

ORIGINAL

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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF)
AEP TRANSMISSION COMPANY, INC. FOR)
ALL NECESSARY AUTHORITY IN) CAUSE NO. 44175
CONNECTION WITH A \$125,000,000)
FINANCING PROGRAM INVOLVING THE)
ISSUANCE OF SECURED OR UNSECURED) APPROVED:
PROMISSORY NOTES OF ONE OR MORE) AUG 15 2012
NEW SERIES.)

ORDER OF THE COMMISSION

Presiding Officers:
Kari A.E. Bennett, Commissioner
Aaron A. Schmoll, Senior Administrative Law Judge

On April 9, 2012, AEP Indiana Michigan Transmission Company, Inc. ("IM Transco" or "Petitioner") filed its Petition with the Commission initiating this Cause. By a Docket Entry dated May 16, 2012, the Presiding Administrative Law Judge granted IM Transco's unopposed Motion to Establish Prefiling Dates and Hearing Procedures. On June 15, 2012, IM Transco and the Indiana Office of Utility Counselor ("OUCC") filed a Settlement Agreement.

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 June 28, 2012, at 9:00 a.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. IM Transco 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. Petitioner received Commission authorization to operate as a transmission public utility in Cause No. 44000 (November 2, 2011 Order) and began actively operating as a public utility immediately thereafter. IM Transco owns electric utility properties in

Indiana and southwestern Michigan. IM Transco is a wholly-owned subsidiary of American Electric Power Transmission Company, LLC (“AEP Transmission”), which is a wholly-owned subsidiary of AEP Transmission Holding Company, LLC (“AEP Holdco”). American Electric Power Company, Inc. (“AEP”) is the parent company of AEP Holdco. IM Transco was formed to engage in providing electric transmission service within the States of Indiana and Michigan. IM Transco will develop, own and operate certain new transmission facilities interconnected to existing facilities owned by Indiana Michigan Power Company (“I&M”), AEP Transmission, other AEP operating companies and other unaffiliated companies within the PJM footprint. The instant proceeding is the first financing proceeding for IM Transco.

3. Proposed Financing Program. Mr. Jerald R. Boteler, Jr., Managing Director of Corporate Finance for AEP Service Corporation, testified that Petitioner currently has no existing long-term indebtedness. However, IM Transco has incurred short-term indebtedness by participating in the AEP System Utility Money Pool which, as of May 1, 2012 totaled \$16,504,507. Petitioner requests authorization to issue and sell, during the period ending April 30, 2014, up to \$125 Million in aggregate principal amount of unsecured and secured promissory notes (“Notes”).

Mr. Boteler stated 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 AEP, AEP Transmission or AEP Holdco. In the case of long-term borrowing from a parent, he stated that the interest rates and maturity dates will be designed to parallel the cost of debt of such parent. The Notes: (a) will have maturities up to 60 years, (b) may be subject to optional and/or mandatory redemption, in whole or in part, at par or at various premiums above the principal amount thereof, (c) may be entitled to mandatory or optional sinking fund provisions, (d) may provide for reset of the coupon pursuant to a remarketing arrangement, (e) may be subject to tender or the obligation of the issuer to repurchase at the election of the holder or upon the occurrence of a specified event, (f) may be called from existing investors by a third party; and (g) may be entitled to the benefit of affirmative or negative financial or other covenants. The interest rates of the Notes may be fixed or variable 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.

Mr. Boteler 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 5.0% 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 8% at the time of issuance. Mr. Boteler stated that Petitioner may agree to specific redemption provisions, including redemption premiums, at the time of pricing.

According to Mr. Boteler, Petitioner may agree to restrictive covenants which would prohibit it from, among other things: (i) creating or permitting to exist any liens on its property, with certain stated exceptions; (ii) creating indebtedness except as specified therein, (iii) failing to maintain a specified financial condition, (iv) entering into certain mergers, consolidations and disposition of assets; and (v) permitting certain events as to occur in connection with pension plans. Also, Petitioner may permit the holder of the Notes to require Petitioner to prepay them

after certain specified events, including an ownership change.

Mr. Boteler testified that Petitioner will base its decision to issue the Notes on the basis of market conditions, principally the lowest cost and best terms available, in IM Transco's judgment, at the time, and consistent with maintaining a sound capital structure. According to Mr. Boteler, it is in the public interest to afford Petitioner the necessary flexibility to adjust its financing program to developments in the markets for long-term debt securities when and as they occur in order to obtain the best reasonably available price, interest rate and terms for its Notes. Therefore, Mr. Boteler stated that IM Transco was requesting the Commission grant Petitioner the flexibility to decide at future dates whether there will be one or more unsecured or secured series and on the maturity of each series of the Notes. Any specific redemption provisions will be determined at the time of the pricing of each series of Notes.

He stated that Petitioner, in order to reduce and manage interest costs with respect to the Notes, also 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. He explained that it expects to enter into any such agreements with counterparties that are highly rated financial institutions.

Mr. Boteler said that Petitioner may provide some form of credit enhancement such as a letter of credit, surety bond or other insurance. IM Transco may pay a fee in connection therewith. He stated that Petitioner requests authority to enter into such credit enhancement if IM Transco determines that it is appropriate.

Mr. Boteler described the manner in which he anticipated that this initial financing would proceed. He stated that the intention is to have AEP Transmission issue long-term debt according to the parameters described in IM Transco's Petition. AEP Transmission will then lend a portion of the proceeds through an inter-company loan to IM Transco. He noted that the use of inter-company loans is the type of financing that AEP has utilized for many of its operating subsidiaries including I&M. He said that he anticipated that IM Transco would borrow \$50 million in 2012 and an additional \$75 million of long-term debt financed in 2013. He stated that IM Transco was not directly issuing debt to investors because, during the financing period, IM Transco will simply not have enough assets in service or operational history to support reasonable financing terms and conditions. By having AEP Transmission issue the securities and then make inter-company loans to IM Transco, he expected that more reasonable terms and conditions, including pricing, would be obtained. He said that the terms and conditions of the inter-company loan will mirror the terms and conditions, including pricing, obtained by AEP Transmission. He said that he did not anticipate IM Transco to always obtain its long-term debt by way of inter-company loans. Once IM Transco has a sufficient level of assets that have been established and are in service, he expects IM Transco to enter the capital market on its own footing. He also noted that the target capital structure for IM Transco is 50% debt and 50% equity and that the long-term debt issues anticipated during the two year financing period ending April 30, 2014 are expected to result in a capital structure for IM Transco in line with its stated target.

Mr. Boteler testified that the terms and composition of IM Transco's financing program were in the public interest. He said that Notes will be used to finance transmission capital expenditures, to repay short-term borrowings, to meet working capital needs and for other general corporate purposes. He noted that the proposed financings are reasonably necessary in the operation and management of Petitioner's business in order that Petitioner may provide adequate service and facilities. According to Mr. Boteler, the capital structure of Petitioner, after giving effect to the proposed financing, will be reasonable and in the public interest and conform to the terms agreed to in a FERC settlement in Docket No. 10-335-000. Pursuant to that settlement, once IM Transco has issued its own long-term debt, its capital structure for ratemaking purposes will be based upon its actual capital structure, and limited to a maximum equity ratio of 50 percent. Mr. Boteler testified that given this capital structure, he expected a two to one ratio of IM Transco's assets versus its long-term debt. In other words, the \$125 million long-term debt authorization that Petitioner is seeking will be used to finance \$250 million in operating assets. Mr. Boteler therefore concluded that the total amount of the proposed financings, together with Petitioner's outstanding stock, notes maturing more twelve months from the date thereof, and other evidences of Petitioner's indebtedness will not be in excess of the fair value of Petitioner's utility property.

Mr. Joshua D. Burkholder, Director, Transmission Asset Strategy, for the AEP Service Corporation, provided an overview of IM Transco's initial operations. He stated that IM Transco was formed by AEP to make certain transmission-only investments in Indiana and Michigan without being limited to the funding levels available to I&M. He said that upon Commission approval of the Settlement Agreement in Cause No. 44000, Petitioner began actively operating as a public utility in Indiana by developing a capital budget for 2012 and 2013 consisting of new transmission projects that meet the project selection criteria for inclusion in IM Transco. He said these projects included in this capital budget are in various stages of development with some projects in the early design and engineering phase, others in the materials and right-of-way acquisition and others in early construction phases. He pointed out that IM Transco started construction on a significant project to strengthen the transmission system around AEP's Rockport Generation Plant in southern Indiana. He said this project addresses system overload issues identified by PJM and Midwest Independent System Operator ("MISO") and will improve the reliability and operation performance of the high voltage transmission system. He said IM Transco has assets and service in the State of Michigan and is in the process of designing and constructing assets within the state of Indiana.

Mr. Burkholder testified that in 2012, IM Transco is projecting to spend approximately \$55.5 million on new transmission projects within Indiana. Furthermore, IM Transco expects to spend approximately \$82 million on Indiana projects in 2013.

Mr. Burkholder then described the detailed information that the Commission and the OUCC will receive with regard to each of IM Transco's capital projects. All of the 2012 projects, including the capital budget, will be described in IM Transco's annual report due on July 1, 2012. This report will include detailed information about IM Transco's completed, in progress and future planned projects such as description, purpose, key target dates and costs of each project. For projects that are in progress, the report will include the most recent cost information and an estimated completion percentage. In addition, the report will include qualitative information about each project, including if the project was assigned by PJM or

identified by AEP, or other alternatives that were considered in planning the project and the inclusion of smart grid technology in the project. He said that the same information for 2013 projects will be included in the annual report to be filed July 1, 2013.

Mr. Burkholder testified that IM Transco expects to put new transmission assets in to service in 2012. Specifically, IM Transco expects to put four new transmission assets into service in 2012 with a total expected gross book value of approximately \$13 million. These four new assets are: a complete rebuild of the 10.4 mile Montpelier-Liberty Center 69 kV line, 765 kV circuit breaker additions at I&M's Jefferson Substation, 345 kV circuit breaker replacements at I&M's Olive Substation, and 138 kV circuit breaker additions at I&M's Fisher Body Substations.

Mr. Burkholder concluded his testimony by opining that he expects all of the 2012 and 2013 capital projects to be used and useful in providing electric service to Indiana customers.

4. IM Transco's Supplemental Testimony and The OUCC's Evidence. Mr. Boteler filed supplemental testimony supporting the Settlement Agreement. Mr. Boteler stated that the Settlement Agreement contains the standard provisions of numerous settlement agreements previously approved by the Commission such as scope, presentation and effect and use of the Settlement Agreement. He said that the substantive provisions of the settlement between IM Transco and the OUCC are contained in the Settlement Term Sheet attached as Exhibit A to the Settlement Agreement.

Mr. Boteler then described the provisions of the Settlement Term Sheet. Paragraph 1 provides that IM Transco's 2012-2014 long term financing program is reasonable and should be approved. Once approved, IM Transco will have the authority to issue Notes up to an aggregate amount of \$125,000,000. IM Transco shall exercise its judgment in determining the terms and conditions of any issuance. Paragraph 1 also provides that the issuances under the approved financing authority shall be at market rates. Paragraph 2 authorizes IM Transco to utilize the proceeds of any issuance for the purposes set forth in Mr. Boteler's testimony. This paragraph also authorizes IM Transco to account for premiums and fees in connection with the redemption or reacquisition of the Notes, including interest. Paragraph 3 authorizes IM Transco to enter into interest rate hedges when, in IM Transco's judgment, it is necessary to obtain the most competitive pricing. Paragraph 4 authorizes IM Transco to offer some form of credit enhancements, if IM Transco believes that it is appropriate. Paragraph 5 calls for an April 30, 2014 expiration of the financing authority described in Paragraph 1. Paragraph 6 provides that within thirty days of any issuance, IM Transco will file a report with the Commission and the OUCC including: (1) the amount of the Note, (2) a description of the terms and intended purpose, and (3) a calculation of the effective rate. Paragraph 7 reserves the OUCC's right to challenge the prudence of any rate base additions by IM Transco pursuant to the authority granted in this proceeding. Finally, Paragraph 8 provides that nothing in the Cause No. 44175 Settlement Agreement affects the rights and obligations of the parties under the Cause No. 44000 Settlement Agreement.

Mr. Boteler testified that the Settlement Agreement was in the public interest. First, settlements conserve the resources of the parties and the Commission, result in avoidance

of time consuming and costly litigation and represent sound regulatory policy. As to the Settlement Agreement, Mr. Boteler stated that it provides IM Transco the flexibility, with the exercise of good judgment, to find the best financing terms reasonably possible. At the same time, the Settlement Agreement preserves the OUCC's right to challenge the prudence of any rate base additions made by Petitioner pursuant to the financing authority granted in this proceeding. The Settlement Agreement provides transparency by requiring reports describing the terms and effective cost rates of any issuance. Finally, several provisions (Paragraphs 2, 3, 4 and 6) of the Settlement Term Sheet are completely consistent with the terms and conditions approved in Cause No. 44116 (May 2, 2012 Order) and Cause No. 44117 (May 17, 2012 Order).

Ms. Stacie R. Gruca, Senior Utility Analyst for the OUCC, also submitted testimony in support of the Settlement Agreement. First, Ms. Gruca listed the issues that the OUCC raised with IM Transco: (1) the OUCC did not know the exact terms of the issuance and how the funds will be spent; (2) whether interest rates resulting from inter-company loans to IM Transco will be the same interest rates received by Petitioner's parents, (3) the OUCC requested a specific expiration date for the long-term debt program; (4) the OUCC requested IM Transco to file written reports within 15 days of any issuance detailing the terms, the costs and intended purpose; (5) the OUCC had questions regarding the possible issuance of a 60 year note, and (6) the OUCC wanted to make sure that the settlement in this proceeding would not affect the rights and obligations of the parties to the settlement approved in Cause No. 44000. Ms. Gruca testified that the Settlement Agreement resolved the concerns of the OUCC. She stated that at a June 6, 2012 meeting, Petitioner stated that IM Transco's interest rates, in the case of inter-company loans, would mirror AEP Transmission's interest rates. She said that the Settlement Term Sheet called for Petitioner to file a report within 30 days detailing the terms, costs and intended purpose of any issuance. She noted that the OUCC's right to challenge the prudence of any rate base additions funded by the Notes was preserved and that the long-term debt program expired by its own terms on April 30, 2014. Ms. Gruca also said that IM Transco stated that additional length of the 60 year debt instruments would not materially alter the basic terms of the issuance, and would provide additional flexibility to Petitioner which could benefit the ratepayers. Finally, she noted that the Settlement Terms provide that the rights and obligations of the parties in Cause No. 44000 will not be affected by this Settlement Agreement.

5. Commission Discussion and Findings. The Commission begins with a general discussion of Settlement Agreements. Settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana 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. *United States Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coalition v. Public Service 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, a copy of which is attached to this Order and incorporated by reference, 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. In addition, the Commission must find that Petitioner's proposed financing program is in the public interest.

As to the Settlement Agreement, the Commission finds that the substantive provisions contained in the Settlement Terms are just and reasonable and in the public interest. The Settlement Agreement provides IM Transco the flexibility to find the best financing terms reasonably possible. Also, the OUCC retains the right to challenge the prudence of any rate base additions financed by the authorized debt. The required reports provide transparency by having Petitioner detail the terms and the conditions and the costs of any issuance. The Settlement Agreement does not affect the rights and obligations of the parties to the Commission-approved settlement in Cause No. 44000. Also, the definite expiration date of the long-term financing plan provides the Commission the opportunity to exercise a continuing review of IM Transco's financing plans as it moves forward from this initial, two-year financing program. Finally, a majority of the provisions of the Settlement Term Sheet have been previously approved by the Commission. Accordingly, the Settlement Agreement is in the public interest.

As to IM Transco's financing program, 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 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.

Mr. Boteler testified that IM Transco's corporate objective with respect to a capital structure is 50 percent debt and 50 percent equity. He expected that the debt issuances during the financing period will result in a capital structure consistent with this target capital structure. He also testified that given this capital structure, he expected a two-to-one ratio for IM Transco's assets versus its long-term debt. Recognizing inflation and its impact on utility property, the Commission finds, solely for purposes of this Cause, that the fair value of Petitioner's utility plant is, and will be during the financing period, 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.

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 constructed 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, which is attached to this Order, is approved in its entirety without modification.

2. Petitioner is hereby granted authority through April 30, 2014, to issue and sell unsecured or secured Notes or other property actually received or to be received therefore up to an aggregate principal amount of \$125,000,000. 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.

3. Petitioner is hereby authorized to enter into Interest Rate Hedges and Interest Rate Hedging Agreements in connection with the securities authorized herein.

4. Petitioner is hereby authorized, if it determines that it is appropriate, to provide some form of credit enhancement such as a letter of credit, surety bond or other insurance.

5. 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 3, 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.

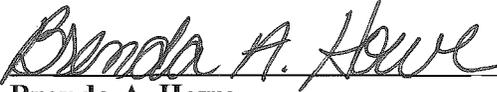
6. Within thirty (30) days of the completion of each of the financings authorized herein, Petitioner shall file with the Commission and serve upon the OUCC a report including the interest rate and the amount for each Note, the underlying calculations that were used and the purpose of the issuance.

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

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: 'AUG 15 2012

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
Before the
INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION
of
AEP INDIANA MICHIGAN TRANSMISSION COMPANY, INC.

Cause No. 44175

for all necessary authority in connection with a \$125,000,000
financing program involving the issuance of secured or unsecured
promissory notes of one or more new series.

SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is entered into this 14th day of June, 2012, by and between AEP Indiana Michigan Transmission Company, LLC ("IM Transco") and the Indiana Office of the Utility Consumer Counselor (the "OUCC") (together "the Parties").

NOW, THEREFORE, the Parties agree as follows:

1. Scope of Agreement. This Agreement, comprehensively resolves all issues between the Parties associated with IM Transco's request for authorization to issue secured and unsecured notes ("Notes") as filed in Cause No. 44175. Attached hereto as Exhibit A is a Term Sheet setting forth specific provisions of the settlement ("Settlement Terms") that is intended by the Parties to resolve all pending issues relating to Cause No. 44175. The terms of the Agreement are effective upon approval by the Indiana Utility Regulatory Commission ("Commission").

2. Integration. Approval of this Agreement constitutes approval of the Settlement Terms attached hereto as Exhibit A.

3. Presentation of the Agreement.

a. The Parties will jointly move the Commission for approval of this Agreement. The Agreement, including the Settlement Terms in Exhibit A, is not severable and shall be accepted or rejected by the Commission in its entirety without modification or further condition that may be unacceptable to any Party.

b. The Parties agree to support or not oppose the approval in its entirety of the Agreement. IM Transco shall submit its Direct Testimony and Exhibits. IM Transco and the OUCG shall file testimony in support of this Agreement on June 14, 2012.

c. If the Order of the Commission in this proceeding modifies or conditions approval of this Agreement, only the parties to this Agreement may decide to accept or reject such modification or condition.

4. Effect and Use of Stipulation and Agreement.

a. The terms of this Agreement, including the Settlement Terms in Exhibit A, represent a fair, just and reasonable resolution by negotiation and compromise. As set forth in the Order in *Re Petition of Richmond Power & Light*, Cause No. 40434 at page 10, as a term of this Agreement, the Commission must assure the Parties that it is not the Commission's intent to allow this Agreement, or the Order approving it, to be cited as precedent by any person or deemed an admission by any Party in any other proceeding except as necessary to enforce its terms before the Commission, or any court of competent jurisdiction on these particular issues. This Agreement, including the Settlement Terms in Exhibit A, is solely the result of compromise in the settlement process. Nothing contained herein is to be construed or deemed an admission, liability or wrongdoing on the part of IM Transco. The Parties have entered into this Agreement solely to avoid further disputes and litigation with the attendant inconvenience and expenses.

b. The evidence presented by the Parties in this Cause, or that will be presented, constitutes substantial evidence sufficient to support this Agreement 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 Agreement, as filed.

c. The issuance of a final Order by the Commission approving this Agreement, including the Settlement Terms in Exhibit A, without modification shall terminate all proceedings with regard to this Agreement.

d. The undersigned represent and agree that they are fully authorized to execute this Agreement on behalf of their designated clients who will be bound thereby.

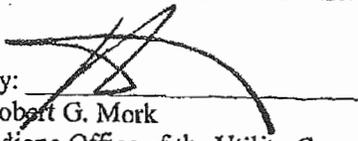
e. The Parties shall not appeal the agreed final Order or any subsequent Commission order to the extent such order is specifically implementing, without modification, the provisions of this Agreement, including the Settlement Terms in Exhibit A, and the Parties shall not support any appeal of any such order by a person not a party to this Agreement.

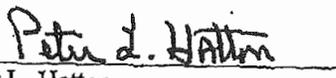
f. The provisions of this Agreement, including the Settlement Terms in Exhibit A, shall be enforceable by any party at the Commission or any court of competent jurisdiction, whichever is applicable.

g. The communications and discussions during the negotiations and conferences which produced this Agreement, including the Settlement Terms in Exhibit A, have

been conducted on the explicit understanding that they are or relate to offers of settlement and shall therefore be privileged.

ACCEPTED AND AGREED this 15th day of June, 2012.

By: 
Robert G. Mork
Indiana Office of the Utility Consumer Counselor

By: 
Peter L. Hatton
Attorney for AEP Indiana Michigan Transmission Company, Inc

Settlement Term Sheet
IURC Cause No. 44175

1. **Long Term Financing Program:**

IM Transco's 2012-2013 long term financing program is reasonable and should be approved. IM Transco shall have the authority through April 30, 2014, to issue and sell Notes for cash or other property actually received or to be received therefore up to an aggregate principal amount of \$125,000,000. The long term securities may be issued in one or more series, have such interest and dividend rates, terms and other conditions as may be determined by IM Transco, at the best prices reasonably obtainable, in the judgment of IM Transco. IM Transco agrees that issuances pursuant to the authority granted in this proceeding will be consistent with market rates.

2. **Use of Proceeds:**

IM Transco should be authorized to use the proceeds of the Notes for the purposes set forth in IM Transco's testimony and exhibits as well as to account for premiums and fees paid in connection with the redemption or the reacquisition of the Notes and any interest rate hedges.

3. **Interest Rate Hedges:**

IM Transco shall be authorized to enter into interest rate hedges when the opportunity arises to obtain, in IM Transco's judgment, the most competitive pricing. IM Transco will account for premiums and fees paid for any interest rate hedge in accordance with generally accepted accounting principles.

4. **Credit Enhancements:**

IM Transco shall be authorized, if it determines that it is appropriate, to provide some form of credit enhancement such as a letter of credit, surety bond or other insurance.

5. **Expiration of Authorization:**

The authorization for the issuance of Notes agreed to herein shall expire April 30, 2014.

6. **Periodic Reports:**

Within thirty (30) days of each issuance of the Notes authorized herein, IM Transco shall file with the Commission and serve upon the OUCC a filing that includes: (1) the amount of the Note, (2) a description of the terms and intended purpose, and (3) a calculation of the effective cost rate.

7. **Reservation:**

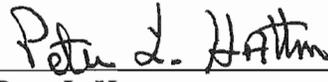
The OUCC reserves the right to challenge the prudence of any rate base additions made by IM Transco pursuant to the authority granted in this proceeding.

8. **Relation to Other Settlement Agreements**

Nothing in this Agreement or the Settlement Terms shall affect the rights and obligations of the Parties as contained in the July 18, 2011 Settlement Agreement in Cause No. 44000 as approved by the Commission's November 2, 2011 Order.

CERTIFICATE OF SERVICE

The undersigned, one of the attorneys for AEP Indiana Michigan Transmission Power Company, Inc., certifies that on the 15th day of June, 2012, a copy of the foregoing was filed electronically to the Office of the Utility Consumer Counselor, PNC Center, 101 West Washington Street, Suite 1500 South, Indianapolis, IN 46204.



Peter L. Hatton

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