

**ORIGINAL**

*Handwritten initials/signature*

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

*Handwritten initials/signature*  
*APW*

IN THE MATTER OF THE PETITION OF ) INDIANA MICHIGAN POWER COMPANY FOR ) ALL NECESSARY AUTHORITY IN ) CONNECTION WITH AN \$800,000,000 ) FINANCING PROGRAM INVOLVING THE ) ISSUANCE OF UNSECURED PROMISSORY ) NOTES OF ONE OR MORE NEW SERIES AND ) PREFERRED STOCK. )	CAUSE NO. 44426  APPROVED:
--	----------------------------------

MAR 26 2014

ORDER OF THE COMMISSION

**Presiding Officers:**  
**Carolene Mays, Commissioner**  
**Marya E. Jones, Administrative Law Judge**

On November 22, 2013, Indiana Michigan Power Company (“I&M” or “Petitioner”) filed its Petition with the Indiana Utility Regulatory Commission (“Commission”) seeking authority to issue and sell from time to time through December 31, 2015, in one or more transactions, up to \$800 million aggregate principal amount of unsecured promissory notes (“Notes”) or cumulative preferred stock (“New Preferred Stock”). On November 25, 2013, Petitioner prefiled the direct testimony of Marc D. Reitter in support of the Petition. On January 15, 2014, I&M filed the supplemental testimony of Mr. Reitter.

On January 31, 2014, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed the direct testimony of Crystal L. Thacker. On February 7, 2014, Petitioner filed Notice of Petitioner’s Intent Not to File Rebuttal Testimony. On February 18, 2014, Petitioner filed a Motion to File Sworn Verification, which was approved at the evidentiary hearing on February 19, 2014.

The Commission held a public evidentiary hearing in this Cause on February 19, 2014, at 10:00 a.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC appeared by counsel. No members of the general public appeared or participated at the hearing.

Based on the applicable law and the evidence presented herein, the Commission finds:

1. **Notice and Jurisdiction.** Notice of the hearing was published as required by law. Petitioner is a “public utility” as defined in Ind. Code § 8-1-2-1(a) and is subject to the jurisdiction of the Commission with respect to the issuance and sale of securities pursuant to Ind. Code §§ 8-1-2-76 through 8-1-2-81. The Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

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 One Summit Square, Fort Wayne, Indiana. It owns and operates electric utility properties in Indiana and southwest Michigan.

3. **Evidence Presented.**

A. **I&M's Direct Testimony.** Mr. Reitter testified that he is Manager of Corporate Finance for American Electric Power Service Corporation ("AEPSC"), a wholly owned subsidiary of American Electric Power ("AEP"). He noted that AEPSC provides centralized professional services to subsidiaries of AEP, including Petitioner. Mr. Reitter testified that the purpose of his testimony is to describe Petitioner's proposed 2014-2015 long-term debt financing program. He noted that if approved by the Commission, Petitioner will be authorized to issue and sell, during the period ending December 31, 2015, up to \$800 million in aggregate principal amount of Notes and New Preferred Stock. Mr. Reitter noted Petitioner will be issuing these securities to refund directly or indirectly its currently outstanding debt for construction costs and for working capital purposes. Mr. Reitter further stated that Petitioner may purchase or redeem any series of New Preferred Stock or Notes, or pollution control bonds. He noted that purchases will be made through tender offer, negotiated transaction, redemption provision, or on the open market, and financed through the issuance of new debt, preferred stock or with cash.

Mr. Reitter testified the Petition describes Petitioner's authorized and outstanding cumulative preferred stock, common stock, and long term debt as of September 30, 2013. He stated there has been a material change to Petitioner's long-term indebtedness since September 30, 2013. He noted that Petitioner published notice to redeem in whole its \$175 million 5.05% Senior Notes, Series F due 2014 on December 20, 2013. In describing the anticipated Notes, Mr. Reitter explained they may be issued in the form of Senior or Subordinated Notes or other types of promissory notes, including Notes sold to AEP. He testified that in the case of long term borrowing from AEP, the interest rates and maturity dates of the borrowings will be designed to parallel the cost of capital of AEP. Mr. Reitter further testified 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. Mr. Reitter stated the Notes issued by Petitioner will be sold at the lowest interest rates reasonably obtainable and that 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. He stated that any fluctuating rate of interest on the Notes will not exceed 8% in total at the time of issuance and that Petitioner may agree to specific redemption provisions, including redemption premiums, at the time of pricing.

Mr. Reitter testified Petitioner may agree to restrictive covenants in connection with the sale of unsecured Notes which would prohibit Petitioner 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 herein; (iii) failing to maintain a specified financial condition;

(iv) entering into certain mergers, consolidations, and disposition of assets; and (v) permitting certain events to occur in connection with pension plans. He testified the holder of the Notes may be permitted to require Petitioner to prepay them after certain specified events, including an ownership change.

Mr. Reitter testified that Petitioner will base its decision to issue the Notes or New Preferred Stock on the basis of market conditions, principally the lowest cost and best terms available, in Petitioner's judgment, at the time, and consistent with maintaining a sound capital structure. Mr. Reitter testified it is in the public interest to afford Petitioner the necessary flexibility to adjust its financing program to developments in the markets for medium, and 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 and New Preferred Stock. Mr. Reitter testified that Petitioner is requesting the Commission grant Petitioner the flexibility to decide at future dates whether there will be one or more series, and the maturity of each series of the Notes. In addition, any specific redemption provisions will be determined at the time of the pricing of each series of Notes and any New Preferred Stock will be issued in lieu of a portion of the Notes otherwise issuable.

Mr. Reitter testified that in order to implement interest rate management techniques, Petitioner must have Commission authority to utilize interest rate hedging transactions and anticipatory interest rate hedging transactions (collectively "Interest Rate Hedges"), and to enter into related interest rate hedging agreements ("Interest Rate Hedging Agreements"). He noted that Interest Rate Hedging Agreements may include 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 and obtain the most competitive pricing. He explained that Petitioner expects to enter into any such agreements with counterparties that are highly rated financial institutions.

Mr. Reitter testified Petitioner proposes to treat any redemption premiums paid as an expense of the Notes to be amortized over the life of the Notes. He stated Petitioner intends to utilize deferred tax accounting for the premium expense, in order to properly match the amortization of the expense. He noted that in the event of a refinancing or refunding of New Preferred Stock, Petitioner proposes to account for any premiums paid to redeem stock as a stock reacquisition cost, to be deferred and amortized to Account 439, Adjustment to Retained Earnings, on a straight-line basis over the life of the new securities. Mr. Reitter also testified Petitioner requests authority to enter into credit enhancement if Petitioner determines that it is appropriate. He noted specifically that Petitioner may provide some form of credit enhancement such as a letter of credit, surety bond, or other insurance and may pay a related fee.

Mr. Reitter opined that the terms and composition of Petitioner's financing program are in the public interest and that the proposed financings are reasonably necessary in the operation and management of Petitioner's business so that Petitioner may provide adequate service and facilities. He noted that the total amount of the proposed financings, together with Petitioner's outstanding stock, notes maturing more than 12 months from the date thereof, and other evidences of Petitioner's indebtedness will not be excess of the fair value of Petitioner's utility property.

**B. I&M's Supplemental Testimony.** Mr. Reitter testified that he participated in a January 8, 2014 conference call with the OUCC. He stated that during the call, Petitioner agreed to file supplemental testimony discussing some of the issues addressed. In his Supplemental Testimony, Mr. Reitter first discussed the actual utilization of the financing authority granted by the Commission in Cause No. 44116. In that proceeding, Petitioner was granted authority to issue up to \$800 million in unsecured promissory notes during the period 2012-2013. Mr. Reitter noted that during this period, Petitioner actually issued \$360 million of long term securities consisting of \$250 million of senior unsecured notes and a \$110 million Indiana and Michigan local bank term loan. Mr. Reitter explained that in November 2011 when Petitioner filed its Petition, the underlying forecasted capital expenditures included an assumption for the Rockport Flue Gas Desulpherization Project to cost an estimated \$1.4 billion. He stated that during the financing period, the Rockport Project plan was modified to allow for more comprehensive use of a less costly technology, resulting in a reduction of the required financing.

Mr. Reitter next discussed the interest rate expectations reflected in the current Petition. He testified that in January 2009 the market experienced historic levels of credit spreads due to the global financial crisis and that Petitioner's projected maximum credit spreads in this proceeding are below these historic, high levels. Mr. Reitter also sponsored Petitioner's Exhibit 5, which showed the range and credit spreads for a triple B-rated utility like Petitioner and noted that the fixed-rate credit spread for the last ten years of 473 is below the maximum credit spread of 500 that Petitioner is predicting in this proceeding. Mr. Reitter also testified that the Commission approved higher or the same maximum credit spreads in Petitioner's previous two financing proceedings and noted that those predicted spreads turned out to be conservative. Mr. Reitter opined that the inclusion of an upper bound expectation for the credit spreads for fixed-rate debt issuances and variable benchmark interest rates acts as a protection for Petitioner's customers. He said that the ability to issue debt both competitively and prudently along with the ability to enter into interest rate risk management agreements provides Petitioner's customers further protection from volatile interest rate environments.

4. **OUCC's Evidence.** Crystal L. Thacker, Utility Analyst in the OUCC's Electric Division recommended that Petitioner's requested authorization be approved with certain conditions.

Ms. Thacker first testified concerning the use of the debt proceeds. She noted that Petitioner plans to finance projects related to Cause No. 44182 (Cook Life Cycle Management Projects) and Cause No. 44331 (Rockport Dry Sorbent Injection Projects), and to refinance a note that matures in December 2015. She stated that Petitioner also proposes to renew and possibly expand a \$110 million 3-year credit agreement. Ms. Thacker opined that Petitioner's proposed use of the debt proceeds is reasonable and noted the scope of the financing is limited to the requested financing authority and the projects being financed have been previously reviewed by the Commission. Ms. Thacker next addressed Petitioner's proposed maturity dates of one (1) to sixty (60) years. She testified that while most long-term debt has a maturity of up to thirty (30) years, the additional length will provide Petitioner flexibility, which could ultimately benefit ratepayers.

Ms. Thacker testified that the proposed interest rate maximum for variable rate notes is determined differently than for fixed-rate notes, noting the 8% maximum interest rate includes the appropriate rate and any applicable credit spread. She testified the OUCC does not oppose the projected maximums since such maximums provide Petitioner with the flexibility to adjust its financing program to market conditions. Ms. Thacker also testified the OUCC does not oppose the use of contractual arrangements to mitigate interest risks associated with debt issuances. However, Ms. Thacker noted the need for Petitioner to prudently exercise such authority when entering into such contractual arrangements.

Ms. Thacker testified the OUCC is not waiving its right to review, in future proceedings, Petitioner's financing decisions to determine whether such transactions are consistent with the authority granted in this proceeding and are reasonable and prudent at the time the financing decisions are made. Ms. Thacker testified the OUCC recommends approval of Petitioner's requested financing program subject to three conditions: (i) Petitioner's issuances pursuant to this authority must be at competitive market rates; (ii) Petitioner must provide the Commission and the OUCC a written report that details the principal amount of issuance, the applicable interest rates, the manner in which the interest rates were determined, any collateral required, the terms and intended purpose of the borrowing, and/or other pertinent repayment terms within thirty (30) days of issuance; and (iii) Petitioner must file updated credit reports (i.e., Fitch, Moody's, and Standard & Poor's) for Petitioner and/or AEP when or if their respective credit ratings change.

**5. Commission Discussion and Findings.** Based on the evidence presented, the Commission finds Petitioner's request to issue and sell from time to time through December 31, 2015, in one or more transactions, up to \$800 million aggregate principal amount of Notes or New Preferred Stock to refund directly or indirectly its currently outstanding debt for construction costs and for working capital purposes is reasonable, supported by sufficient evidence, and in the public interest. After having considered the statutory requirements including, Ind. Code §§ 8-1-2-76 to -81, the nature of Petitioner's business, credit, future prospects, and earnings, and the effect that the proposed financing may have on the management and efficient operation of Petitioner, the Commission finds that the proposed financing authority is reasonable and is granted. 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 in excess of the book value of its pro forma stock, bonds, and notes maturing more than 12 months from the date thereof, and other evidence of indebtedness, including the securities approved by this Order.

In addition, the Commission finds that the OUCC's recommendations are reasonable and appropriate. Therefore, we find that: (i) Petitioner's issuances pursuant to this authority must be at competitive market rates; (ii) Petitioner must file a written report under this Cause within thirty (30) days that details the principal amount of issuance, the applicable interest rates, the manner in which the interest rates were determined, any collateral required, the term and intended purpose of the borrowing, and any other pertinent repayment terms; and (iii) Petitioner must file under this Cause updated credit reports (i.e., Fitch, Moody's, and Standard & Poor's) for Petitioner and/or AEP when, or if, their respective credit ratings change.

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

1. Petitioner is granted authority through December 31, 2015, to issue and sell unsecured Notes or New Preferred Stock up to an aggregate principal amount of \$800 million. Said securities may be issued in one or more series and have such interest and dividend rates, terms, and other conditions as may be determined by Petitioner in the manner proposed at the best prices reasonably obtainable.

2. Petitioner is authorized to enter into Interest Rate Hedges and related Interest Rate Hedge Agreements in connection with the securities authorized.

3. Petitioner is authorized to enter into credit enhancement such as letters of credit, surety bonds, or other insurance as Petitioner deems appropriate in connection with the securities authorized.

4. Petitioner is authorized to use the proceeds of the securities 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.

5. Within thirty (30) days of the completion of any financing authorized, Petitioner shall file with the Commission and serve upon the OUCC under this Cause a written report that details the principal amount of the issuance, the applicable interest rates, the manner in which the interest rates were determined, any collateral required, the term and intended purpose of the borrowing, and any other pertinent repayment terms.

6. Within twenty (20) days of any change in Petitioner's or AEP's credit rating, Petitioner shall file under this Cause updated credit reports (Fitch, Moody's, and Standard & Poor's) for Petitioner and/or AEP.

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

**ATTERHOLT, MAYS, STEPHAN, WEBER, AND ZIEGNER CONCUR:**

**APPROVED: MAR 26 2014**

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



**Brenda A. Howe  
Secretary to the Commission**