

FILED

DEC 04 2008

STATE OF INDIANA

BEFORE THE INDIANA UTILITY REGULATORY COMMISSION
**INDIANA UTILITY
REGULATORY COMMISSION**

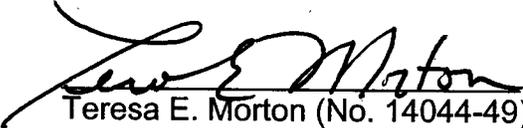
PETITION OF INDIANA MICHIGAN)
POWER COMPANY, AN INDIANA)
CORPORATION, FOR AUTHORITY TO)
INCREASE ITS RATES AND CHARGES)
FOR ELECTRIC UTILITY SERVICE; FOR)
APPROVAL OF NEW SCHEDULES OF)
RATES, RULES AND REGULATIONS; AND)
FOR AUTHORITY TO ESTABLISH AND)
IMPLEMENT RATE ADJUSTMENT MECHANISMS)
TO TRACK CERTAIN MATTERS RELATING TO)
RELIABILITY ENHANCEMENT, DEMAND-SIDE)
MANAGEMENT/ ENERGY EFFICIENCY)
PROGRAMS, OFF-SYSTEM SALES MARGINS,)
PJM, ENVIRONMENTAL COMPLIANCE, AND)
CAPACITY EQUALIZATION SETTLEMENT.)

CAUSE NO. 43306

**JOINT MOTION FOR LEAVE TO SUBMIT
STIPULATION AND SETTLEMENT AGREEMENT**

Petitioner Indiana Michigan Power Company ("I&M"), by counsel and on behalf of all Parties, in accordance with the procedural schedule established on December 1, 2008, hereby requests leave to submit the attached Stipulation and Settlement Agreement dated December 4, 2008 by and among I&M, Citizens Action Coalition of Indiana, Inc., City of Fort Wayne, City of South Bend, Indiana Michigan Power Company Industrial Group and the Indiana Office of Utility Consumer Counselor.

Respectfully submitted,



Teresa E. Morton (No. 14044-49)
BARNES & THORNBURG LLP
11 S. Meridian Street
Indianapolis, Indiana 46204
Phone: (317) 231-7716
Fax: (317) 231-7433
E-mail: tmorton@btlaw.com

Steven T. Nourse (No. 320 95 TA)
American Electric Power Service
Corporation
1 Riverside Plaza
29th Floor
Columbus, Ohio 43215
Phone: (614) 716-1608
Fax: (614) 716-2014
Email: stnourse@aep.com

Attorneys for Indiana Michigan Power
Company

CERTIFICATE OF SERVICE

The undersigned certifies that on December 4, 2008 a copy of the foregoing was served by email transmission upon the following:

Leja D. Courter
Jeffrey M. Reed
Randall C. Helmen
Office of Utility Consumer Counselor
Suite 1500 South
115 W. Washington Street
Indianapolis, Indiana 46204
lcourter@oucc.in.gov
jreed@oucc.in.gov
rhelmen@oucc.in.gov

Randolph L. Seger
Bingham McHale LLP
2700 Market Tower
10 West Market Street
Indianapolis, Indiana 46204
rseger@binghammchale.com

Jerome E. Polk
Polk & Associates, LLC
101 W. Ohio Street, Suite 2000
Indianapolis, Indiana 46204
jpolk@polk-law.com

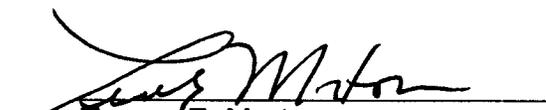
Shaw R. Friedman
Friedman & Associates, P.C.
705 Lincolnway
LaPorte, Indiana 46350
Sfriedman.associates@verizon.net

John F. Wickes, Jr.
Bette J. Dodd
Timothy L. Stewart
Lewis & Kappes, P.C.
One American Square, Suite 2500
Indianapolis, Indiana 46282
jwickes@lewis-kappes.com
bdodd@lewis-kappes.com
tstewart@lewis-kappes.com

Robert W. Wright
Dean, Webster & Wright, LLP
50 S. Meridian Street
Suite 500
Indianapolis, IN 46204
wright@dwwklaw.com

Mr. Grant Smith
Citizens Action Coalition
603 E. Washington Street, Suite 502
Indianapolis, Indiana 46204
gsmith@citact.com

Michael B. Cracraft
Steven W. Krohne
Hackman Hulett & Cracraft, LLP
111 Monument Circle Drive, Suite 3500
Indianapolis, Indiana 46204
mcracraft@hhclaw.com
skrohne@hhclaw.com


Teresa E. Morton

STATE OF INDIANA

BEFORE THE INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA MICHIGAN)
POWER COMPANY, AN INDIANA)
CORPORATION, FOR AUTHORITY TO)
INCREASE ITS RATES AND CHARGES)
FOR ELECTRIC UTILITY SERVICE; FOR)
APPROVAL OF NEW SCHEDULES OF)
RATES, RULES AND REGULATIONS; AND) CAUSE NO. 43306
FOR AUTHORITY TO ESTABLISH AND)
IMPLEMENT RATE ADJUSTMENT MECHANISMS)
TO TRACK CERTAIN MATTERS RELATING TO)
RELIABILITY ENHANCEMENT, DEMAND-SIDE)
MANAGEMENT/ ENERGY EFFICIENCY)
PROGRAMS, OFF-SYSTEM SALES MARGINS,)
PJM, ENVIRONMENTAL COMPLIANCE, AND)
CAPACITY EQUALIZATION SETTLEMENT.)

STIPULATION AND SETTLEMENT AGREEMENT

Indiana Michigan Power Company ("I&M" or "Company"), Citizens Action Coalition of Indiana, Inc. ("CAC"), City of Fort Wayne ("Fort Wayne"), City of South Bend ("South Bend"), Indiana Michigan Power Company Industrial Group ("Industrials") and the Indiana Office of Utility Consumer Counselor ("OUCC") (collectively the "Parties" and individually "Party") solely for purposes of compromise and settlement and having been duly advised by their respective staff, experts and counsel, stipulate and agree that the terms and conditions set forth below represent a fair, just and reasonable resolution of the matters set forth below, subject to their incorporation by the Indiana Utility Regulatory Commission ("Commission") into a final, non-appealable order ("Final Order") without modification or further condition that may be unacceptable to any Party. If the Commission does not approve this Stipulation and Settlement Agreement ("Agreement"), in its entirety, the entire Agreement shall be null and void and deemed withdrawn, unless otherwise agreed to in writing by the Parties.

I. TERMS AND CONDITIONS

1. Rate Increase. I&M shall be authorized to increase its basic rates and charges for retail electric service and to implement certain rate adjustment mechanisms agreed to herein (collectively "rates"). The rates shall be designed to produce an increase in annual revenue from retail electric service in the amount of \$44,167,000 (including the initial factors for the rate adjustment mechanisms) as reflected in the attached Exhibit A. The rates shall be designed to produce total revenues from I&M's rates in the amount of \$953,928,000 (comprised of \$931,361,000 from basic rates and the balance from the initial tracker factors). Based on the additional revenues of \$44,167,000, the overall revenue increase (including the first year of the rate adjustment mechanisms) is approximately 4.85%. I&M shall be authorized to place into effect rates in accordance with the terms of this Agreement for bills rendered on and after the effective date of the order approving this Agreement. The agreed upon rate increase reflects the following resolution of the material disputed issues in this case which the Parties agree are reasonable for purposes of compromise and settlement. While an explanation of the individual issues is provided below and further explained in the testimony to be filed in support of this Agreement, the negotiated amounts represent the agreements reached by the Parties as part of the overall settlement package.

2. Authorized Return. Based on the capital structure proposed by I&M in its direct testimony modified to reflect witness Gorman's adjustment to preferred stock, I&M should be authorized to earn a return on equity equal to 10.5%, which equates to a return on I&M's original cost rate base of 7.62% and a return on fair value rate base equal to 4.64%. I&M's authorized net operating income should be \$152,467,000.

3. Off System Sales ("OSS") Margins Sharing Mechanism. The revenue requirement used to establish basic rates includes a credit of \$37.5 million of OSS margins allocated to the Indiana retail jurisdiction. I&M should be authorized to track Indiana retail jurisdictional OSS margins above that amount in a rate adjustment mechanism designed as provided below. Indiana retail jurisdictional OSS margins between \$37.5 million and \$90.0 million will be shared on a 50/50 basis and Indiana retail jurisdictional OSS margins above \$90.0 million will be shared on a 60/40 (Company/customer) basis. The initial factor set under the OSS margins sharing mechanism will include as a credit \$25.055 million of the customers' share of projected OSS margins. The OSS margins sharing mechanism will be adjusted annually.

Financial Transmission Rights ("FTR") revenues associated with OSS activities and associated transmission congestion costs will be accounted for in margins under the OSS margins sharing mechanism. FTR revenues attributable to Load Serving Entity (LSE) activities (LSE FTR) and associated transmission congestion costs will be included in the PJM Tracker. However, to the extent that LSE FTR revenues are greater than associated transmission congestion costs, such net LSE FTR revenues will be accounted for and shared under the OSS margins sharing mechanism. If LSE transmission congestion costs exceed LSE FTR revenues, OSS FTR revenues will be used first to make up any such deficiency on an annual basis before any allocation to OSS.

I&M's share of OSS margins and net FTR revenues under the OSS margins sharing mechanism will be excluded from the earnings test in determining I&M's compliance with the provisions of IC 8-1-2-42(d)(3) and IC 8-1-2-42.3 for a period of

four (4) years from the effective date of the new rates established in this proceeding, after which the Parties are free to address this issue again. I&M's sum of differentials, commonly referred to as the "earnings bank" computed under IC 8-1-2-42.3, shall not be re-set in this case.

4. Rate Adjustment Mechanisms ("Trackers").

(a) PJM Costs. As reflected in the OUCC testimony, the revenue requirement used to establish basic rates includes I&M's forecasted administrative costs related to I&M's membership in PJM. As provided below, I&M should be authorized to establish a PJM Tracker to track costs related to its membership in PJM, including the variance from the forecasted administrative costs reflected in basic rates and the cost of PJM Regional Transmission Expansion Plan projects. The initial tracker factor will be set at \$39.122 million and will be adjusted annually to reflect costs above and below the amount included in the revenue requirement.

As stated above, I&M will offset transmission congestion costs with FTR revenues before allocating any FTR revenues to OSS on an annual basis. Transmission congestion costs for jurisdictional customers and FTR revenues to cover those expenses will be identified in the PJM Tracker while transmission congestion costs related to OSS and any net LSE FTR revenues will be included in the OSS margins sharing mechanism.

In the PJM Tracker, I&M will use actual energy consumption data to allocate energy-related PJM costs among the retail customer classes. The following PJM charges will be tracked and allocated among the customer classes on an energy basis:

Net Operating Reserve
Net Synchronous Condensing
Net Regulation Service
Meter Corrections
Emergency Purchase
Inadvertent Meter Reserve
Day-Ahead Scheduling Reserve Market
Net Spinning
Net Transmission Line Loss

All other current PJM charges, including net blackstart, net reactive supply, administrative fees and transmission enhancement charges, will be tracked and allocated among the customer classes on a demand basis. In each annual PJM Tracker proceeding, I&M will identify any new PJM charge or material modification of an existing PJM charge ("modified PJM charge") that I&M seeks approval from the Commission to include in the PJM Tracker and any anticipated new or modified PJM charge of which I&M is aware. I&M will present testimony explaining the nature of any new or modified PJM charge and a proposed cost allocation. I&M will also identify any PJM charge discontinued by PJM.

I&M will include a summary of I&M-owned and non-I&M-owned PJM Regional Transmission Expansion Plan project costs in its PJM Tracker filings. I&M will maintain its records such that I&M-owned PJM Regional Transmission Expansion Plan project costs recognized in the PJM Tracker may be separately identified. I&M will retain such records until a final order is entered in I&M's next general rate proceeding.

I&M will work with the OUCC and other interested Parties during 2009 to analyze the effectiveness and customer benefits of the AEP Interconnection Agreement.

(b) Environmental. The Environmental Tracker shall be approved for purposes of tracking net emission allowances. The initial factor under the tracker will be set at \$8.5 million. The Parties agree that I&M may request timely cost recovery via a rate adjustment mechanism of consumables and other ratemaking relief pursuant to IC 8-1-2-6.1, 8-1-2-6.7, 8-1-2-6.8, 8-1-2-42(a), 8-1-8.7, 8-1-8.8 and 170 IAC 4-6-1 et seq. While the OUCC and Intervenors may not contest I&M's right to file such a request, this Agreement does not otherwise restrict the positions the OUCC and Intervenors may take with regard to the relief sought by I&M in any such proceeding.

(c) Reliability Enhancement. I&M will not at this time be authorized to establish a tracker for certain incremental expenses related to reliability enhancement projects. Instead, to support specific enhanced reliability projects, such as those set forth on witness Catlin Exhibit TSC-20, additional operation and maintenance costs totaling \$7.542 million are included in the revenue requirement used to establish basic rates. For four (4) years, I&M will provide an annual report to the OUCC and the Commission regarding the enhanced operation and maintenance activities, including the actual project results and any changes in project plans from those identified on witness Catlin Exhibit TSC-20 (unless previously reported).

(d) Demand Side Management and Energy Efficiency Costs. I&M should be authorized to establish its proposed tracker for certain costs related to demand-side management and energy efficiency ("DSM/EE") programs. The initial factor under the tracker will be set at zero to reflect that \$2.537 million is included in the revenue requirement used to establish basic rates to recognize the cost of the initial programs, which shall include the following identified programs: energy education; tariff education;

low income weatherization; residential and small commercial compact fluorescent lighting; home energy fitness; commercial and industrial lighting; commercial and industrial motors; and commercial and industrial standard offer. During the 45 days following execution of this Agreement, I&M will meet with any interested Party to discuss the initial programs and receive input regarding design and roll-out. In the event that I&M's annual costs for the initial DSM/EE programs are less than \$2.537 million, the difference will be reconciled at the time a new factor is authorized in accordance with the DSM/EE collaborative. A Party that is a signatory to this Agreement may participate in the collaborative upon written request to I&M and the OUCC. The Commission or its designated representative is invited to participate in the collaborative. The DSM/EE collaborative will consider new or revised programs developed in accordance with the Market Potential Study ("MPS") currently being performed and I&M will be authorized to track the costs of such new or revised programs via the DSM/EE Tracker, subject to Commission approval.

The initial factor will not include recovery for lost revenues or shared savings incentives. Lost revenues and any incentives, as well as the design of the tracker and the nature of programs, will be addressed in the collaborative and presented to the Commission for review and approval. Program costs included in the revenue requirement used to establish basic rates under this Agreement will be allocated among all customer classes including industrial customers. With the exception of a direct load control program, additional DSM/EE costs included in the DSM/EE Tracker or otherwise recognized for ratemaking purposes will not be allocated to industrial customers. In the event a direct load control program is proposed, the cost allocation for such program may be presented to the Commission for decision. If after four (4) years from the date

of the Final Order, a DSM/EE program is proposed for industrial classes, allocation of the costs for such program to the industrial classes may also be proposed in a proceeding where approval of such program is sought.

5. Tracker Participation Payment. I&M will make a lump sum payment in the amount of \$150,000 to the Industrials to offset costs that may be incurred by the industrial customers' participation in the proceedings to administer the trackers approved under this Agreement.

6. Member Load Ratio. The revenue requirement used to establish basic rates in this proceeding reflects the use of Member Load Ratio ("MLR") set at 0.19273. In addition, this agreed-upon MLR is also used to establish the initial factors for the OSS margins sharing mechanism and PJM Tracker. The initial tracker factors will be reconciled using the actual monthly MLR established under the AEP Interconnection Agreement and subsequent tracker factors will be established using a projected MLR for the forecast period and the actual MLR for the reconciled months. The use of the OUCC's proposed MLR in this case will not be used as a precedent by any party to support the use of a five (5) year averaging methodology in any future proceeding.

7. Nuclear Decommissioning Expense. I&M should be authorized on an Indiana retail jurisdictional basis to collect \$8.1 million annually for the decommissioning of the two units of the Cook Nuclear Plant. The Commission order in this Cause shall include the following language to assist I&M in complying with regulations of the Internal Revenue Service regarding qualified nuclear decommissioning trust funds:

(a) The amount of decommissioning costs to be included in the cost of service for Units No. 1 and No. 2 of the Donald C. Cook Plant is \$4.05 million and \$4.05 million, respectively.

(b) The assumptions used in determining the amount of decommissioning costs to be included in the cost of service for each of the two Units are as follows:

- (i) The after-tax rate of return assumed to be earned by amounts collected for decommissioning is 5.67 percent.
- (ii) The proposed method of decommissioning each of the two Units is prompt removal/dismantling.
- (iii) The total estimated cost of decommissioning each of the two Units in 11/1/2006 dollars is \$536,606,600 for Unit 1 and \$536,606,600 for Unit 2.
- (iv) The estimated cost of decommissioning each of the two Units in future dollars for each year in which decommissioning expenses are expected to be incurred is as follows:
 - \$2,701,907,598 (2034 dollars) for Unit 1 and \$2,701,907,598 (2037 dollars) in total over the entire period included in the study described in Item (viii) below.
- (v) The methodology used to convert the current dollars estimated decommissioning cost to future dollars estimated decommissioning costs is to use the formula $FV = PV (1+i)^N$ where i is 4.69% and N the remaining life to license expiration.
- (vi) Decommissioning costs to be included in the cost of service are an amount of \$8.1 million apportioned between units as shown in Section 7(a) above expected to be included annually in the cost of service for each of the two units, continuing through the dates shown in Item (vii) below, unless changed by a future order of the Commission.
- (vii) The estimated dates on which it is projected that the nuclear unit will no longer be included in the Company's rate base are October 31, 2034 for Unit 1 and December 31, 2037 for Unit 2.
- (viii) The decommissioning study prepared by Knight Cost Engineering Services dated November 2006 was utilized in determining the

amount of decommissioning costs to be included in the Company's cost of service.

The Parties agree that the foregoing language is added to the Commission's Order solely for the express purpose set forth above and is subject to review and adjustment by the Commission in a future proceeding.

8. Nuclear Decommissioning Trust Investment Restrictions and Flexible Funding. As proposed by witness Kiser, the investment restrictions for the nuclear decommissioning trust funds shall be modified as follows so that they apply to the portfolios as a whole: (a) the quality ranking of the equity portfolio must be B+ or greater; and (b) the fixed income portfolio must have a credit quality of AA or higher.

The flexible funding plan summarized in witness Kiser Exhibit JSK-2 was approved in Cause No. 38702-FAC33 and continued in subsequent Commission orders, the most recent being Cause No. 38702-FAC61. The flexible funding plan as described in the testimony of witness Kiser shall be continued.

9. Storm Damage. Major storm damage expense included in the revenue requirement for basic rates is based on a five (5) year average. Accordingly, the revenue requirement used to establish basic rates in this proceeding includes an adjustment to I&M's test year operating results for distribution service storm damage in the amount of \$4.75 million and an adjustment to I&M's test year operating results for transmission services storm damage in the amount of \$20,000.

10. Economic Development Program. I&M's proposed economic development program will be approved and the revenue requirement used to establish

basic rates in this proceeding includes \$564,349 to reflect the Indiana jurisdictional portion of the \$722,000 of expense related to the program.

11. Nuclear Regulatory Commission Fees. I&M's proposed expense for Nuclear Regulatory Commission fees is reduced by \$376,000 for purposes of the revenue requirement used to establish basic rates in this proceeding.

12. Pension and Other Post Employment Benefit ("OPEB") Expense. The revenue requirement used to establish basic rates includes an additional \$906,000 of pension and OPEB expense as reflected in the OUCC's testimony and I&M's rebuttal testimony. This reflects the increased pension cost and slightly reduced OPEB cost based on the 2008 actuarial report as discussed in the testimony of witnesses Catlin and McCoy.

The contribution to the employees' pension fund pre-paid by I&M is not included in I&M's rate base in this case. Instead, the contribution to the employees' pension fund pre-paid by I&M will earn a long term debt carrying cost at a rate of 5.98%. This increases I&M's revenue requirement for basic rates by \$2.894 million for the long term debt carrying cost.

13. Amortization of New Source Review ("NSR") Settlement, Deferred OPEB Costs, and Rate Case Expense. The revenue requirement used to establish basic rates includes the Indiana jurisdictional portion of NSR-related expenses for legal fees and Mobile Source reductions which amount to \$4,302,112 for the total company, to be amortized over three (3) years. Based on the jurisdictional allocation factor of

0.654519, the Indiana retail jurisdictional costs are \$2,815,814 and the amortization results in an additional \$938,604 in the annual revenue requirement.

The revenue requirement used to establish basic rates includes I&M's OPEB costs deferred pursuant to the Commission's order in Cause No. 39314 and rate case expense amortized over a three (3) year period. I&M will submit to the Commission's staff as a compliance filing tariff sheets reflecting the removal of the NSR expense, as well as the three (3) year amortizations of OPEB expense and rate case expense, from I&M's basic rates after the expenses have been fully amortized unless new rates have already been approved reflecting the removal or subsequent adjustment of the amortizations.

14. Nuclear Fuel Inventory. I&M currently owns \$50.153 million of nuclear fuel inventory used at the Cook Nuclear Plant (non-leased nuclear fuel), which amount was removed by adjustment from I&M's rate base for purposes of filing I&M's case-in chief in anticipation that I&M would be able to lease all of its nuclear fuel. Due to exigent market conditions this inventory balance has not been placed under lease. Therefore, this rate base adjustment is no longer fixed, known and measurable. Accordingly, the non-leased nuclear fuel is included in I&M's rate base in this case.

I&M will continue to pursue opportunities to lease the remaining portion of its nuclear fuel inventory. I&M will report annually to the OUCC on I&M's efforts and to the Commission upon request. In the event I&M succeeds in leasing the remaining portion, I&M will submit tariff sheets reflecting the removal of the nuclear fuel inventory from rate base to the Commission's staff as a compliance filing.

15. Accounting Authority. I&M will be granted accounting authority to implement the ratemaking and tracking mechanisms agreed to in this Agreement.

16. Cost-of-Service Study/Rate Design. The Parties acknowledge and agree that rates should be designed in order to allocate the revenue requirement to and among the classes of I&M's customers in a fair and reasonable manner consistent with cost-causation principles. The Parties further acknowledge and agree that evidence utilizing different methodologies to determine cost allocation by rate class was submitted in this proceeding and that absent this Agreement, such evidence may support a range of possible outcomes. The Parties stipulate and agree that for purposes of explaining the rates produced under this Agreement, the agreed revenue requirement should be allocated to and among I&M's customer classes based on I&M's methodology modified to reflect a 25% subsidy reduction and the allocation of certain costs included in the PJM Tracker on an energy basis as provided in Section 4(a) above. The Parties further stipulate and agree that in connection with the agreed revenue requirement and other components of this Agreement, the agreed cost allocation yields just and reasonable rates provided however, that no Party, by entering into this Agreement, has acquiesced in or waived any position with respect to the appropriate methodology for determining cost-of-service or rate design. The Parties reserve all rights to present evidence and advocate positions with respect to cost of service and rate design issues in all other proceedings, including future I&M rate proceedings. At the time of its next general rate proceeding, I&M will perform a minimum system study and provide a copy of the study to the Parties.

17. Tariffs. Except as otherwise provided herein, I&M's tariffs, including rules and regulations, shall be approved as proposed by I&M. The following identified disputes are resolved as described below:

(a) Demand Response. I&M will revise its tariffs to reflect the Commission's finding in Cause No. 43566 upon issuance of a final order in such investigation. Pending a decision in Cause No. 43566, customers seeking to participate in demand response programs will do so only through programs reviewed and approved by the Commission.

(b) Reporting for Economic Development Rider and Experimental Real-Time Pricing Tariff. I&M will report annually to the Commission and the Parties: (a) the number of customers that have chosen the Economic Development rate and their aggregate cumulative load; and (b) the estimated customer savings realized under the Experimental Real-Time Pricing Tariff and the estimated impact on I&M's peak demands, provided that the confidential information associated with both reports is exempted by the Commission from public disclosure and received by each Party pursuant to a reasonable non-disclosure agreement.

(c) Terms and Conditions of Service, Extension of Service, Section 14(d).

Section 14(d) of I&M's terms and conditions of service will be approved as follows:

If the Company has reason to question the financial stability of the customer and/or the life of the operation is uncertain or temporary in nature, such as construction projects, oil and gas well drilling, sawmills and mining operations, the customer shall pay a contribution in aid of construction, consisting of the estimated labor cost to install and remove the facilities required plus the cost of unsalvageable material, before the facilities are installed. In making determinations under this provision, I&M will consider relevant information such as financial statements, annual

reports, and other information provided by the customer. Should a dispute arise concerning the application of this provision, either the Company or the customer may submit such dispute to the Commission for investigation and determination as to the conditions under which such extension shall be made.

If I&M communicates to a customer that a contribution in aid of construction under Section 14(d) is necessary, I&M will copy the Commission and the OUCC or their respective designee, on the communication to the customer.

(d) Miscellaneous Service Charges. The OUCC proposed that increases to I&M's miscellaneous service charges should be limited to no more than a 25% increase over the current charges as shown in witness Swan Schedule DES-9. In its rebuttal testimony, I&M proposed that the reduced charges proposed by the OUCC be implemented for the first year that the new rates are in effect. Thereafter, I&M proposed that in each of the subsequent three (3) years, the customer charges will be increased by 1/3 of the difference between the full cost-based charges and the first year charge, such that at the beginning of the fourth year after new rates have been put into effect (approximately 2012), the charges will reflect full 2007 costs. The Parties agree to accept this phase-in plan. Accordingly, the schedule of miscellaneous service charges shall be as set forth in witness Roush Exhibit DMR-R4.

(e) Tariffs C.S.-IRP2, ECS and EPCS. Industrials challenged the 200 MVA limitation on the availability of Tariff C.S.-IRP2. Through the rebuttal testimony of I&M witness Roush, I&M explained that limitations on the amount of interruptible service available have been a part of I&M's tariffs for decades so as to balance the provision of a rate discount to an interruptible customer today with the future benefit of deferring the need for constructing additional generating capacity. I&M explained that the increase in

the availability of interruptible service from 135 MVA to 200 MVA of customer load under contract represents a 48% increase in the amount of interruptible service offered to I&M's customers. The Parties agree to approval of the increase in the availability of interruptible service from 135 MVA to 235 MVA of customer interruptible load under contract.

Industrial witness Dauphinais also challenged certain aspects of the pricing and terms for Tariff C.S.-IRP2 and Rider ECS. I&M also explained that in its view, it is not appropriate to institute an asymmetrical relationship where customers pay for electric service based upon average embedded costs but are paid for demand response based upon market value. The Parties agree that the minimum interruption requirement for mandatory curtailments under Tariff C.S.-IRP2 shall be the minimum required under the PJM Emergency program for capacity. The Parties agree that the minimum compensation under Tariff C.S.-IRP2 shall be 80% of the applicable PJM Reliability Pricing Model ("RPM") clearing price. The Parties further agree that the curtailment credit under Rider ECS shall be the greater of the following: (a) 80 percent of the AEP East Load Zone Real-Time Locational Marginal Price ("LMP") established by PJM (including congestion and marginal losses); (b) the amount quoted by I&M to the customer; or (c) the Minimum Price as specified by the customer provided that minimum price does not exceed \$500 per MWh. The monthly confidential Tariff CS-IRP interruption report that I&M has submitted to the Commission and OUCC will be continued on a quarterly basis and expanded to include Tariff C.S.-IRP2 and Riders ECS and EPCS.

Industrials also proposed to eliminate the testing requirement within Riders ECS and EPCS and Tariff C.S.-IRP2. On rebuttal, I&M witness Roush explained that the testing provision ensures that there are no problems with either the agreed upon notification process or the customer's plan of action to interrupt when a request is received. The Parties agree that I&M may reserve the right to verify the customer's ability to interrupt or curtail service under Tariff C.S.-IRP2 and Riders ECS and EPCS provided that the verification process will stop one step short of actual physical interruption or curtailment.

18. Alternate Feed Service ("AFS"). Fort Wayne agrees to withdraw its opposition to I&M's proposed AFS Tariff. All Parties agree to approval of I&M's proposed AFS Tariff. The five (5) existing AFS services being provided to Fort Wayne will be included in the grandfathering proposed in this case until the circuits on which capacity is reserved for the AFS service become capacity deficient. As a result of the "grandfathering" I&M will not charge Fort Wayne a monthly capacity reservation demand charge for AFS until the I&M substation equipment or distribution circuit becomes "capacity deficient" and, as a result, I&M must incur costs to modify or upgrade its common facilities to continue providing the AFS to Fort Wayne. "Capacity deficient" means the capacity on the substation equipment or distribution circuit serving the customer's AFS ("AFS circuit") is projected, according to good engineering practice, to be insufficient to reliably serve the current and reasonably projected load on the AFS circuit without effecting upgrades or modifications of the AFS circuit within a reasonably foreseeable time period.

The demand charge proposed by I&M in its case-in-chief (\$2.33 per kW/Kva) will be adjusted to conform to the revenue requirement agreed upon in this Agreement.

I&M and Fort Wayne also disagreed whether the payments previously made by Fort Wayne to extend AFS facilities to Fort Wayne's sites included only local facilities or also included "system improvements." Without agreeing as to which position is correct, I&M will credit \$52,237.50 (50% of the \$104,475 in dispute) to Fort Wayne's AFS accounts to be used to offset the application of the approved demand charge under the AFS tariff once the charges become applicable in accordance with the grandfathering agreement described above.

19. Depreciation Order in Cause No. 43231. The Commission's interim order dated June 13, 2007 in Cause No. 43231 shall be finalized without change.

20. Fuel Adjustment Charge ("FAC") Proceedings. The Parties agree that for purposes of I&M's FAC proceedings, I&M's base cost of fuel shall be \$0.011786 per kWh. The Parties further agree that the procedures required by the Commission's generic order in Cause No. 41363 shall continue to be waived, unless atypical conditions arise in accordance with the direct testimony of I&M witness Curry. For purposes of this provision, atypical conditions shall be defined as a monthly average actual cost of retained cash purchases (excluding AEG and OVEC committed purchases) exceeding the AEP System's highest average monthly on-system fuel cost and a volume of retained cash purchases that exceed 2% of I&M's net energy requirements. This agreement does not preclude parties in I&M's fuel cost proceedings from questioning the reasonableness of purchased power transactions.

21. Time is of the Essence - Effective Date. The Parties acknowledge that a significant motivation for the Company to enter into this Agreement is the expectation that, if the Commission finds the Agreement is reasonable and in the public interest, an order authorizing the increase in I&M's rates and charges will be issued promptly by the Commission following such determination. The Parties have spent many months reviewing data and negotiating this Agreement in an effort to eliminate time consuming and costly litigation. The Parties agree to urge the Commission to review the Agreement on an expedited basis and, if it finds the Agreement is reasonable and in the public interest, approve this Agreement by January 31, 2009.

II. PRESENTATION OF THE AGREEMENT TO THE COMMISSION

1. The Parties shall support this Agreement before the Commission and request that the Commission expeditiously accept and approve the Agreement. This Agreement is not severable and shall 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 Agreement and supporting evidence, which evidence shall include: the evidence prefiled by OUCC and Intervenors; I&M's rebuttal evidence; and additional testimony supporting the Settlement Agreement. Such evidence shall be admitted into evidence without objection and the Parties hereby waive cross-examination. The Parties propose to submit this Agreement and evidence conditionally, and that, if the Commission fails to approve this Agreement in its entirety without any change or with condition(s) unacceptable to any Party, the Agreement and supporting evidence shall be withdrawn and the Commission will

continue to hear Cause No. 43306 with the proceedings resuming at the point they were suspended on December 1, 2008.

3. A Final Order approving this Agreement 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 agree on the form, wording and timing of public/media announcement (if any) of this Agreement 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 Agreement shall limit or restrict the Commission's ability to publicly comment regarding this Agreement or any Order affecting this Agreement.

III. EFFECT AND USE OF AGREEMENT

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

2. Neither the making of this Agreement (nor the execution of any of the other documents or pleadings required to effectuate the provisions of this Agreement), nor the provisions thereof, nor the entry by the Commission of a Final Order approving

this Agreement, shall establish any principles or legal precedent applicable to Commission proceedings other than those resolved herein.

3. This Agreement 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 this Agreement.

4. This Agreement 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.

5. The evidence in support of this Agreement 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. The Parties shall prepare and file an agreed proposed order with the Commission as soon as reasonably possible after the execution of this Agreement.

6. The communications and discussions during the negotiations and conferences and any materials produced and exchanged concerning this Agreement 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.

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

8. The Parties shall not appeal or seek rehearing, reconsideration or a stay of the Final Order approving this Agreement 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 Agreement). The Parties shall support or not oppose this Agreement in the event of any appeal or a request for a stay by a person not a party to this Agreement or if this Agreement is the subject matter of any other state or federal proceeding.

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

10. This Agreement may be executed in two 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 this 4th day of December, 2008.

INDIANA MICHIGAN POWER COMPANY


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

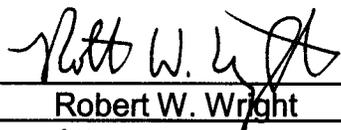
CITIZENS ACTION COALITION OF INDIANA, INC.


Name: Jerome E. Polk
Its: Attorney

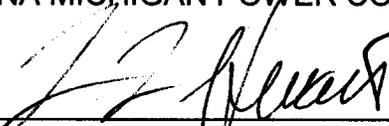
CITY OF FORT WAYNE


Name: Michael B. Cracraft
Its: Attorney

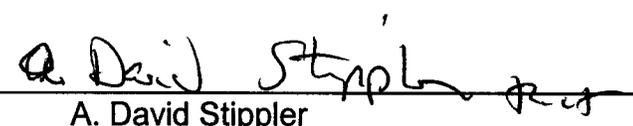
CITY OF SOUTH BEND


Name: Robert W. Wright
Its: Attorney

INDIANA MICHIGAN POWER COMPANY INDUSTRIAL GROUP


Name: Timothy L. Stewart
Its: Attorney

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR


Name: A. David Stippler
Its: Utility Consumer Counselor

**Indiana Michigan Power Company
IURC Cause No. 43306
Settlement Rate Relief
\$000**

1	Adjusted Original Cost Rate Base		\$2,000,887 ¹
2	Adjusted Net Electric Operating Income		\$139,297 ²
3	Adjusted Earned Rate of Return		6.96%
4	Required Rate of Return w/ 10.50% ROE and preferred stock adj.		7.62%
5	Income Requirement		\$152,467
6	Income Deficiency		\$13,170
7	Gross Revenue Conversion Factor		1.6401
8	Jurisdictional Revenue Deficiency		\$21,600
9	Reliability Enhancement Tracker		Eliminated
10	DSM/EE Tracker		0 ³
11	Off-System Sales Margins Tracker		(\$25,055) ⁴
12	PJM Tracker		\$39,122 ⁵
13	Environmental Compliance Tracker		\$8,500 ⁶
14	Total Required Rate Relief including Initial Tracker Elements		\$44,167

¹ Reflects addition of unleased nuclear fuel inventory to I&M's "as-filed" rate base less Pension Prepayment. If I&M leases this fuel inventory, adjustments will be made to rates to eliminate the cost of fuel as a rate base component.

² Reflects \$37.5 million in basic rates; tracker set at (\$25.055) million.

³ Basic rates include \$2,537,000.

⁴ See footnote 2.

⁵ I&M Third Revised Exhibit F-1 Less Admin Fees Moved to Basic Rates.

⁶ Net Allowance Costs.