

## Chapter 3 – Campbell 3

Armed with sweeping powers authorized by Public Act 448, half of Michigan's 41 municipal electric utilities came together in 1977 to investigate the feasibility of forming a joint action agency to build, buy or acquire an ownership interest in baseload generating capacity. Using the working name of Michigan Public Power Agency (MPPA), the as-yet unincorporated group of municipal utilities commissioned the national engineering consulting firm of R.W. Beck to conduct a power supply study as a necessary first step in incorporation.

Meanwhile, the antitrust action brought five years before by five municipal utilities and two Michigan G&T cooperatives continued to progress through the bureaucracy of the renamed Nuclear Regulatory Commission (NRC) and its Atomic Safety and Licensing Board. During 1977, the Board issued rulings that seemed to support the position of the plaintiffs, that Consumers Power's refusal to consider selling an ownership interest in the Midland Nuclear Project was, in fact, a violation of antitrust statutes.

Consumers Power and its attorneys had appealed the initial rulings. On December 30, 1977, the Licensing Board's appellate division dropped a bombshell on the Jackson-based IOU. In a 432-page decision, the Appeals Board held that Consumers Power had violated antitrust laws. "We believe that no type of licensing condition – be it a requirement for wheeling, coordination, unit power access, or sale of an interest in the plant itself – is necessarily foreclosed as a possible form of relief," the Appeals Board affirmed its decision.<sup>1</sup>

William Warfield Ross, Consumers Power's general counsel, vowed "all possible ways to reverse the decision."<sup>2</sup> But it was becoming increasingly clear to top management in Jackson that the \$1 million already spent on legal fees to fight the municipal utilities was counter-productive. Spending more money on the case would be essentially futile.

By March 1978, Consumers Power was signaling its willingness to sit down and talk with the municipal utilities. In a press release announcing that A.H. Aymond was stepping down as the utility's chief operating officer, Consumers Power noted that it hoped "to get some \$380 million in participation from consumer-owned utilities such as municipals and co-ops to finish Midland 1 & 2."<sup>3</sup> The company also said it planned to have the two nuclear units in operation by 1982.

On March 17, the two longtime antagonists gathered for the first of a series of meetings which would negotiate various differences between the parties before the year was over. The St. Patrick's Day meeting at the Plaza Hotel in Lansing comprised 42 people. In attendance were representatives of Consumers Power's power supply and legal staffs; representatives from the five municipal utilities and two G&T cooperatives; and staffers from the Michigan Municipal Electric Association.<sup>4</sup>

The public power entities appointed a negotiating committee made up of John Keen, Wolverine Electric Cooperative, chairman; Frank Whitney, Holland, vice chairman; and Richard Gorman, Petoskey, secretary. Other members of the committee included Clyde Johnson of Northern

### *The Best Investment ...*

MPPA's purchase of 38 megawatts of power from the Campbell Unit 3 coal-fired generating station in Ottawa County in 1980 was perhaps the best investment Michigan's municipal utilities ever made in their energy future.

The price of slightly more than \$1 million per megawatt that MPPA paid for its share of Campbell Unit 3 might have seemed excessive at the time. But within three years, utilities in the Midwest were routinely paying \$3 million and up per installed megawatt of capacity. And the purchase price included access to Consumers Power's high-voltage transmission system serving the plant.

Campbell 3 was the culmination of an aggressive coal-fired generation strategy followed by Consumers Power in the 1960s and 1970s. The first unit of the complex on Lake Michigan near Holland had been built in the early 1960s. The 225-megawatt baseload unit was constructed on a site that could accommodate significant expansion, and was located close to growing load centers in southwestern Michigan. In April 1964, Consumers Power announced the construction of Campbell Unit 2, a 385-megawatt unit nearly double the size of the existing unit.<sup>1</sup>

By the mid-1970s, Consumers Power was in the midst of one of the nation's most ambitious nuclear construction programs. Its Palisades nuclear plant

near South Haven was nearing completion, and the two-unit Midland Nuclear Project was in the early stage of construction.<sup>2</sup> With demand growing, and perhaps fearing that it had too many eggs in the nuclear basket, Consumers Power began construction of Campbell Unit 3. At 790 megawatts, the new unit had a larger capacity than the previous two units combined.

Consumers Power built Campbell Unit 3 to meet and exceed all air quality standards. The plant was designed to burn a blend of low-sulfur eastern and western coals, and it was outfitted with the latest in electrostatic precipitator technology to comply with ever more strict emissions standards.

But what truly set Campbell Unit 3 aside was its record for reliability. Year in and year out, MPPA has relied on Campbell Unit 3 to provide the maximum output called for in the 1980 sales agreement. In 1995, the unit operated at a 94 percent availability, well above the typical 75 percent availability of most coal-fired power plants.<sup>3</sup>

In 1980, there had been concern that Campbell Unit 3 was the highest-cost generating capacity that MPPA could purchase. "One thing that the IOUs classically do when they must give you ownership interest," explained Gary Zimmerman, MPPA's general manager since 1990, "is that it is always in their most recent plant which is, by the way, their highest cost plant. So, again, even when we buy into a plant to stabilize our cost, it is much like taking a mortgage out on your house. You fix your cost, but you had to buy the highest-cost house on the block. We did that."<sup>4</sup>

What looked to be the highest-cost house plants in the Midwest 20 years later. By the early 2000s, Campbell Unit 3 produced the lowest-cost energy of any long-term resource available to MPPA and its members.

Michigan Rural Electric Cooperative; William White of Marshall; Richard Harris of Bay City; William Strom of Traverse City; and Joe Wolfe of Lansing.<sup>5</sup> The committee scheduled its first working meeting with Consumers Power negotiators in Lansing on April 3.

Meetings took place around the state in the spring and summer of 1978. While the negotiators continued to meet, wholesale prices in the state continued to increase.<sup>6</sup> Eaton Rapids, a Consumers Power wholesale customer, had to raise its residential rates to cover a Consumers Power fuel charge adjustment. Average residential rates in the Michigan community for 500 kilowatts jumped nearly 50 percent to just under \$30 in four months' time.<sup>7</sup> Holland's city council voted an across-the board 10 percent rate increase for residential customers in June.<sup>8</sup>

Faced with rapidly escalating construction costs at its Midland Nuclear Project, Consumers Power was eager to end the costly antitrust litigation and possibly use the excellent credit rating of Michigan municipal utilities to help it raise cash to complete the project. On July 26, 1978, 37 representatives of the municipal utilities and G&T cooperatives filed into the ballroom of a Holiday Inn at Mount Pleasant to hear details of the settlement worked out by Consumers Power and the plaintiffs' seven-man negotiating committee.

The original seven plaintiffs in the case had grown to 19 municipal utilities and rural electric cooperatives. The settlement, as outlined by John Keen and Frank Whitney, was a clear victory for public power in the state, coming on the heels of the enactment of Public Act 448 just seven months earlier.

In essence, Consumers Power agreed to let municipal utilities and cooperatives in the state buy and own up to 342,000 kilowatts of capacity in the Midland Nuclear Project and up to 100,000 kilowatts in the company's newest coal-fired unit, Campbell Unit 3. An important consideration was that the cities and cooperatives could purchase an ownership share in either facility. Even more importantly, Consumers Power agreed to transmit electric energy across its transmission lines "when members of the group have purchased power from other members or other utilities."<sup>9</sup> Consumers Power also pledged to establish a planning committee with members of the public power utilities group "to prepare and periodically update long-range electric generating capacity requirements for their respective systems."<sup>10</sup>

The agreement contained a separate clause allowing joint participation in any future nuclear generating station Consumers Power might build prior to December 31, 1999. Finally, the agreement called for the 19 utilities to release Consumers Power "from any liability under federal or state anti-trust laws in connection with its past business relationships with the group's members."<sup>11</sup>

For the representatives of Bay City, Charlevoix, Chelsea, Coldwater, Eaton Rapids, Grand Haven, Hart, Harbor Springs, Hillsdale, Holland, Lansing, Lowell, Marshall, Petoskey, Portland, St. Louis, Traverse City, Union City and Zeeland, the settlement agreement with Consumers Power was a culmination of a years-long struggle to ensure competitive electric power rates for their residents. It would take most of the rest of the year for ratification by city councils and commissions, utility governing boards, Consumers Power and the NRC's Atomic Safety and Licensing Board, but the July 26 settlement agreement was the cornerstone for stable wholesale electric power rates in Michigan for the next 25 years.

More than a year passed – August 13, 1979 – before the NRC signed off on the settlement agreement and it was legally accepted by all parties.<sup>12</sup> In that space of time, the state's public power community realized that participation in Campbell Unit 3 was its only option.

## The Incorporating Meeting



With the proposed settlement agreement in place, most of the municipal parties to the agreement met at the Hospitality Motor Inn at Lansing on the morning of November 10, 1978. Since none of the 19 municipal utilities involved in the proposed settlement had the financial wherewithal to participate individually in an ownership capacity of Consumers Powers' baseload generating units, it was mandatory that the group create a formal joint action agency to represent their collective interests.

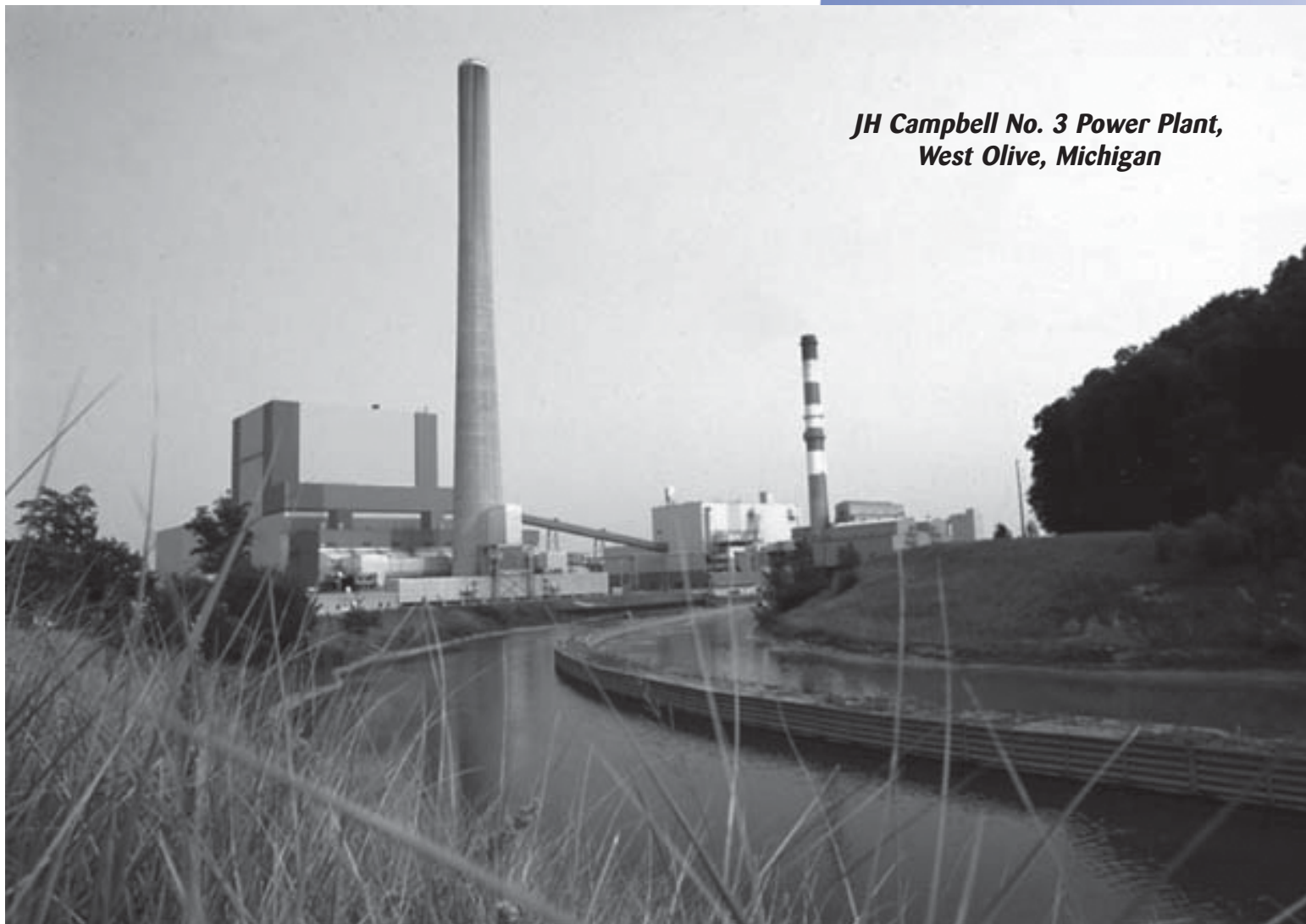
The November 10 incorporating meeting of the Michigan Public Power Agency (MPPA) took place less than three weeks after President Jimmy Carter had unveiled a voluntary program to combat inflation.<sup>13</sup> Then running at more than 1 percent a month, inflation was on everyone's mind at the Lansing meeting.

All of the municipal utility representatives were struggling in the fall of 1978 to hold costs in line, but it looked to be a losing battle. Construction interest costs for the power plants then being built were close to 10 percent. Interest rates would climb much higher during the next three years. The only way the Michigan municipal utilities could control costs was to secure ownership interest in one of the power plants that Consumers Power was building.

"Over time, Campbell has been a very good investment," Zimmerman said. "It has proven quite cost effective."<sup>5</sup>

### Endnotes

1. Raymond C. Miller, The Force of Energy: A Business History of the Detroit Edison Company (East Lansing: Michigan State University Press, 1971), p.212
2. *Ibid.*, p.212
3. The Campbell Project, [www.mpower.org/Campbell.htm](http://www.mpower.org/Campbell.htm)
4. Tape-Recorded Oral History Interview with Gary Zimmerman, Lansing, Michigan, December 18, 2002, p.11
5. *Ibid.*, p.11



***JH Campbell No. 3 Power Plant,  
West Olive, Michigan***

## Chapter 3 Endnotes

1. News Item, *MMEA Newsletter*, January 1978, p.1
2. *Ibid.*, p.1
3. News Item, *MMEA Newsletter*, March 1978, p.5
4. *Ibid.*, p.4
5. *Ibid.*, p.4
6. News Item, *MMEA Newsletter*, May 1978, p.1
7. *Ibid.*, p.1
8. News Item, *MMEA Newsletter*, July 1978, p.1
9. News Item, *MMEA Newsletter*, August 1978, p.1
10. *Ibid.*, p.1
11. *Ibid.*, p.1
12. Minutes of Michigan Public Power Agency, August 13, 1979, Lansing, Michigan, p.2; Hereinafter Cited as MPPA Minutes
13. "Carter announces anti-inflation plan," Clifton Daniel, Editor, *Chronicle of America* (Mount Kisco, New York: Chronicle Publications, 1989), p.860
14. 1MPPA Minutes, November 10, 1978, pp.1-2
15. *Ibid.*, pp.2-3
16. *Ibid.*, p.5
17. *Ibid.*, p.6
18. MPPA Minutes, March 1, 1979, p.4
19. Charles Komanoff, "Reflections on the U.S. Nuclear Industry's 25 Lean Years," *Synthesis/Regeneration*, v.11, Fall 1996
20. *Ibid.*
21. Christopher Flavin, "Nuclear Power: The Market Test," *Worldwatch Paper 57*, December 1983, p.33
22. Federal Energy Regulatory Commission, CMS Midland, Inc., Docket No. QF87-237-000, March 12, 1987, p.1

The initial November 10 meeting of MPPA lasted little more than two hours. The group elected Richard Gorman of Petoskey as the Agency's temporary chairman, who quickly opened the floor to nomination of a permanent chairman. Attendees unanimously elected Frank Whitney, the popular general manager of the Holland municipal utility, MPPA's first chairman. William Strom of Traverse City was elected vice chairman, Richard Gorman was elected secretary, and Earl Brush of Lansing was elected treasurer.<sup>14</sup>

The group immediately selected R.W. Beck as the Agency's engineer; Judd Werbelow of the Lansing firm of Dickinson, Wright, McLean, Cudlip and Moon as the Agency's Michigan counsel; and the New York firm of Mudge, Rose, Guthrie & Alexander as national counsel.<sup>15</sup> Maynard Starrey of South Haven, William Strom of Traverse City and Roland Dawson of Grand Haven were appointed to the bylaws committee and promised to meet in the Holland area before November 29.<sup>16</sup>

Frank Whitney reported that a time schedule had been set up for completion of the NRC agreement with Consumers Power. Whitney told the group he hoped that the NRC could approve the settlement agreement early in 1979, and that "those people who are participants would be very busy in the next two months."<sup>17</sup> Whitney was overly optimistic in his estimates. The slippage of the time schedule for approval of the agreement into the late spring of 1979 would dictate the Agency's selection of Campbell Unit 3 over participation in the Midland Nuclear Project.

## Coal Versus Nuclear



At its March 1, 1979 meeting at Lansing's Hospitality Motor Inn, MPPA chairman Frank Whitney reported that the proposed deadline for participation in Campbell Unit 3 was July 1 for Agency commitment and October 1 for payment of funds to Consumers Power. The deadline for Agency commitment to participation in Midland was October 1, with funds to be paid Consumers Power on April 1, 1980.<sup>18</sup>

In the early morning hours of March 28, 1979, a feedwater transient at General Public Utilities' Three Mile Island nuclear plant on the Susquehanna River near Harrisburg, Pennsylvania tripped the number two unit off line. Three days later, America was in the midst of its first full-blown crisis of the nuclear era. Three Mile Island coalesced anti-nuclear sentiment in the United States and revealed that the NRC had been a less than diligent watchdog when it came to nuclear plant safety.<sup>19</sup>

As the NRC tightened its safety inspections of nuclear plants during the summer and fall of 1979, the Federal Reserve moved to quash inflation through a policy of tight money supply.<sup>20</sup> Capital rapidly dried up, and interest rates skyrocketed. Utilities such as Consumers Power with nuclear construction projects ongoing watched helplessly as NRC inspectors swarmed across the Midland site, demanding wholesale changes in the way the two-unit nuclear project was designed and built. All the while, Consumers Power was paying as much as 18 percent interest on the money it borrowed to build the plant.

The expansion of America's nuclear power industry stopped dead in its tracks in 1979. During the next three years, 40 nuclear power plant projects were scrapped, eliminating some 36,000 megawatts of future capacity.<sup>21</sup> Consumers Power spent \$4.2 billion trying to build Midland before reluctantly converting the unfinished facility in 1987 into a natural gas cogeneration plant.<sup>22</sup>

For MPPA, Three Mile Island was one of the most serendipitous events in the Agency's history. Had the Pennsylvania reactor not tripped off line into the headlines, the decline of nuclear power might have been a more prolonged experience. And if Three Mile Island had not exposed nuclear power's liability, MPPA may have made an investment that would have cost members millions of dollars and likely stifled the Agency's development before it ever got started.

MPPA's Whitney, Strom, Gorman and Brush realized by late 1979 that participation in Midland was no longer an option for the Agency and its members. They recommended that the Agency negotiate for an ownership share in the coal-fired Campbell Unit 3. Negotiations with Consumers Power moved rapidly. The Jackson-based utility was in need of cash, and MPPA had money.

At a November 8, 1979 meeting at the Points West Resort on the shores of Lake Macatawa just west of Holland, MPPA approved a motion to purchase a 4.56 percent undivided ownership interest in Campbell Unit 3.<sup>23</sup> The sale also included ownership rights in the Campbell transmission system and effectively gave MPPA control of about 38,000 kilowatts of electric power.

On November 20, 1979, MPPA approved the issuance of \$42.74 million in revenue bonds to pay for participation in the Campbell project.<sup>24</sup> Ten of the 17 members who had formed the agency elected to participate in the Campbell purchase. The bonds were sold in the spring of 1980, and the first electricity from the 790-megawatt, coal-fired electric power station on the shores of Lake Michigan near Holland began flowing to MPPA members in mid-September.<sup>25</sup>

Consumers Power's retail customers weren't so lucky. In January 1979, the IOU had asked the Michigan Public Service Commission for \$159 million in rate relief, and had said at the time that it expected to ask for an additional \$111 million in 1980 to help pay for Campbell Unit 3. As a result of the increases, residential rates on the utility's system jumped 25 percent by early 1981.<sup>26</sup>

In less than three years, Michigan's municipal utilities had negotiated an antitrust settlement with Consumers Power, created MPPA, hammered out a sales agreement with Consumers for Campbell Unit 3, and sold more than \$40 million in revenue bonds. In the process, the utilities had ensured energy independence for their communities.

Before the ink was dry on the Campbell purchase, MPPA was negotiating the acquisition of a far larger block of power from the state's other major investor-owned utility.

23. MPPA Minutes, November 8, 1979, Holland, Michigan, p.2

24. MPPA, \$42,740,000 Campbell Project Revenue Bonds, 1980 Series, Adopted November 20, 1979, p.1

25. Agency History, [www.mpower.org/Agen\\_his.htm](http://www.mpower.org/Agen_his.htm)

26. News Item, MMEA Newsletter, November 1979, p.7