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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED JOINT PETITION OF AEP INDIANA)
MICHIGAN TRANSMISSION COMPANY, INC.)
("IM TRANSCO") AND INDIANA MICHIGAN)
POWER COMPANY ("I&M"), BOTH INDIANA)
CORPORATIONS, FOR INDIANA UTILITY)
REGULATORY COMMISSION APPROVAL, TO)
THE EXTENT NECESSARY, OF IM TRANSCO'S)
STATUS AS A TRANSMISSION ONLY PUBLIC)
UTILITY; FOR AUTHORITY TO MAINTAIN IM)
TRANSCOS BOOKS AND RECORDS OUTSIDE)
THE STATE OF INDIANA; AND FOR THE)
COMMISSION'S CONSENT TO BOARDS OF)
COUNTY COMMISSIONERS FOR IM TRANSCO)
TO OCCUPY THE PUBLIC RIGHTS-OF-WAY)
PURSUANT TO IC 36-2-2-23.)

CAUSE NO. 44000

APPROVED: NOV 02 2011

ORDER OF THE COMMISSION

Presiding Officers:

Kari A.E. Bennett, Commissioner

Lorraine L. Seyfried, Chief Administrative Law Judge

On March 1, 2011, Joint Petitioners, AEP Indiana Michigan Transmission Company, Inc. ("IM Transco") and Indiana Michigan Power Company ("I&M" or "Company") filed their Joint Petition with the Indiana Utility Regulatory Commission ("Commission") initiating this matter. On March 1, 2011, IM Transco and I&M also filed their prepared testimony and exhibits constituting Joint Petitioners' case-in-chief. On April 5, 2011, the Commission issued a Prehearing Conference Order which, among other things, established a procedural schedule for this Cause. On May 20, 2011, IM Transco and I&M filed their prepared supplemental testimony and exhibit. In accordance with docket entries dated June 16 and July 19, 2011, Joint Petitioners and the Indiana Office of Utility Consumer Counselor ("OUCC") filed a Settlement Agreement on July 18, 2011 and supporting testimony on July 22, 2011.

Pursuant to notice given and published as required by law, proof of which was incorporated into the record of this Cause by reference and placed in the official files of the Commission, a public hearing was held on August 16, 2011 at 9:30 a.m. in Room 224, 101 West Washington Street, Indianapolis, Indiana. At the hearing, IM Transco, I&M and the OUCC appeared by counsel. The parties' evidence was admitted into evidence without objection. No members of the general public appeared.

The Commission, based upon the applicable law and the evidence of record, now finds as follows:

1. **Notice and Jurisdiction.** Proper notice of the public hearing in this Cause was published as provided by law. IM Transco plans to engage in providing electric transmission service and facilities and to own, operate, manage and control plant and equipment within Indiana for the transmission of electricity at wholesale. These activities fall within the plain language of the term “public utility” under Ind. Code § 8-1-2-1. I&M is engaged in rendering electric service in the State of Indiana and owns, operates, manages and controls plant and equipment within the State of Indiana that are used for the generation, transmission, delivery and furnishing of such service to the public. I&M provides electric service to approximately 457,000 customers within the State of Indiana. I&M is also a “public utility” as defined in Ind. Code § 8-1-2-1. IM Transco and I&M are each subject to the jurisdiction of this Commission in the manner and to the extent provided by the Public Service Commission Act, as amended. The Commission has jurisdiction over Joint Petitioners and the subject matter of this proceeding in the manner and to the extent provided by the law of the State of Indiana.

2. **Joint Petitioners’ Characteristics.** IM Transco is a wholly-owned subsidiary of the American Electric Power Transmission Holding Company, LLC. (“AEPHoldco”), which is a wholly-owned subsidiary of American Electric Power Company, Inc. (“AEP”). IM Transco is a corporation organized and existing under the laws of the State of Indiana, with its principal office at 1 Riverside Plaza, Columbus, Ohio. I&M is a wholly owned subsidiary of AEP and a corporation organized and existing under the laws of the State of Indiana, with its principal office at One Summit Square, Fort Wayne, Indiana. Unlike I&M, IM Transco will not provide retail services to customers within Indiana. IM Transco’s transmission service is subject to regulatory oversight by the Federal Energy Regulatory Commission (“FERC”). Specifically, PJM Interconnection, LLC (“PJM”) will bill Load Serving Entities (“LSEs”) within PJM, including the AEP companies, municipalities, electric cooperatives and other LSEs for IM Transco’s transmission service based on FERC-approved tariffs.

3. **Relief Sought.** Joint Petitioners request Commission approval, to the extent necessary, of IM Transco’s status as a transmission only public utility; authority to maintain IM Transco’s books and records outside the State of Indiana; and for the Commission’s consent to Boards of County Commissioners of all Indiana counties to grant IM Transco such licenses, permits or franchises as may be necessary for IM Transco to use county roads, highways or other property and public right-of-way for the provision of its services and facilities pursuant to Ind. Code § 36-2-2-23. Three affiliate agreements filed with the Commission pursuant to Ind. Code § 8-1-2-49 have also been presented in this Cause.

4. **Joint Petitioners’ Case-In-Chief.** Mr. Paul Chodak III, President and Chief Operating Officer for I&M, discussed the major challenges facing I&M, including a substantial capital expenditure program for generation necessary to meet the needs of I&M’s customers for affordable, reliable service and for environmental controls to comply with regulatory requirements of governmental agencies such as the U.S. Environmental Protection Agency (“EPA”) and the North American Electric Reliability Corporation (“NERC”). He discussed I&M’s concern that the impact of these challenges could cause a downgrade in the Company’s debt ratings and subsequently a greater cost of debt. Mr. Chodak explained that these concerns caused the Company to look at financial solutions outside of its traditional way of doing

business. He explained why the formation of IM Transco, particularly in light of the financial challenges I&M is managing, would benefit I&M and its customers.

Ms. Lisa M. Barton, Senior Vice President Transmission Strategy and Business Development for American Electric Power Service Corporation (“AEPSC”) and officer of several AEP affiliates, provided an overview of the AEP Transmission Company, LLC (“AEPTCo”) corporate structure, discussed the business rationale and benefits associated with the creation of IM Transco, described various services to be provided by AEP affiliates to IM Transco, discussed the selection process for transmission projects to be owned by IM Transco, and discussed IM Transco’s membership in PJM. Ms. Barton also discussed IM Transco’s request to maintain its books and records in Columbus, Ohio.

Ms. Barton echoed Mr. Chodak’s view that I&M is facing significant pressure to maintain its credit ratings at a time when capital spending needs are significant across all areas of the utility business and are projected to persist over the next decade. She stated the Company’s transmission system is expected to require a sustained level of investment to meet customers’ needs and NERC requirements, as well as PJM requirements. She explained that in addition to new transmission projects that are mandated or required for compliance, the existing transmission grid is aging and various improvements to, and replacements of, existing facilities will be required. She stated I&M’s inability to make all reasonable improvements to the system when capital is tightly constrained can result in projects which are not of immediate necessity being deferred. She testified the operation of IM Transco will alleviate some of these capital constraints. In her view, the operation of IM Transco will have an indirect benefit on the reliability of the generation and distribution systems because the capital demands of mandated transmission projects may limit the amount of available capital for other needed investments by I&M, including generation and distribution projects.

Ms. Barton testified that as a company focused only on making transmission investments, IM Transco will be able to pursue certain transmission only projects in Indiana without being limited by the funding levels available within I&M. She added that this will provide long-term benefits to Indiana customers by relieving I&M of the burden of incurring debt and equity financing for those projects, and preserving debt issuance capacity for other needs.

Ms. Barton explained the process by which the AEP transmission system is planned and operated today, and elaborated on the types of transmission investments that will upgrade and improve the transmission grid, specifically as it relates to Indiana. Ms. Barton explained that Indiana’s transmission system is unique with respect to its location because in addition to serving major load centers, it is at the crossroads of two major energy markets (i.e., PJM and Midwest ISO). Consequently, the reliability of Indiana’s transmission grid is critical to the entire region and is also influenced to a greater extent by the frequent changes and variations that occur on the system. Ms. Barton testified that while demand has slowed somewhat with the recent economic downturn, overall load continues to increase. She stated there have been a number of new industrial and commercial customer requests for electric service from AEP’s transmission system, which require new and upgraded transmission facilities, including new lines, substations, and meters. Ms. Barton explained that the Indiana transmission system will require significant replacements of transmission facilities in the future and discussed the impact that new

generation, especially in the more remote areas of the state with high wind potential, has on the Indiana transmission system.

Ms. Barton also described the effect that wholesale power markets have on the transmission system in Indiana and explained that to address reliability and congestion concerns, the AEP Transmission Department (“AEPTransmission”), a business unit of AEPSC, forecasts investments in the transmission system in I&M’s service territory will range from \$100 to \$150 million per year over the next ten years. She added that of this amount, 65% or more of the contemplated projects would likely qualify for IM Transco to develop under the AEPTCo Project Selection Guidelines (“PSG”). Ms. Barton testified that the PSG, provided as Exhibit LMB-1 to Joint Petitioners’ Exhibit 2, will be used to determine which facilities will be developed by the AEP transmission companies and which will be developed by the AEP operating companies. She stated the PSG will be used by AEPTransmission personnel to designate projects and provide a clear physical demarcation between potential assets of the AEP transmission companies and assets of the AEP operating companies.

Ms. Barton discussed how the creation of IM Transco will affect the ownership and operation of the AEP transmission system in Indiana. She explained that IM Transco will develop, construct, own and operate certain new transmission facilities interconnected to existing transmission facilities owned by I&M, other AEP electric utility operating companies, other AEPTCo subsidiaries and unaffiliated third parties within the PJM footprint. As a result, much of the new transmission investment in Indiana will be owned by IM Transco instead of by I&M. She said that I&M will retain ownership of all transmission assets currently in service. However, Ms. Barton explained that should I&M propose in the future to pursue transferring any of its transmission assets to IM Transco, prior approvals will be sought from the appropriate regulatory agencies including the Commission, the Michigan Public Service Commission, and the FERC. She further stated there will be no change in the planning, operation and maintenance of the transmission system because the services provided to IM Transco will be through the same service providers and will be administered in the same manner that these services are being provided today. She also discussed the financial viability of IM Transco and explained that IM Transco will be able to rely on the managerial, technical, engineering, financial and transmission system expertise of I&M, AEPTransmission and AEPSC to ensure seamless operation of transmission services across both I&M and IM Transco.

Ms. Barton explained that the AEP transmission system will continue to be planned by AEPTransmission and PJM in a manner that is consistent with the approved regional planning processes in place today. She stated that AEPTransmission will participate on behalf of IM Transco in PJM’s open, transparent planning processes, just as AEPTransmission does today on behalf of I&M, thus ensuring that AEP has a consistent voice within the PJM processes. Ms. Barton further explained that IM Transco will not have any advantages over any participant in the PJM planning processes, which ensures transparency and coordination through existing stakeholder processes.

Through her supplemental testimony Ms. Barton presented a Joint License Agreement between I&M and IM Transco, which provides a joint license to I&M and IM Transco to attach to or occupy the other party’s facilities, equipment and real property for the purpose of

maintaining and removing their respective facilities and equipment.

Mr. Jerald R. Boteler, Jr., Director, Corporate Finance of AEPSC, discussed the primary financial reasons behind the formation of IM Transco as a vehicle to make incremental additions to the existing transmission system. He elaborated on the need for I&M to work proactively to prevent a downgrade in its credit rating due to its significant capital needs and the resultant increase in debt costs to customers. Mr. Boteler opined that adverse impacts on I&M's financial condition and credit rating metrics could be avoided or mitigated if certain transmission system additions were instead constructed and financed through IM Transco. He testified that IM Transco will rely on AEPSC and AEPTransmission for operational, technical, managerial and financial resources. Mr. Boteler noted IM Transco's management of a single type of electrical asset, as opposed to operating three types of major electrical assets, will attract certain investors seeking fixed-income investments with these attributes. As a result, Mr. Boteler said that IM Transco will have wider access to capital for utility projects. Mr. Boteler concluded that over a period of time, AEPTCo should be able to develop a strong credit profile as it builds new transmission assets and places them into service. He added that by freeing I&M of the equity and debt capital raising burden, IM Transco will provide I&M with greater control of its annual expenditures, which in turn will enable I&M to better manage its credit ratios. Mr. Boteler stated the characteristics of IM Transco should help I&M obtain improved and broader access to debt capital over time, with any long-term financing benefits ultimately benefiting customers.

Mr. Rhoderick C. Griffin, Manager, Regulated Accounting, of AEPSC, discussed the services to be provided by I&M and AEPSC to IM Transco pursuant to the corresponding service agreements filed with the Commission. He explained the service agreements are modeled after those in the existing service agreement in effect between AEPSC and I&M. He explained that because the various services provided by and through AEP-affiliated service providers to IM Transco will be provided at cost and because services will be allocated on a cost-responsibility basis, IM Transco will receive cost-effective services under these arrangements on a basis that is fair and reasonable to the respective AEP-affiliated service providers. He opined each service agreement includes reasonable terms and conditions, does not give either party an undue advantage over the other party and does not adversely affect the public in Indiana. Mr. Griffin described the controls and oversight employed by AEPSC to ensure the proper accounting and billing of costs to affiliates, including (1) accounting system controls, which ensure that the accounting systems are operating correctly and that the mechanical processing is accurate; (2) management oversight, including review of the monthly AEPSC bill; and (3) audit and reporting oversight, which includes both internal and external audits performed on AEPSC, as well as state and regulatory reporting requirements.

Mr. Joshua D. Burkholder, Manager, Transmission Strategy and Business Development for AEPSC presented an illustrative pro forma analysis comparing Indiana retail jurisdictional cost of service for a transmission investment of \$300 million under a Transco Build scenario versus an Operating Company Build scenario. He explained that his pro forma analysis calculates the Indiana jurisdictional cost of service resulting from a \$300 million AEP Zone transmission investment, \$60 million of which is assumed to be made in I&M's territory. He illustrated how the costs of the transmission investment flow to I&M and ultimately to the Indiana jurisdiction. Mr. Burkholder also explained the Network Integration Transmission

Service costs and billing of charges under the two scenarios modeled. He stated the difference between the two scenarios of \$0.23 million in the Indiana jurisdiction is expected to diminish, or possibly reverse, over time. He added that the lower cost of debt will lower IM Transco's revenue requirement, which will be reflected in I&M's cost of service. More importantly, he stated, IM Transco can assist in alleviating some of the approaching financial pressures on I&M.

Mr. Scott M. Krawec, Director of Regulatory Services for I&M, discussed the distinct roles of I&M's participation within PJM and how these roles will be affected by the formation of IM Transco. Mr. Krawec testified I&M will continue to own transmission assets and will continue to recover its transmission costs in PJM in the same manner as it does today, but that ownership in future transmission investments was expected to change. However, Mr. Krawec stated he did not expect the charges I&M incurs for the provision of transmission service to retail customers to change significantly due to the formation of IM Transco. He explained that because I&M and IM Transco have similar FERC approved formula rates in the PJM Open Access Transmission Tariff ("OATT"), the incremental LSE charges to I&M for wholesale transmission service received from PJM will not be significantly different for new transmission investments regardless of whether I&M or IM Transco makes the investment.

Mr. Krawec also explained that transmission owners in PJM recover their transmission investment costs by submitting an annual revenue requirement to PJM based on their transmission investment costs in accordance with the PJM-OATT. He stated PJM then charges transmission users under the OATT to collect the revenue requirement. He added that revenues collected from transmission users are distributed by PJM to the transmission owners based on their individual OATT revenue requirement. Mr. Krawec stated IM Transco will follow the same steps to recover its transmission costs as would any other transmission owner in PJM.

Mr. Krawec testified because I&M is an LSE within PJM, I&M is charged for regional or "system" transmission costs based on I&M's usage of the transmission system. He explained the revenue requirement I&M presented in its most recent Indiana basic rate case, Cause No. 43306, was developed from a cost of service that included an Indiana jurisdictional share of costs and credits from I&M's traditional embedded cost of transmission. Additionally, as a result of the order in Cause No. 43306, I&M has a PJM Cost Rider that tracks the portion of the PJM-OATT transmission costs that are regional in nature, but does not track the costs that are zonal in nature, i.e., AEP Zone OATT transmission costs. He said that I&M plans to include in its next Indiana basic rate filing revenue requirement, the recovery of I&M's share of the remaining PJM-OATT transmission costs that are zonal in nature and are charged to I&M by PJM to serve I&M's Indiana retail load.

Mr. Krawec explained witness Burkholder's pro forma analysis shows that, under current conditions, the annual transmission costs are only slightly higher for the same investments if made by the transmission company rather than the operating company. He explained the difference would equate to an increase of less than \$0.02 to a retail customer using 1000 kWh compared to the increase per month if the investment was made by the operating companies. He reiterated witness Boteler's view that there are reasons to believe this difference will diminish over time and possibly reverse.

5. **Settlement Agreement and Supporting Testimony.** The Settlement Agreement was entered into by all parties to this proceeding. The Settlement Agreement provides that it resolves all matters pending before the Commission in this Cause and is supported by substantial evidence.

A. **IM Transco.** Mr. Burkholder summarized the terms of the Settlement Agreement. He explained the Settlement Agreement provides for Commission approval of IM Transco's status as a transmission only public utility in Indiana, which includes the right to exercise the power of eminent domain. The Settlement Agreement further provides for the Commission to give its consent to Boards of County Commissioners of all Indiana counties to grant IM Transco such licenses, permits or franchises as may be necessary for IM Transco to occupy and use county roads, highways and other public rights-of-way for the provision of its services and facilities pursuant to Ind. Code § 36-2-2-23. He explained that to ensure the operations of IM Transco are transparent and accountable, the Settlement Agreement establishes an annual reporting requirement regarding a number of aspects of IM Transco's investments, operations and benefits. He stated this report will help the Commission and the OUCC ensure IM Transco delivers on its commitment that, from a system planning and operational standpoint, there will be no change in how things work today.

Mr. Burkholder explained the annual report required by the Settlement Agreement will include detailed information about IM Transco's completed, in progress and future planned projects, including, but not limited to, the description, purpose, key target dates and cost of each project. For projects that are in progress, the report will include information about the cost and estimated completion percentage to date. He also stated the report will include qualitative information about each project, including: if the project was assigned by PJM or identified by AEP; what other alternatives were considered in planning the project; the inclusion of any Smart Grid technologies in the project; and a description of the application of the PSG for the various project components of the transmission project.¹

Mr. Burkholder testified the annual report will also include information regarding long term debt issuances by AEP Transco or any of the AEP Transco subsidiary companies, including IM Transco, made in the last calendar year, including information comparing the cost of debt and underlying spread versus the comparable U.S. Treasury bond to those of any issuance, within 30 days before or after the date of the Transco's issuance, by other vertically integrated utility companies within one credit rating level up or down of I&M, as defined by Moody's and S&P. He said this information will help the Commission and OUCC evaluate if IM Transco delivers the financing benefits described by witness Boteler in his direct testimony.

Mr. Burkholder stated the annual report will include charts showing for each of the subsidiary companies of AEPTCo, including IM Transco, the annual capital investment and

¹ Mr. Burkholder pointed out that Smart Grid technologies are primarily associated with the electric distribution system and this reporting requirement should not be interpreted as an indication that I&M or IM Transco plans widespread deployment of any Smart Grid technologies to the transmission system.

miles of transmission lines owned, by voltage level, and an analysis that compares the entire AEP transmission system total capital cost and operations and maintenance expense per line mile of transmission to a peer group. He said the report will also provide any changes in IM Transco's corporate structure, updates to the PSG, a description of the practices taken to provide for the lowest reasonable cost consistent with industry practices and operational requirements, including any competitive bidding practices, and a copy of the most recently available Independent Auditors' Report for IM Transco. Mr. Burkholder explained the report will be submitted to the Commission annually by July 1 and for a period of five (5) years following the date of a Final Order approving the Settlement Agreement. He stated IM Transco will provide the OUCC an opportunity to review the report prior to submitting it to the Commission.

Mr. Burkholder explained that to ensure the Commission has a complete view of the operations of AEP's transmission system in Indiana, IM Transco agrees it will file a petition to intervene in I&M's next general rate case and any other future I&M general rate case filed during a period of three (3) years following the date of a Final Order approving the Settlement Agreement. He added that if granted leave to intervene by the Commission, IM Transco will file testimony updating the Commission on the status of IM Transco's operations. Mr. Burkholder explained the Settlement Agreement also provides that I&M and IM Transco will provide the OUCC a copy of all affiliate agreements filed with the Commission. Further, I&M will not sell, lease or otherwise transfer its used and useful utility plant in service to IM Transco without first obtaining Commission approval. The Settlement Agreement also provides that IM Transco will likewise seek Commission approval before it transfers functional control of its transmission facilities to a regional transmission organization other than PJM or to an independent transmission company.

The Settlement Agreement provides that IM Transco's request to maintain its books and records out of state should be approved. Mr. Burkholder explained that IM Transco agrees to produce in Indiana, upon reasonable notice, duplicate copies of those portions of its books and records necessary for the OUCC and the Commission to perform their statutory duties. However, the Settlement Agreement also provides that to the extent it presents an undue burden on IM Transco to produce the books and records in Indiana, IM Transco commits to fully reimburse the OUCC and Commission for all travel expenses, including travel fare, mileage, lodging and meals, incurred while inspecting IM Transco's books and records outside of Indiana. He indicated these requirements are the same as those applicable to I&M and are also consistent with Commission practice.

Mr. Burkholder explained that to ensure accountability, the Settlement Agreement provides that IM Transco will reimburse the State of Indiana up to a total amount of \$25,000 for travel expenses incurred by the OUCC or the Commission to participate in IM Transco proceedings before the FERC during the five (5) years from the date of a Final Order approving the Settlement Agreement. He explained that in a settlement entered into in a FERC proceeding, IM Transco agreed, among other things, that costs related to the formation of the transmission company organizations incurred after June 30, 2010 would not be included in FERC-regulated rates. He stated the FERC settlement also provided that AEP reserved the right to seek recovery of post-June 30, 2010 state-related formation costs from the applicable state regulatory commission. Mr. Burkholder explained that in the Settlement Agreement, I&M agreed to waive

the right to seek recovery of post-June 30, 2010 formation costs associated with obtaining necessary state or local approvals from the Commission.

Mr. Burkholder requested the Commission find the Settlement Agreement to be reasonable and in the public interest and to approve the Settlement Agreement in its entirety, without modification.

B. I&M. Mr. Marc Lewis, I&M's Vice President External Relations, explained from I&M's perspective why approval of the Settlement Agreement is in the public interest. He reiterated witness Chodak's testimony that I&M faces financial challenges in undertaking a substantial capital expenditure program over the next several years to meet the needs of its customers for affordable, reliable electric service and to comply with regulations of state and federal agencies. Mr. Lewis testified the creation of IM Transco will allow I&M to spread needed transmission investments to an affiliate, lowering the overall cost to I&M's customers and protecting I&M's financial health. He stated that by decreasing the transmission capital burdens on I&M, the creation of IM Transco will allow more financial flexibility to make the necessary generation and distribution investments to maintain I&M's reliability and low costs. He stated his belief that Commission approval of the Settlement Agreement will provide benefits to I&M and its Indiana customers with little or no impact on retail rates. He noted the Settlement Agreement contains provisions recognizing the Commission's jurisdiction over IM Transco and I&M, and ensures the operations of IM Transco and I&M will remain transparent and accessible. He explained that as part of the Settlement Agreement, I&M agrees to meet with the OUC and IM Transco to keep the OUC informed regarding IM Transco's operations. Mr. Lewis stated the Settlement Agreement also provides that I&M will not sell, lease or otherwise transfer its used or useful utility plant in service to IM Transco without first obtaining Commission approval.

Mr. Lewis also discussed the Settlement Agreement provisions regarding affiliate agreements. He stated the Settlement Agreement provides that the following affiliate agreements will be deemed filed with the Commission and therefore effective on February 25, 2011, as required by Ind. Code § 8-1-2-49: (1) Services Agreement between I&M and IM Transco; (2) Service Agreement between AEPSC and IM Transco; and (3) the Joint License Agreement between I&M and IM Transco. He explained the February 25, 2011 date referred to in the Settlement Agreement is the date the agreements were transmitted to the Commission in accordance with the above referenced statute. He explained why the terms and length of these agreements are reasonable. He added that to ensure the Commission is kept informed of the status of the affiliate agreements, the Settlement Agreement provides that IM Transco and I&M shall notify the Commission at least ninety (90) days prior to the termination date, if the agreements are terminated for any reason.

Mr. Lewis concluded the Settlement Agreement is reasonable, in the public interest, and will benefit I&M, its customers and the state of Indiana. He recommended the Commission approve the Settlement Agreement in its entirety without modification.

C. OUCC. Mr. Ronald L. Keen, Senior Analyst within the Resource Planning and Communications Division at the OUCC, testified that while the establishment of IM Transco is unique, the OUCC recommends the Commission approve the Settlement Agreement without change or exception. He explained the Settlement Agreement provides a mechanism for IM Transco to report a number of metrics and data points to both the Commission and OUCC to facilitate monitoring of IM Transco's construction, operation and maintenance of new and existing transmission infrastructure. He added that the Settlement Agreement recognizes the Commission has ongoing jurisdiction over I&M and IM Transco as provided by law. He explained the Settlement Agreement provides for I&M and IM Transco to meet with the OUCC to ensure the OUCC remains informed regarding IM Transco operations, and specifies the frequencies of such meetings. He noted the Settlement Agreement commits IM Transco to fully reimburse the OUCC and the Commission for all travel expenses incurred while inspecting IM Transco's books and records outside the State of Indiana. He testified the Settlement Agreement also commits IM Transco to reimburse the OUCC and Commission up to a combined total amount of \$25,000 for travel expenses incurred to participate in IM Transco proceedings before FERC during a five year period. In his view, this provision serves the public interest in knowing that IM Transco is delivering on its representations that its operations will provide benefits.

Mr. Keen testified the OUCC believes the Settlement Agreement, in conjunction with the Commission's jurisdiction over I&M Transco and I&M's continuing responsibility to furnish reasonably adequate service and facilities, will assure the continuation of appropriate service to I&M's Indiana customers. He cautioned that it is important the Commission be able to review all aspects of each individual case where such a fundamental restructuring is proposed before reaching any conclusions in future cases.

Mr. Keen testified the OUCC believes IM Transco can achieve some type of cost benefit which could not be otherwise achieved by leaving all transmission assets under the control of I&M. He explained that I&M has outlined in testimony that over the next several years, I&M expects it will need to undertake a very substantial capital expenditure program to insure service reliability, as well as to comply with emerging environmental and nuclear regulations. He explained a transmission only entity may appeal to certain investors as a simpler type of investment with a more narrowly defined range of risks than other utility entities, which has potential to enhance AEP's overall investment opportunities. He stated it is the OUCC's expectation that the formation of IM Transco would therefore reduce somewhat the overall capital investment pressure on the AEP operating companies. He stated that while the OUCC invested considerable effort in reviewing the issue, its considered opinion is that the reduced capital investment pressure on one hand, and the greater business visibility on the other, should reduce overall costs in the long run. While the OUCC expects overall cost reductions in the long run, he stated other aspects of the Settlement Agreement are vital to ensuring that customers do indeed benefit from the Joint Petitioners' proposal.

Mr. Keen testified the Settlement Agreement's reporting requirements help insure transparency to I&M and IM Transco operations, investments and benefits. In his view, these aspects of the Settlement Agreement will enable the OUCC and the Commission to monitor the effect to the ratepayer. Mr. Keen explained the OUCC considers the five (5) year reporting

period to be reasonable because it allows IM Transco time to complete its start-up period and be fully operational well before the fifth year, and will therefore provide IM Transco a fair opportunity to show the OUCC and Commission its value. He noted the Settlement Agreement also provides for the possible extension of the reporting period.

Mr. Keen also explained that the Settlement Agreement provision providing for IM Transco's participation in I&M rate cases over a three year period will permit IM Transco to update the Commission on IM Transco's operation. He believes such participation is particularly important in the first years following the creation of IM Transco in order to be able to evaluate the impact of the new structure. He further noted the Settlement Agreement does not preclude participation beyond the required three (3) year period, and that such continuation may be appropriate depending on the parties' experience. Mr. Keen concluded that the guarantee of at least three (3) years is yet another safeguard to ensure transparency and continuing accountability to the OUCC and the Commission.

6. Commission Discussion and Findings. Settlements presented to the Commission are not ordinary contracts between private parties. *U.S. Gypsum, Inc. v. Ind. Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.* (quoting *Citizens Action Coalition v. PSI Energy*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission "may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement." *Citizens Action Coalition*, 664 N.E.2d at 406.

Furthermore, any Commission decision, ruling, or order – including the approval of a settlement – must be supported by specific findings of fact and sufficient evidence. *U.S. Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coalition v. Pub. Serv. Co.*, 582 N.E.2d 330, 331 (Ind. 1991)). The Commission's own procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Therefore, before the Commission can approve the Settlement Agreement, we must determine whether the evidence in this Cause sufficiently supports the conclusions that the Settlement Agreement is reasonable, just, and consistent with the purpose of Indiana Code ch. 8-1-2, and that such agreement serves the public interest.

Joint Petitioners' requested relief represents a significant departure from traditional electric utility operation in Indiana wherein the investor-owned electric utilities are vertically integrated, i.e., consisting of generation, distribution and transmission facilities. Consequently, such corporate restructuring has the potential to impact not only the reliability and provision of electric service, but also the retail rates for such service. Although I&M will continue to own its transmission assets currently in service, Joint Petitioners' proposal anticipates that, in the future, significant capital-intensive transmission investments in I&M's service territory would be made by IM Transco, a transmission only public utility subject to FERC oversight. However, we note that like I&M, IM Transco is ultimately a subsidiary of AEP and will be making the transmission investments needed in I&M's electric service area. In addition, I&M will continue to add transmission capital assets, but these will be more routine in nature, and I&M will not sell, lease or otherwise transfer its used and useful utility plant in service to IM Transco without first obtaining Commission approval. Also, IM Transco will seek Commission approval before it

transfers functional control of its transmission assets to an RTO other than PJM.

I&M presented evidence indicating it expects to make substantial capital investments over the next several years to comply with environmental regulations, replace aging infrastructure and invest in new generation, transmission and distribution facilities. Joint Petitioners believe that financing of the combined capital expenditures may place considerable stress on I&M's credit metrics, especially cash flow, and potentially result at some point in a downgrade of I&M's debt ratings, which would increase I&M's cost of debt. The creation of IM Transco may reduce the likelihood of a downgrade of I&M's debt by shifting the financing of significant future transmission investments from I&M to IM Transco. Consequently, if I&M can spread a small part of its total capital investment burden to an affiliate, I&M customers may benefit from a lower cost of financing.

The record also demonstrates that investments by IM Transco will result in a slight increase in retail rates for I&M customers as compared to the retail rates that would apply if the same investments were made by I&M. Such an impact, however, is expected to be offset by a reduction in potential increase in retail rates that would be caused by a credit downgrade. The OUCC, after consideration and review, concurs with I&M's assessment and expects a reduction in overall costs to occur in the long run.

The Settlement Agreement presented by the parties in this Cause provides for Commission approval of IM Transco's status as a transmission only public utility in Indiana, including the right to exercise the power of eminent domain. Consequently, IM Transco will be accountable as a public utility subject to the Commission's jurisdiction. Furthermore, I&M will remain responsible for providing adequate service, including transmission service, to retail customers. In an effort to ensure the operations of IM Transco and I&M are transparent and accessible, the Settlement Agreement also contains provisions relating to the reporting of investments, operations and benefits; communication with the OUCC; regulatory oversight; maintenance of IM Transco's books and records; affiliate agreements; reimbursement of travel expenses for FERC proceedings; and waiver of recovery of IM Transco's formation costs incurred after June 30, 2010.

With respect to affiliate agreements, we note that the agreements filed with the Commission in accordance with Ind. Code § 8-1-2-49 were also included in the evidence filed in this Cause. While we recognize the term of the affiliate agreements is longer than the five year (or shorter) term generally considered by the Commission in its General Administrative Order 2010-1 to be in the public interest, we find the longer term to be reasonable based upon the evidence presented and the nature of these particular agreements. In addition, we note the Settlement Agreement also specifically includes a requirement that I&M and IM Transco notify the Commission at least ninety (90) days prior to the termination date of an affiliate agreement if the agreement is terminated for any reason.

Based on the evidence presented, we find the Settlement Agreement is a reasonable, balanced and comprehensive resolution of the issues in this Cause. The creation of IM Transco does not solve the challenges I&M must face in financing a significant capital program across its generation, transmission, and distribution systems, but we consider it to be a constructive action

that may improve I&M's financial flexibility. While an independent transmission company is a significant departure from the traditional regulatory construct in Indiana, the Commission finds it to be acceptable in this instance, in which the formation of IM Transco may prevent or diminish the financing challenges I&M must face, providing sufficient potential benefits in the public interest to warrant this departure from a vertically integrated utility. In addition, the Settlement Agreement gives further assurance and provides that IM Transco's operations, like I&M's, should be transparent, accountable and compliant with the Commission's regulations and should not adversely affect Indiana consumers. The Settlement Agreement also provides for ongoing communication among the parties and the filing and sharing of information related to IM Transco's operations. Taken together, the terms of the Settlement Agreement serve the public interest, satisfy the important public policy of fostering settlement over litigation and should provide benefits to Indiana. Therefore, the Commission finds that the Settlement Agreement is reasonable, in the public interest and should be approved.

Finally, the parties agree that the Settlement Agreement should not be used as precedent in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce its terms. Consequently, with regard to future citation of the Settlement Agreement, we find that our approval herein should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, (IURC March 19, 1997).

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Settlement Agreement shall be and hereby is approved in its entirety.
2. The terms and conditions of the Settlement Agreement shall be and hereby are incorporated herein as a part of this Order and the Parties therefore shall abide by the terms thereof.
3. This Order shall be effective on and after the date of its approval.

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: NOV 02 2011

I hereby certify that the above is a true and correct copy of the Order as approved.


Brenda A. Howe,
Secretary to the Commission

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED JOINT PETITION OF AEP)
INDIANA MICHIGAN TRANSMISSION)
COMPANY, INC. ("IM TRANSCO"), AND)
INDIANA MICHIGAN POWER COMPANY)
("I&M"), BOTH INDIANA CORPORATIONS,)
FOR INDIANA UTILITY REGULATORY)
COMMISSION APPROVAL, TO THE)
EXTENT NECESSARY, OF IM TRANSCO'S)
STATUS AS A TRANSMISSION ONLY)
PUBLIC UTILITY; FOR AUTHORITY TO)
MAINTAIN IM TRANSCOS BOOKS AND)
RECORDS OUTSIDE THE STATE OF)
INDIANA; AND FOR THE COMMISSION'S)
CONSENT TO BOARDS OF COUNTY)
COMMISSIONERS FOR IM TRANSCO TO)
OCCUPY THE PUBLIC RIGHTS-OF-WAY)
PURSUANT TO IC 36-2-2-23.)

IURC *Settling Parties*
~~COMMISSIONERS~~
EXHIBIT NO. _____
8-16-11 _____
DATE REPORTER

CAUSE NO. 44000

OFFICIAL
EXHIBITS

STIPULATION AND SETTLEMENT AGREEMENT

THIS AGREEMENT is made and entered into by and among Indiana Michigan Power Company ("I&M"), AEP Indiana Michigan Transmission Company, Inc. ("IM Transco") and the Indiana Office of Utility Consumer Counselor ("OUCC") (collectively the "Parties" and individually "Party"). The Parties having been duly advised by their respective staff, experts and counsel, and solely for purposes of compromise and settlement, stipulate and agree that the terms and conditions set forth below represent a fair, just and reasonable resolution of the matters in this proceeding pending before the Indiana Utility Regulatory Commission ("Commission"), subject to their incorporation into a final, non-appealable order ("Final Order") of the Commission without modification or further condition that may be unacceptable to any Party. If the Commission does not approve this Stipulation and Settlement Agreement ("Settlement"), in

its entirety, the entire Settlement shall be null and void and deemed withdrawn, unless otherwise agreed to in writing by the Parties.

WITNESSETH:

WHEREAS, I&M and IM Transco have petitioned the Commission for approval, to the extent necessary, of IM Transco's status as a transmission only public utility and for related regulatory relief as set forth in the Petition in this Cause dated March 1, 2011 and have supported such request with prepared testimony and exhibits filed in this proceeding;

WHEREAS, the OUCC has analyzed the Joint Petitioners' filing, conducted discovery and otherwise given consideration to the relief sought by Joint Petitioners in this Cause;

WHEREAS, the OUCC desires to have available to it information necessary for the OUCC to understand and assess IM Transco's operations on a forward going basis;

WHEREAS, the OUCC believes that IM Transco's, like I&M's, operations should be transparent, accountable and compliant with the Commission's regulations and should not adversely affect Indiana consumers;

WHEREAS, I&M and IM Transco agree that information regarding IM Transco and its relationship to I&M's provisions of retail electric service should continue to be made available to the OUCC and the Commission as provided below and otherwise required by law.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Parties hereto, for themselves, their successors and assigns, do hereby covenant and agree as follows:

A. TERMS AND CONDITIONS OF FINAL ORDER

1. **Public Utility Status.** The Commission will approve IM Transco's status as a transmission only public utility in Indiana. This status includes the right to exercise the power of eminent domain. The Commission will also give its consent to Boards of County Commissioners of all Indiana counties to grant IM Transco such licenses, permits or franchises

as may be necessary for IM Transco to occupy and use county roads, highways and other public rights-of-way for the provision of its services and facilities pursuant to IC 36-2-2-23.

2. **Reporting of Investment, Operations and Benefits.** IM Transco will submit a report to the Commission regarding the following and provide a copy to the OUCC:

a. For IM Transco's transmission projects that began construction in the last calendar year:

i) project description and purpose;

ii) type and scope of project;

iii) projected capital cost and operation and maintenance ("O&M") expense;

iv) description of the amount and percentage of Smart Grid technologies, if any;

v) key project target dates;

vi) any other alternatives considered; and

vii) a description of the application of the Transco Project Selection Guidelines ("PSG") for the various project components of the transmission project. In other words, an explanation of why the project components that are to be funded and owned by IM Transco qualified under the PSG and why any other project components did not qualify under the PSG. For example, in the case of a hypothetical complete line rebuild, the new line component would qualify for the

Transco under section 2.3.2 of the PSG (Facility Replacement). But, there may also be some limited work to existing substations required as part of the project which may not qualify under the PSG and would be funded by I&M. The final result is a clearly identifiable differentiation of assets: IM Transco would own the complete new line and I&M would continue to own all of the substation assets.

b. For IM Transco projects completed in the last calendar year, the total capital cost and O&M expense of the project;

c. For IM Transco projects that were ongoing as of December 31 of the last calendar year, the estimated completion percentage as of December 31 of the last calendar year as well as the total capital cost and O&M expense incurred to that date. This information for IM Transco will also be split to separately show projects in Indiana and Michigan;

d. Miles of transmission, by voltage level, owned by each of the subsidiary companies of AEP Transmission Company LLC (“AEP Transco”), including IM Transco, at the end of the last calendar year;

e. Actual annual investment by each AEP Transco subsidiary company at the end of the last calendar year;

f. IM Transco will provide analysis that compares the total AEP transmission system total capital cost and O&M expense per line mile of transmission to the peer group in the attached Exhibit 1. This analysis will include a specific description of the calculation methodologies and source of all data. IM Transco will notify the

OUCC if the peer group changes over time due to acquisition, consolidation and data availability. IM Transco will comply with reasonable requests by the OUCC to include additional peer companies in the analysis for which data is publicly available;

- g. Copy of the latest AEPTCo Project Selection Guidelines;
- h. Changes in IM Transco's corporate structure in the past calendar year;
- i. Long term debt issuances by AEP Transco or any of the AEP Transco subsidiary companies, including IM Transco, made in the last calendar year including information comparing the cost of debt and underlying spread versus the comparable US Treasury bond to those of any issuance, within thirty (30) days before or after the date of Transco's issuance, by other vertically integrated utility companies within one credit rating level up or down of I&M, as defined by Moody's and S&P;
- j. A listing of IM Transco's planned projects in Indiana for the current year. Each project will be designated as a Baseline Upgrade, Network Upgrade, Direct Connection Upgrade, Supplemental Upgrade, or Non-RTO Project, as defined in the 2010 PJM Regional Transmission Expansion Plan. This planned project listing represents AEP's best available information at that time, is subject to change, and does not represent a guarantee of the final project list;
- k. A description of the practices taken to provide for the lowest reasonable cost consistent with industry practices and operational requirements, including any use of competitive bidding practices; and

1. A copy of the most recently available Independent Auditors' Report for IM Transco.

The report shall be submitted to the Commission for a period of five (5) years following the date of a Final Order approving this Settlement. So that IM Transco's report may take into consideration information provided annually in the Federal Energy Regulatory Commission ("FERC") Form 1, IM Transco's report to the Commission shall be submitted by July 1 of each year of the five (5) year period. IM Transco shall provide the OUCC an opportunity to review IM Transco's report fifteen (15) days prior to submitting it to the Commission. Upon expiration of the five (5) year period, this reporting requirement may be extended by agreement of the Parties or Commission order.

3. **Communication with the OUCC.** IM Transco and I&M will meet with the OUCC as reasonably requested to keep the OUCC informed as to IM Transco's operations. Such meetings may be conducted in person and/or via telephone conference. During the eighteen (18) months following a Final Order in this Cause meetings should be conducted in six (6) month intervals or as otherwise agreed to by the Parties. So as to facilitate such meetings, IM Transco and I&M will respond to reasonable requests by the OUCC for information and IM Transco will provide an overview of recent activities at the meetings.

4. **Regulatory Oversight.**

- a. The Parties recognize that both I&M and IM Transco are subject to the Commission's ongoing jurisdiction to the extent provided by law.

b. IM Transco agrees to file a petition to intervene in I&M's next general rate case and any other future I&M general rate case filed during a period of three (3) years following the date of a Final Order approving this Settlement. If granted leave by the Commission to intervene, IM Transco will file testimony updating the Commission on the status of IM Transco's operations. Upon expiration of the three (3) year period, this agreement to intervene in future general rate cases may be extended by agreement of the Parties.

c. I&M and IM Transco will provide the OUCC a copy of all affiliate agreements filed with the Commission.

d. I&M will not sell, lease or otherwise transfer its used or useful utility plant in service to IM Transco without first obtaining Commission approval.

e. IM Transco will seek Commission approval before it transfers functional control of its transmission facilities to an RTO other than PJM or to an independent transmission company.

f. The foregoing requirements are enumerated herein for clarification. The foregoing list is not intended to represent a comprehensive list of the regulatory requirements that may be applicable to IM Transco and will not be construed to relieve IM Transco of any obligations under Indiana law.

5. **IM Transco's Books and Records.** IM Transco's request to maintain its books and records out of state will be approved. IM Transco agrees to produce in Indiana, upon reasonable notice, duplicate copies of those portions of its books and records necessary for the

OUCC and the Commission to perform their statutory duties. To the extent it presents an undue burden on IM Transco to produce in Indiana the books and records, IM Transco commits to fully reimburse the OUCC and Commission for all travel expenses, including travel fare, mileage, lodging and meals, incurred while inspecting IM Transco's books and records outside of Indiana.

6. **Affiliate Agreements.** The following affiliate agreements will be deemed filed with the Commission and therefore effective on February 25, 2011, as required by IC 8-1-2-49:

- a. Services Agreement between Indiana Michigan Power Company and AEP Indiana Michigan Transmission Company, Inc.;
- b. Service Agreement between American Electric Power Service Corporation and AEP Indiana Michigan Transmission Company, Inc.; and
- c. The Joint License Agreement between Indiana Michigan Power Company and AEP Indiana Michigan Transmission Company.

IM Transco and I&M shall notify the Commission at least ninety (90) days prior to the termination date of the agreements if the agreements are terminated for any reason. The notice shall reference Cause No. 44000 and a copy of the notice shall be served on the OUCC.

7. **Reimbursement of Travel Expenses for FERC Proceedings.** IM Transco agrees to reimburse the State of Indiana up to a total amount of \$25,000 for travel expenses incurred by the OUCC or the Commission to participate in IM Transco proceedings before the FERC during the five years from the date of a Final Order approving this Settlement.

8. Waiver of Recovery of TRANSCO Formation Costs by I&M. In a settlement agreement approved by the FERC in the FERC proceeding approving Transco's rates and charges for transmission service, Docket No.ER10-355-000 ("FERC Settlement"), IM Transco agreed, among other things, that costs related to the formation of the Transco organizations incurred after June 30, 2010 would not be included in FERC-regulated rates. The FERC Settlement also stated:

AEP reserves the right to seek recovery of post-June 30, 2010 formation costs associated with obtaining necessary state or local approvals (regarding state-related costs) from the applicable state regulatory commission. (FERC Settlement, p.25).

I&M agrees to waive the right to seek recovery of post-June 30, 2010 formation costs associated with obtaining necessary state or local approvals from the Commission.

B. PRESENTATION OF THE SETTLEMENT TO THE COMMISSION

1. The Parties shall support this Settlement before the Commission and request that the Commission expeditiously accept and approve the Settlement. This Settlement is not severable and should be accepted or rejected in its entirety without modification or further condition(s) that may be unacceptable to any Party.

2. The Parties shall jointly move for leave to file this Settlement and supporting evidence. Such evidence will be offered into evidence without objection and the Parties hereby waive cross-examination. The Parties propose to submit this Settlement and evidence conditionally, and that, if the Commission fails to approve this Settlement in its entirety without any change or with condition(s) unacceptable to any Party, the Settlement and supporting evidence shall be withdrawn and the Commission will continue to hear Cause No. 44000 with the proceedings resuming at the point they were suspended by the filing of this Settlement.

3. A Final Order approving this Settlement shall be effective immediately, and the agreements contained herein shall be unconditional, effective and binding on all Parties as an Order of the Commission.

4. The Parties shall jointly agree on the form, wording and timing of public/media announcement (if any) of this Settlement and the terms thereof. No Party will release any information to the public or media prior to the aforementioned announcement. The Parties may respond individually without prior approval of the other Parties to questions from the public or media, provided that such responses are consistent with such announcement and do not disparage any of the Parties. Nothing in this Settlement shall limit or restrict the Commission's ability to publicly comment regarding this Settlement or any Order affecting this Settlement.

C. EFFECT AND USE OF SETTLEMENT

1. It is understood that this Settlement is reflective of a negotiated settlement and neither the making of this Settlement nor any of its provisions shall constitute an admission by any Party to this Settlement in this or any other litigation or proceeding. It is also understood that each and every term of this Settlement is in consideration and support of each and every other term.

2. This Settlement shall not constitute and shall not be used as precedent by any person in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce the terms of this Settlement.

3. This Settlement is solely the result of compromise in the settlement process and except as provided herein, is without prejudice to and shall not constitute a waiver of any

position that any of the Parties may take with respect to any or all of the items resolved here and in any future regulatory or other proceedings.

4. The Parties agree that the evidence in support of this Settlement constitutes substantial evidence sufficient to support this Settlement and provides an adequate evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary for the approval of this Settlement, as filed. The Parties shall prepare and file an agreed proposed order with the Commission as soon as reasonably possible.

5. The communications and discussions during the negotiations and conferences and any materials produced and exchanged concerning this Settlement all relate to offers of settlement and shall be privileged and confidential, without prejudice to the position of any Party, and are not to be used in any manner in connection with any other proceeding or otherwise.

6. The undersigned Parties have represented and agreed that they are fully authorized to execute the Settlement on behalf of their designated clients, and their successors and assigns, who will be bound thereby.

7. The Parties shall not appeal or seek rehearing, reconsideration or a stay of the Final Order approving this Settlement in its entirety and without change or condition(s) unacceptable to any Party (or related orders to the extent such orders are specifically implementing the provisions of this Settlement). The Parties shall support or not oppose this Settlement in the event of any appeal or a request for a stay by a person not a party to this Settlement or if this Settlement is the subject matter of any other state or federal proceeding.

8. The provisions of this Settlement shall be enforceable by any Party before the Commission and thereafter in any state court of competent jurisdiction as necessary.

9. This Settlement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

ACCEPTED and AGREED as of the 18th day of July, 2011.

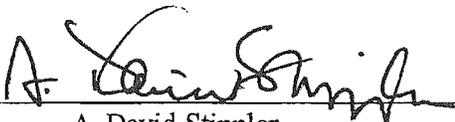
AEP INDIANA MICHIGAN TRANSMISSION COMPANY, INC.

Name: Jeffrey D. Cross
Its: Vice President

INDIANA MICHIGAN POWER COMPANY

Name: Marc E. Lewis
Its: Vice President, External Relations

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR



Name: A. David Stippler
Its: Utility Consumer Counselor

ACCEPTED and AGREED as of the ____ th day of July, 2011.

AEP INDIANA MICHIGAN TRANSMISSION COMPANY, INC.



Name: Jeffrey D. Cross
Its: Vice President

INDIANA MICHIGAN POWER COMPANY

Name: Marc E. Lewis
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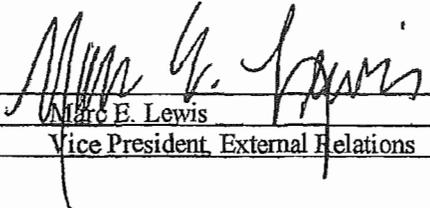
Name: A. David Stippler
Its: Utility Consumer Counselor

ACCEPTED and AGREED as of the ____th day of July, 2011.

AEP INDIANA MICHIGAN TRANSMISSION COMPANY, INC.

Name: Jeffrey D. Cross
Its: Vice President

INDIANA MICHIGAN POWER COMPANY


Name: Marc E. Lewis
Its: Vice President, External Relations

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

Name: A. David Stippler
Its: Utility Consumer Counselor

Exhibit 1.

Peer Group for item 2.f.

- Berkshire Hathaway Inc
- Dominion Resources Inc
- Duke Energy Corp
- Edison International
- Energy Future Holdings Corp
- Entergy Corp
- Exelon Corp
- FirstEnergy Corp
- ITC Holdings Corp
- National Grid Plc
- NextEra Energy Inc
- Northeast Utilities
- Pepco Holdings Inc
- PG&E Corp
- Progress Energy Inc
- Southern Co
- Wisconsin Energy Corp
- Xcel Energy