genessee	The Flint Journal
Gladwin	The Gladwin County Record & Beaverton Clarion (Gladwin)
Grand Traverse	The Traverse City Record-Eagle
Gratiot	Daily Record-Leader (Alma)
Hillsdale	The Hillsdale Daily News
Houghton	The Daily Mining Gazette (Houghton)
Huron	Huron Daily Tribune (Bad Axe)
Ingham	The State Journal (Lansing)

2. <u>News Publications</u> (Contd)

	County	Publication
	Ionia	Ionia Daily Sentinel-Standard
		Portland Independent Review and Observer
	Iosco	Oscoda Press
2	Isabella	The Morning Sun
	Jackson	Jackson Citizen-Patriot
	Kalamazoo	Kalamazoo Gazette
	Kalkaska	Leader and Kalkaskian (Kalkaska)
	Kent	The Grand Rapids Press
		Lowell Ledger-Suburban Life
	Lake	Lake County Star (Bladwin)
	Lapeer	Lapeer County Press
	Leelenau	The Leelenau Enterprise-Tribune
	Lenawee	Adrian Daily Telegram
	Livingston	Livingston County Press (Howell)
	Macomb	Macomb Daily (Mt Clemens)
	Manistee	The Manistee News Advocate
	Mason	Ludington Daily News
	Mecosta	The Pioneer (Big Rapids)
	Midland	Midland Daily News
	Missaukee	The Waterfront (Lake City)
	Monroe	Monroe Evening News
	Montcalm	The Daily News & Belding Banner (Greenville)
	Montmorency	Montmorency County Tribune (Atlanta)
	Muskegon	The Muskegon Chronicle
	Newaygo	The Newaygo Sun
	Oakland	The Oakland Press (Pontiac)
	Oceana	Hart Journal
	Ogemaw	Ogemaw County Herald (West Branch)
	Osceola	Osceola County Herald (Reed City)
	Oscoda	Oscoda County News (Mio)
	Otsego	Otsego County Herald-Times (Gaylord)
	Ottawa	Grand Haven Tribune
		The Holland Evening Sentinel
		Zeeland Record
	Presque Isle	Presque Isle County Advance (Rogers City)
	Roscommon	Roscommon Herald-News
	Saginaw	The Saginaw News
	St Clair	The Times Herald (Port Huron)
	St Joseph	Sturgis Journal
		Three Rivers Commercial
	Shiawassee	The Argus-Press (Owosso)
	Van Buren	South Haven Daily Tribune
		The Courier-Leader (Paw Paw)
	Washtenaw	The Ann Arbor News
		The Chelsea Standard
	Wayne	Detroit Free Press
		The Detroit News
	Wexford	Cadillac Evening News