ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF INDIANA MICHIGAN POWER COMPANY FOR ALL NECESSARY AUTHORITY IN CONNECTION WITH A $300,000,000 FINANCING PROGRAM INVOLVING THE ISSUANCE OF UNSECURED PROMISSORY NOTES OF ONE OR MORE NEW SERIES AND PREFERRED STOCK.	)	CAUSE NO. 43707 APPROVED: OCT 0 1 2009

BY THE COMMISSION
David E. Ziegner, Commissioner
Aaron A. Schmoll, Administrative Law Judge

On June 11, 2009, Indiana Michigan Power Company ("I&M" or "Petitioner") filed its Petition with the Commission initiating this Cause. On June 29, 2009, Petitioner prefiled the testimony of Renee V. Hawkins. On August 11, 2009, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled the testimony of Duane P. Jasheway.

Pursuant to notice and as provided for in 170 IAC 1-1.1-15, a prehearing conference in this Cause was held in Room 222 of the National City Center, 101 West Washington Street, Indianapolis, Indiana at 2:00 p.m., on July 9, 2009. Proofs of publication of the notice of the prehearing conference have been incorporated into the record and placed in the official files of the Commission. The Petitioner and the OUCC appeared and participated at the prehearing conference. No member of the general public appeared.

Pursuant to proper notice of hearing, published as required by law, proof of which was incorporated into the record by reference, a public evidentiary hearing was held in this Cause on September 1, 2009, at 1:30 pm in Room 222 of the National City Center, 101 West Washington Street, Indianapolis, Indiana. I&M and the OUCC both appeared and participated, by their respective counsel. No member of the general public appeared or participated at the hearing.

Based upon the applicable law and the evidence herein, the Commission now finds:

1. **Notice and Jurisdiction.** Due legal and timely notice of the hearing was published as required by law. Petitioner is a "public utility" as defined in the Public Service Commission Act, as amended, Ind. Code § 8-1-2 ("Act") and is subject to the jurisdiction of this Commission in the manner and to the extent provided by the laws of the State of Indiana.

2. **Petitioner's Characteristics.** Petitioner is a corporation organized and existing under the laws of the State of Indiana, having its principal executive office at 1 Riverside Plaza, Columbus, Ohio and an office at One Summit Square, P.O. Box 60, Fort Wayne, Indiana 46801. It owns and operates electric utility properties in Indiana and southwest Michigan.

3. **Proposed Financing Program.** Petitioner requests authorization to issue and sell, during the period ending December 31, 2011, up to $300 Million in aggregate principal amount of unsecured promissory notes ("Notes") and cumulative preferred stock ("New Preferred Stock"). As explained by Ms. Hawkins, the Notes may be issued in the form of Senior or Subordinated Notes or other types of promissory notes, including notes sold to Petitioner's parent American Electric Power Company, Inc. ("AEP"). The Notes will mature in not more than sixty (60) years and will be sold (i) by competitive bidding, (ii) in negotiated transactions with underwriters or agents, or (iii) by direct placement with a commercial bank or other institutional investor or issued to AEP. Ms. Hawkins testified that the Notes issued by Petitioner will be sold at the lowest interest rates reasonably obtainable. By historical standards, the yield to maturity of such Notes should not exceed by more than 7.5% the yield to maturity on United States Treasury Bonds of comparable maturity at the time of pricing. Any fluctuating rate of interest on the Notes will not exceed 10% at the time of issuance. Petitioner stated that it may agree to specific redemption provisions, including redemption premiums, at the time of pricing.

The terms of the New Preferred Stock would be determined at the time of issuance. The New Preferred Stock may have dividends that are cumulative or non-cumulative. The New Preferred Stock will be sold by competitive bidding or in negotiated transactions with underwriters or agents. The dividend rate will be determined by negotiation with institutional investors or with underwriters for the sale of the New Preferred Stock and would, in Petitioner's judgment, represent the lowest cost available to it.

Petitioner, in order to implement interest rate management techniques, requests authority to utilize interest rate hedging transactions and anticipatory interest rate hedging transactions (collectively "Interest Rate Hedges") and enter into related interest rate hedging agreements ("interest rate hedging agreements"), including, but not limited to, "interest rate swaps," "caps," "collars," "floors," "options," or hedging products such as "forwards" or "futures" or similar products, the purpose of which is to manage and minimize interest costs. Petitioner explained that it expects to enter into any such agreements with counterparties that are highly rated financial institutions.

Ms. Hawkins testified that any proceeds realized from the sale of the Notes and the New Preferred Stock may be used for refunding, directly or indirectly, currently outstanding debt and preferred stock of Petitioner, for construction of facilities (estimated at $361,600,000 in 2009) and working capital. Ms. Hawkins testified that Petitioner may purchase any series of outstanding cumulative preferred stock or other unsecured promissory notes or pollution control bonds through a tender offer, a negotiated transaction, open market purchases, or by means other than redemption. Such repurchases or redemption will be financed through the issuance of new debt or cash. In response to a question from the Commission, Petitioner indicated that pursuant to the Commission's Order in Cause No. 43682 it has sufficient financing authority to lease nuclear fuel through the completion of three fuel cycles, or December 31, 2010, whichever is earlier, and that the authority requested in this Proceeding is separate and apart from its nuclear fuel requirements.

Petitioner proposed to treat any redemption premiums paid as an expense of the Notes, to be amortized over the life of the Notes. Petitioner stated that it intends to utilize deferred tax accounting for the premium expense, in order to properly match the amortization of the expense

and the related tax effect. In the event of a refinancing or refunding of cumulative preferred stock, Petitioner proposed to account for any premiums paid to redeem stock as a stock reacquisition cost to be deferred and amortized to Account 439, Adjustments to Retained Earnings, on a straight-line basis over the life of the new securities.

Petitioner stated that the proposed financings and adjustments to outstanding issues are reasonably necessary in the operation and management of Petitioner's business in order that Petitioner may provide adequate service and facilities. Further, the capital structure of Petitioner after giving affect to the proposed financing will be reasonable and in the public interest.

4. **The OUCC's Evidence.** Mr. Jasheway testified that during informal discussions, Ms. Hawkins explained that the "spreads" between the yield to maturity of unsecured notes comparable to the Notes and the yield to maturity of United States Treasury Bonds of comparable maturity have decreased since the filing of the Petition. Mr. Jasheway expected that, based on this current information, the interest rates for the Notes would be no more than 7.25%. He further testified that, in his opinion, the 7.25% interest rate is reasonable and encouraged I&M to re-evaluate all viable options if it found their issuance to exceed this rate. Mr. Jasheway, testified that Petitioner's actual capital structure as of June 30, 2009 is adequate to enter into the transactions totaling the amount requested. He explained that I&M's pro forma capitalization ratios of 57.8% long-term debt and 42.2% equity, in his opinion, are a fairly reasonable financial combination. Mr. Jasheway stated that the OUCC does not oppose the issuance of this new debt and agrees with the Petitioner that the authority requested in this Cause should expire December 31, 2011.

5. **Petitioner's Existing and Pro Forma Capitalization.** As shown in Exhibit A to the Petition, on March 31, 2009, Petitioner had outstanding long-term debt of $1,949,877,000, preferred stock not subject to mandatory redemption of $8,077,000, and common equity capital of $1,492,252,000.

As of March 31, 2009, Petitioner had $3,621,268,245 invested in utility plant, net of depreciation and exclusive of nuclear fuel, and $1,206,544,000 invested in nuclear decommissioning and spent nuclear fuel disposal trust funds. Recognizing inflation and its impact on utility property, the Commission finds, solely for purposes of this case, that the fair value of Petitioner's utility plant is in excess of the book value of its pro forma stock, bonds, notes, maturing more than 12 months from the date thereof and other evidence of indebtedness, including the securities approved by this order.

6. **Commission Discussion and Findings.** The Commission finds that, with due consideration being given to the nature of Petitioner's business, credit, future prospects and earnings and the effect which the proposed financing may have on the management and efficient operation of Petitioner, the proposed financing authority is reasonable and should be granted. The Commission finds that Petitioner's proposed method of accounting for premiums and fees paid in connection with the refinancing of outstanding bonds and cumulative preferred stock is reasonable and should be approved and that Petitioner should account for premiums and fees paid for any interest rate hedge in accordance with generally accepted accounting principles.

Finally, on August 26, 2009, the Commission approved Petitioner's leasing agreement with respect to nuclear fuel in Cause No. 43682. On September 1, 2009, in response to questions by the Presiding Officers, Petitioner stated that the financing proposed by Petitioner in this Cause is not intended to be used to acquire nuclear fuel.

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

1. Petitioner is hereby granted authority through December 31, 2011, to issue and sell unsecured Notes and preferred stock for cash or other property actually received or to be received therefore up to an aggregate principal amount of $300,000,000. Said securities may be issued in one or more series, have such interest and dividend rates, terms and other conditions as may be determined by Petitioner in the manner herein proposed, at the best prices reasonably obtainable, in the judgment of Petitioner.

2. Petitioner is hereby authorized to enter into Interest Rate Hedges in connection with the securities authorized herein.

3. Petitioner is hereby authorized to use the proceeds of the securities herein authorized for the purposes set forth in its petition and testimony and described in finding paragraph 2, above, as well as to account for premiums and fees paid in connection with the redemption or reacquisition of the securities and any interest rate hedges as described herein.

4. Within thirty (30) days of the completion of each of the financings authorized herein, Petitioner shall file with the Commission and serve upon the OUCC a report including the interest rate and the amount for each Note and/or Preferred Stock issued and the underlying calculations that were used.

5. This Order shall be effective on and after the date of its approval.

HARDY, GOLC, LANDIS, AND ZIEGNER CONCUR; ATTERHOLT ABSENT:

APPROVED: OCT 0 1 2009

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

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission