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 50-316 Donald C. Cook Nuclear Power Plant, Unit 2, Indiana & 05000316  
 AUTH. NAME AUTHOR AFFILIATION  
 ALEXICH, M. P. Indiana & Michigan Electric Co.  
 RECIP. NAME RECIPIENT AFFILIATION  
 Office of Nuclear Reactor Regulation, Director (post 851125)

SUBJECT: Forwards financial info for 1984 & projected cash flow for 1985.

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# INDIANA & MICHIGAN ELECTRIC COMPANY

P.O. BOX 16631  
COLUMBUS, OHIO 43216

December 18, 1985  
AEP:NRC:0909B

Donald C. Cook Nuclear Plant Unit Nos. 1 and 2  
Docket Nos. 50-315 and 50-316  
License Nos. DPR-58 and DPR-74  
FINANCIAL INFORMATION FOR INDIANA & MICHIGAN ELECTRIC COMPANY


Mr. Harold R. Denton, Director  
Office of Nuclear Reactor Regulation  
U.S. Nuclear Regulatory Commission  
Washington, D.C. 20555

Dear Mr. Denton:

Attachment 1 contains three copies of the Indiana & Michigan Electric Company's (I&MECo) Annual Report for 1984. Attachment 2 contains three copies of I&MECo's projected cash flow for 1985. These reports are submitted pursuant to 10 CFR 50.71(b) and 10 CFR 140.21(e).

This document has been prepared following Corporate procedures which incorporate a reasonable set of controls to insure its accuracy and completeness prior to signature by the undersigned.

Very truly yours,

  
M. P. Alexich  
Vice President, 12/18/85

cm

## Attachments

cc: John E. Dolan  
W. G. Smith, Jr. - Bridgman  
G. Bruchmann  
R. C. Callen  
G. Charnoff  
NRC Resident Inspector - Bridgman

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A black and white photograph of a large, open field with a line of trees in the background. The field is mostly empty, with some small, dark spots scattered across it, possibly representing a sparse forest or a field of low-lying vegetation. The trees in the background are tall and thin, forming a dark silhouette against the sky.

1985 Internal Cash Flow Projection  
for Donald C. Cook Nuclear Plant  
(Millions)

	<u>Actual</u> 1984	<u>Projected</u> 1985
Net income after taxes	142.2	140
Less dividends paid	<u>143.5</u>	<u>143</u>
Retained earnings	(1.3)	(3)
Adjustments:		
Depreciation and amortization	88.3	92
Deferred income taxes and investment tax credits	112.7	72
AFUDC	<u>(116.8)</u>	<u>(50)</u>
Total adjustments	84.2	114
Internal cash flow	<u>82.9</u>	<u>111</u>
Average quarterly cash flow	20.7	27
Average cash balances and short- term investments	<u>42.0</u>	<u>45</u>
Total	<u>62.7</u>	<u>72</u>
% Ownership in all operating nuclear units: Unit 1 and Unit 2 - 100%		
Maximum Total Contingent Liability - <u>\$20.0 million</u> (2 units)		

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# Indiana & Michigan Electric Company

ANNUAL REPORT 1984

AMERICAN ELECTRIC POWER SYSTEM

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## Background of the Company

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INDIANA & MICHIGAN ELECTRIC COMPANY (the Company), a subsidiary of American Electric Power Company, Inc. (AEP) is engaged in the generation, purchase, transmission and distribution of electric power. The Company was organized under the laws of Indiana on February 21, 1925, and is also authorized to transact business in Michigan and West Virginia. Its principal executive offices are in Fort Wayne, Indiana.

The Company has two wholly owned subsidiaries; they are Blackhawk Coal Company, which owns coal mines and related mining assets, and Price River Coal Company, which mines coal from land owned by Blackhawk that is purchased largely by the Company.

The Company serves approximately 449,000 customers in northern and eastern Indiana and a portion of southwestern Michigan. Among the principal industries served are stone, clay, glass and concrete products, primary metals, fabricated metal products, electrical and electronic machinery and transportation equipment. In addition, the Company supplies wholesale electric power to other electric utilities, municipalities and electric cooperatives.

The Company's generating plants and important load centers are interconnected by a high-voltage transmission network. This network in turn is interconnected either directly or indirectly with the following other AEP System companies to form a single integrated power system: AEP Generating Company, Appalachian Power Company, Columbus and Southern Ohio Electric Company, Kentucky Power Company, Kingsport Power Company, Michigan Power Company, Ohio Power Company and Wheeling Electric Company. The Company is also interconnected with the following other utilities: Central Illinois Public Service Company, The Cincinnati Gas & Electric Company, Commonwealth Edison Company, Consumers Power Company, Illinois Power Company, Indiana-Kentucky Electric Corporation (a subsidiary of Ohio Valley Electric Corporation), Indianapolis Power & Light Company, Northern Indiana Public Service Company and Public Service Company of Indiana, Inc.



## Directors

---

FRANK N. BIEN (a)

W. A. BLACK

LAWRENCE R. BRUNKE (b)

P. F. CARL, JR. (c)

RICHARD E. DISBROW

JOHN E. DOLAN

WILLIAM N. D'ONOFRIO (d)

G. E. LEMASTERS (c)

GERALD P. MALONEY

RICHARD C. MENGE

C. W. ROAHRIG (b)

J. F. STARK

BEVERLY I. STEARS (e)

JOSEPH H. VIPPERMAN (f)

W. S. WHITE, JR.

## Officers

---

W. S. WHITE, JR.  
*Chairman of the Board  
and Chief Executive Officer*

W. A. BLACK  
*President and  
Chief Operating Officer*

J. F. STARK  
*Senior Vice President*

MILTON P. ALEXICH, Adm. USN Ret.  
*Vice President*

FRANK N. BIEN (a)  
*Vice President*

RICHARD E. DISBROW  
*Vice President*

JOHN E. DOLAN  
*Vice President*

WILLIAM N. D'ONOFRIO (d)  
*Vice President*

A. JOSEPH DOWD  
*Vice President*

RICHARD F. HERING  
*Vice President*

GERALD P. MALONEY  
*Vice President*

RICHARD C. MENGE  
*Vice President*

BEVERLY I. STEARS (e)  
*Vice President*

JOSEPH H. VIPPERMAN (f)  
*Vice President*

PETER J. DEMARIA  
*Treasurer*

JOHN R. BURTON  
*Secretary*

ELIO BAFILE (g)  
*Assistant Secretary and  
Assistant Treasurer*

ALLEN H. STUHLMANN (h)  
*Assistant Secretary and  
Assistant Treasurer*

JOHN F. DILorenzo, JR.  
*Assistant Secretary*

WILLIAM C. HARVEY  
*Assistant Secretary*

CARL J. MOOS  
*Assistant Secretary*

WILLIAM E. OLSON (e)  
*Assistant Secretary*

JOHN B. SHINNOCK (d)  
*Assistant Secretary*

JOAN ST. JAMES  
*Assistant Secretary*

LEONARD V. ASSANTE  
*Assistant Treasurer*

BRUCE M. BARBER  
*Assistant Treasurer*

JAMES D. HUEBNER (i)  
*Assistant Treasurer*

GERALD R. KNORR  
*Assistant Treasurer*

*The principal occupation of each of the above directors and officers of Indiana & Michigan Electric Company, with ten exceptions, is as an employee of American Electric Power Service Corporation. The exceptions are Elio Bafile, W. A. Black, Lawrence R. Brunke, William N. D'Onofrio, Richard C. Menge, Carl J. Moos, C. W. Roahrig, J. F. Stark, Beverly I. Stears, and Allen H. Stuhlmann whose principal occupations are as officers or employees of Indiana & Michigan Electric Company.*

(a) Resigned January 1, 1985

(b) Elected April 24, 1984

(c) Resigned April 24, 1984

(d) Elected January 1, 1984

(e) Resigned January 1, 1984

(f) Elected January 1, 1985

(g) Elected April 16, 1984

(h) Resigned April 16, 1984

(i) Elected September 1, 1984

## Selected Financial Data

	Year Ended December 31,				
	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>
	(in thousands)				
INCOME STATEMENTS DATA:					
OPERATING REVENUES — ELECTRIC .....	\$965,972	\$868,980	\$809,803	\$812,149	\$742,683
TOTAL OPERATING EXPENSES .....	<u>785,814</u>	<u>686,237</u>	<u>634,858</u>	<u>634,209</u>	<u>577,502</u>
OPERATING INCOME .....	180,158	182,743	174,945	177,940	165,181
TOTAL OTHER INCOME AND DEDUCTIONS .....	<u>53,044</u>	<u>53,629</u>	<u>48,725</u>	<u>29,713</u>	<u>30,541</u>
INCOME BEFORE INTEREST CHARGES .....	233,202	236,372	223,670	207,653	195,722
NET INTEREST CHARGES .....	<u>91,017</u>	<u>96,496</u>	<u>102,647</u>	<u>104,313</u>	<u>99,151</u>
CONSOLIDATED NET INCOME — before preferred stock dividend requirements ...	142,185	139,876	121,023	103,340	96,571
PREFERRED STOCK DIVIDEND REQUIREMENTS ..	<u>27,705</u>	<u>28,384</u>	<u>28,628</u>	<u>23,624</u>	<u>23,242</u>
EARNINGS APPLICABLE TO COMMON STOCK ...	<u>\$114,480</u>	<u>\$111,492</u>	<u>\$ 92,395</u>	<u>\$ 79,716</u>	<u>\$ 73,329</u>

	December 31,				
	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>
	(in thousands)				
<b>BALANCE SHEETS DATA:</b>					
ELECTRIC UTILITY PLANT .....	\$3,715,005	\$3,666,823	\$3,541,114	\$3,356,987	\$3,117,381
ACCUMULATED PROVISIONS FOR DEPRECIATION, DEPLETION AND AMORTIZATION .....	<u>836,963</u>	<u>760,889</u>	<u>685,789</u>	<u>611,699</u>	<u>561,773</u>
NET ELECTRIC UTILITY PLANT .....	2,878,042	2,905,934	2,855,325	2,745,288	2,555,608
TOTAL ASSETS .....	3,463,874	3,343,963	3,135,884	3,035,614	2,826,172
COMMON STOCK, PREMIUMS ON CAPITAL STOCK AND OTHER PAID-IN CAPITAL .....	828,344	807,925	777,783	727,652	637,287
RETAINED EARNINGS .....	94,317	95,616	91,756	100,170	114,495
CUMULATIVE PREFERRED STOCK:					
NOT SUBJECT TO MANDATORY REDEMPTION .	197,000	197,000	197,000	197,000	197,000
SUBJECT TO MANDATORY REDEMPTION (a) ..	93,197	99,497	104,447	105,509	68,348
LONG-TERM DEBT (a) .....	1,347,623	1,445,704	1,397,475	1,404,044	1,264,673

(a) Including portion due within one year.

# Management's Discussion and Analysis of Results of Operations and Financial Condition

---

The following are the more significant factors bearing on the financial condition of Indiana & Michigan Electric Company and its subsidiaries as reflected in the consolidated results of operations. This discussion refers to the consolidated financial statements that follow.

## Operating Revenues and Expenses

Consolidated operating revenues increased 11.2% in 1984 compared to a 7.3% increase in 1983, while kilowatt-hours sales increased 9.7% and 1.6% in the same periods. The increase in operating revenues during 1984 was primarily due to the increase in kwh sales along with additional rate relief and increased recovery of fuel costs. This increase was partially offset by a provision for refund relating to the Federal Energy Regulatory Commission investigation of the AEP System's policies with respect to coal purchasing and practices (see "Regulatory Matter" in Note 9 of the Notes to Consolidated Financial Statements). The 1983 increase in operating revenues was mostly due to additional rate relief and increased kwh sales. The improvement in energy sales in 1983 reflects the hot summer and colder weather in late fall and early winter as well as the gradual recovery of the economy in the Company's service area.

Revenues from retail customers (residential, commercial and industrial) were up 9.9% in 1984 on an increase of 3.4% in kwh sales while in 1983 these revenues were up 10.6% with a corresponding increase of 2.7% in kwh sales. The 1984 increase in energy sales includes a 6.6% increase in sales to industrial customers, reflecting the continued improvements in the economy in the Company's service area. This, along with rate relief and increased fuel cost recovery, accounts for the retail revenue increase realized during 1984. The 1983 increase in revenues was largely due to higher rates which went into effect during 1983.

The rebound in energy sales to other utilities that began in the last half of 1983 continued in 1984. Wholesale revenues increased 16.7% in 1984 on an increase of 16.1% in kwh sales. Prior-year wholesale revenues increased 5.5% on an increase of 0.6% in kwh sales. The continued recovery in wholesale sales to

other electric utilities is a reflection of how the Company is able to take advantage of its high operating availability, low operating costs and efficient transmission system to increase its "opportunity sales" to neighboring utilities.

Purchased and interchange power expense increased 6.4% in 1984 and 2.8% in 1983. The 1984 increase is the result of the purchase of an affiliated company's share of the generation of the Rockport Plant Unit No. 1 which began producing test energy in September 1984 and was placed in commercial operation on December 10, 1984. This purchase was partially offset by decreased interchange transactions with other AEP System companies and other utilities. The 1983 increase largely reflects increased purchases from nonaffiliated utilities and decreased interchange transactions with other AEP System companies.

Total operating expenses increased 14.5% in 1984 compared to an 8.1% increase during 1983. The 1984 increase was primarily due to increases in fuel expense and other operation expenses. Fuel expense increased by 20.4% mostly because of a higher average cost of fuel and increased internal generation. Other operation expenses increased 32.2% primarily as a result of the refueling and general maintenance at the Company's nuclear plant as well as the completion and placing in commercial operation of Rockport Plant Unit No. 1. In 1983 Federal income taxes increased 85.8% due largely to an increase in pre-tax book income and fuel expense increased 11.9% as a result of increased generation levels. Future fuel expenses will be affected by generation levels, contractual agreements between the coal industry and the United Mine Workers of America and the possibility of yet more stringent environmental restrictions on burning certain types of coal. Whether or not future increases in fuel costs will adversely affect earnings will depend on the Company's continued ability to recover such costs promptly in the face of efforts by certain consumer groups and others to delay or reduce rate increases and to eliminate or reduce the extent of coverage of fuel-adjustment clauses.

## Construction and Financing Program

Expenditures for the Company's construction pro-

gram over the three-year period 1985-1987 are estimated to be approximately \$692 million. Substantial additional expenditures may be required if existing generating plants require modification or additional facilities to comply with future environmental quality standards. See "Environmental Matters" in Note 9 of the Notes to Consolidated Financial Statements for additional information. The construction program is reviewed continuously and revised from time to time in response to revised projections of load growth and changes in the cost and availability of capital. These reviews have resulted in extending construction schedules of a number of projects with the objective of reducing the level of annual construction expenditures. However, deferrals of construction projects may have an adverse effect on the quality of the Company's service to its customers in the future, and any resulting reductions in current construction costs will, in the long run, be at least partially offset by general inflationary trends as well as possible cancellation charges. In addition, when the completion date of a project under construction is substantially delayed, it becomes more expensive, both because of the foregoing factors and because certain costs, principally financing costs, continue to accrue until the facility is placed in commercial operation.

It is estimated that 76% of the Company's projected construction expenditures for 1985-1987 will be financed with internally generated funds. The additional amounts needed, in excess of other available funds, will have to be raised externally, as in the past, through sales of securities and investments in the Company's common equity by AEP. The Company initially finances current construction expenditures in excess of available internally generated and other funds by issuing unsecured short-term debt (commercial paper and bank loans) and then periodically reduces short-term debt with the proceeds of sales of long-term debt securities and preferred stock and with investments in the Company's common equity by AEP.

The amounts of short-term debt which the Company may issue are limited by regulatory restrictions under the Public Utility Holding Company Act of 1935 and by restrictions in its charter and in certain debt instru-

ments. At December 31, 1984, the Company had received authorizations from the Securities and Exchange Commission to issue a total of approximately \$135 million of short-term debt. Note 7 of the Notes to Consolidated Financial Statements contains information on the Company's short-term bank lines of credit. Bank lines of credit may be withdrawn at any time by the banks extending them, and in most cases the banks require the maintenance of compensating deposit balances or the payment of fees in lieu of deposits.

In order for the Company to issue additional long-term debt and preferred stock, it is necessary for it to comply with earnings-coverage requirements contained in its mortgage bond and debenture indentures and charter. In order to issue additional long-term debt (except to refund maturing long-term debt), the Company must have pre-tax earnings equal to at least twice the annual interest charges on long-term debt, giving effect to the issuance of the new debt, for a period of 12 consecutive months within the 15 months immediately preceding the date of the new issue. To issue additional preferred stock, the Company must have after-tax gross income at least equal to one and one-half times annual interest charges and preferred dividends, giving effect to the issuance of the new preferred stock, for the same period. These provisions do not prevent certain types of pollution-control revenue bond financings by public bodies on behalf of the Company, but the levels of coverage under them may affect the cost and marketability of such bonds. At December 31, 1984, the coverages of the Company under these provisions were at least 2.12 for long-term debt and 1.69 for preferred stock.

In view of these restrictions on the issuance of additional debt securities and preferred stock, the Company believes that it will be possible to meet the capital requirements of its construction program only if the Company receives rate increases over the next several years sufficient to meet the earnings levels required to issue the necessary amounts of long-term debt and preferred stock and to provide an appropriate return on new equity investment.

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### Net Income and Dividends

Consolidated net income before preferred dividend requirements increased by 1.7% in 1984 and 15.6% in 1983. The total proportion of allowance for funds used during construction (AFUDC) reflected in net income was 82.1% (66.0% net of income taxes) in 1984 and 85.2% (68.8% net of income taxes) in 1983. AFUDC does not represent cash income or a reduction in actual interest expense, but is an accounting convention permitted by regulatory systems of accounts. AFUDC represents the net cost of borrowed funds used for construction and a reasonable rate of return on other funds when so used. Such amounts are capitalized as a cost of construction projects with a concurrent credit to the Income Statement. The amount capitalized is added to the cost of construction projects and generally included in the plant investment base for setting rates and recovered through depreciation charges included in rates after the project is placed in commercial operation.

### Effects of Inflation

In recent years inflation has had an effect on the Company's consolidated revenues, expenses and net income that is not readily evident in conventional financial statements. For additional information on the effects of inflation, refer to Note 12 of the Notes to Consolidated Financial Statements, which presents a consolidated statement of income for 1984, adjusted for effects of inflation, and a comparison of selected supplementary data for a five-year period, similarly adjusted.

## Consolidated Statements of Income

	Year Ended December 31,		
	1984	1983	1982
	(in thousands)		
OPERATING REVENUES — ELECTRIC .....	<u>\$965,972</u>	<u>\$868,980</u>	<u>\$809,803</u>
OPERATING EXPENSES:			
Operation:			
Fuel for Electric Generation .....	192,592	159,998	143,025
Purchased and Interchange Power (net) .....	169,217	159,086	154,683
Other .....	161,430	122,127	126,922
Maintenance .....	63,002	53,049	56,431
Depreciation, Depletion and Amortization .....	85,268	83,963	83,031
Taxes Other Than Federal Income Taxes .....	44,921	37,053	32,567
Federal Income Taxes .....	69,384	70,961	38,199
Total Operating Expenses .....	<u>785,814</u>	<u>686,237</u>	<u>634,858</u>
OPERATING INCOME .....	<u>180,158</u>	<u>182,743</u>	<u>174,945</u>
OTHER INCOME AND DEDUCTIONS:			
Allowance for Other Funds Used During Construction .....	61,361	60,588	57,889
Miscellaneous Nonoperating Income Less Deductions .....	<u>(8,317)</u>	<u>(6,959)</u>	<u>(9,164)</u>
Total Other Income and Deductions .....	<u>53,044</u>	<u>53,629</u>	<u>48,725</u>
INCOME BEFORE INTEREST CHARGES .....	<u>233,202</u>	<u>236,372</u>	<u>223,670</u>
INTEREST CHARGES:			
Interest on Long-term Debt .....	142,719	144,430	142,841
Interest on Short-term Debt .....	1,809	8,998	8,974
Miscellaneous Interest Charges .....	<u>1,884</u>	<u>1,714</u>	<u>4,258</u>
Total Interest Charges .....	<u>146,412</u>	<u>155,142</u>	<u>156,073</u>
Allowance for Borrowed Funds Used During Construction (credit) .....	<u>(55,395)</u>	<u>(58,646)</u>	<u>(53,426)</u>
Net Interest Charges .....	<u>91,017</u>	<u>96,496</u>	<u>102,647</u>
CONSOLIDATED NET INCOME — before preferred stock dividend requirements .....	142,185	139,876	121,023
PREFERRED STOCK DIVIDEND REQUIREMENTS .....	<u>27,705</u>	<u>28,384</u>	<u>28,628</u>
EARNINGS APPLICABLE TO COMMON STOCK .....	<u>\$114,480</u>	<u>\$111,492</u>	<u>\$ 92,395</u>

See Notes to Consolidated Financial Statements.

# Consolidated Balance Sheets

	December 31,	
	1984	1983
	(in thousands)	
<b>ASSETS</b>		
<b>ELECTRIC UTILITY PLANT:</b>		
Production .....	\$2,150,197	\$1,561,791
Transmission .....	591,491	443,280
Distribution .....	328,192	316,324
General and Miscellaneous (includes mining plant) .....	225,295	195,444
Construction Work in Progress .....	419,830	1,149,984
Total Electric Utility Plant .....	3,715,005	3,666,823
Less Accumulated Provisions for Depreciation, Depletion and Amortization .....	836,963	760,889
Electric Utility Plant Less Provisions .....	<u>2,878,042</u>	<u>2,905,934</u>
 <b>OTHER PROPERTY AND INVESTMENTS</b> .....	 <u>50,488</u>	 <u>39,691</u>
 <b>CURRENT ASSETS:</b>		
Cash .....	4,702	7,283
Special Deposits and Working Funds .....	38,797	5,966
Temporary Cash Investments (at cost, which approximates market) .....	99,736	—
Accounts Receivable:		
Customers .....	93,250	113,674
Associated Companies .....	4,942	5,549
Miscellaneous .....	8,703	3,327
Accumulated Provision for Uncollectible Accounts .....	(453)	(470)
Materials and Supplies (at average cost or less):		
Fuel .....	72,783	75,203
Construction and Operation Materials and Supplies .....	19,668	18,130
Accrued Utility Revenues .....	45,379	48,550
Prepayments and Other Current Assets .....	6,543	5,967
Total Current Assets .....	<u>394,050</u>	<u>283,179</u>
 <b>DEFERRED DEBITS:</b>		
Unamortized Debt Expense .....	3,298	3,415
Property Taxes .....	2,587	2,029
Deferred Strike Costs .....	—	1,035
Other Work in Progress .....	2,978	3,254
Deferred Nuclear Fuel Disposal Costs .....	75,536	72,575
Other Deferred Debits .....	56,895	32,851
Total Deferred Debits .....	<u>141,294</u>	<u>115,159</u>
Total .....	<u>\$3,463,874</u>	<u>\$3,343,963</u>

See Notes to Consolidated Financial Statements.

	December 31,	
	<u>1984</u>	<u>1983</u>
	(in thousands)	
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>CAPITALIZATION:</b>		
Common Stock — No Par Value:		
Authorized — 2,500,000 Shares		
Outstanding — 1,400,000 Shares .....	\$ 56,584	\$ 56,584
Premiums on Capital Stock .....	381	381
Other Paid-in Capital .....	771,379	750,960
Retained Earnings .....	<u>94,317</u>	<u>95,616</u>
Total Common Shareowner's Equity .....	922,661	903,541
Cumulative Preferred Stock:		
Not Subject to Mandatory Redemption .....	197,000	197,000
Subject to Mandatory Redemption (less sinking fund requirements due within one year) .....	93,197	99,345
Long-term Debt (less portion due within one year) .....	<u>1,331,127</u>	<u>1,358,830</u>
Total Capitalization (less amounts due within one year) .	<u>2,543,985</u>	<u>2,558,716</u>
<b>OTHER NONCURRENT LIABILITIES:</b>		
Obligations under Capital Leases .....	5,143	—
Operating Reserves and Other .....	<u>30,769</u>	<u>16,319</u>
Total Other Noncurrent Liabilities .....	<u>35,912</u>	<u>16,319</u>
<b>CURRENT LIABILITIES:</b>		
Cumulative Preferred Stock Sinking Fund Requirements		
Due Within One Year .....	—	152
Long-term Debt Due Within One Year .....	16,496	86,874
Short-term Debt:		
Notes Payable to Banks .....	—	39,950
Commercial Paper .....	—	22,500
Installment Purchase Contracts .....	109,055	—
Accounts Payable:		
General .....	49,993	40,318
Associated Companies .....	21,694	55,403
Dividends Declared:		
Common Stock .....	2,660	17,616
Cumulative Preferred Stock .....	6,865	6,999
Customer Deposits .....	2,950	2,990
Taxes Accrued .....	26,822	14,968
Interest Accrued .....	35,085	35,998
Revenue Refunds Accrued .....	19,677	98
Other Current Liabilities .....	<u>42,306</u>	<u>37,904</u>
Total Current Liabilities .....	<u>333,603</u>	<u>361,770</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 9)</b>		
<b>DEFERRED CREDITS:</b>		
Deferred Income Taxes .....	415,798	338,350
Deferred Investment Tax Credits .....	108,891	32,287
Other Deferred Credits .....	<u>25,685</u>	<u>36,521</u>
Total Deferred Credits .....	<u>550,374</u>	<u>407,158</u>
Total .....	<u>\$3,463,874</u>	<u>\$3,343,963</u>



# Consolidated Statements of Sources and Applications of Funds

	Year Ended December 31,		
	1984	1983	1982
	(in thousands)		
<b>SOURCES OF FUNDS:</b>			
Funds from Operations:			
Consolidated Net Income .....	\$142,185	\$139,876	\$121,023
Principal Non-fund Charges (Credits) to Income:			
Depreciation, Depletion and Amortization .....	88,298	86,025	87,459
Provision for Deferred Income Taxes (net) .....	54,638	84,296	22,533
Deferred Investment Tax Credits (net) .....	58,078	5,556	25,638
Amortization of Deferred Strike Costs .....	1,035	1,378	1,378
Amortization of Deferred Collection of Fuel Costs .....	—	215	287
Amortization of Deferred Nuclear Fuel Disposal Costs ..	4,163	3,092	—
Allowance for Other Funds Used During Construction ..	(61,361)	(60,588)	(57,889)
Other (net) .....	751	1,977	1,141
Total Funds from Operations .....	<u>287,787</u>	<u>261,827</u>	<u>201,570</u>
Funds from Contributions and Financings:			
Contributions and Financings:			
Capital Contributions from Parent Company .....	20,000	30,000	50,000
Long-term Debt .....	—	69,239	99,167
Short-term Debt (net) .....	46,605	(29,700)	38,550
Total .....	66,605	69,539	187,717
Less Retirements of Cumulative Preferred Stock and Long-term Debt .....	103,982	98,290	106,997
Net Funds from Contributions and Financings .....	<u>(37,377)</u>	<u>(28,751)</u>	<u>80,720</u>
Sales of Property .....	243,579	71,212	77,745
Total Sources of Funds .....	<u>\$493,989</u>	<u>\$304,288</u>	<u>\$360,035</u>
<b>APPLICATIONS OF FUNDS:</b>			
Plant and Property Additions:			
Gross Additions to Utility Plant .....	\$297,232	\$201,793	\$267,783
Gross Other Additions .....	122	428	326
Total Gross Additions .....	297,354	202,221	268,109
Allowance for Other Funds Used During Construction .....	(61,361)	(60,588)	(57,889)
Net Plant and Property Additions .....	235,993	141,633	210,220
Dividends on Common Stock .....	115,779	107,632	100,800
Dividends on Cumulative Preferred Stock .....	27,705	28,384	28,628
Other Changes (net) .....	(601)	17,070	(4,103)
Increase in Working Capital (a) .....	115,113	9,569	24,490
Total Applications of Funds .....	<u>\$493,989</u>	<u>\$304,288</u>	<u>\$360,035</u>
(a) Excludes Cumulative Preferred Stock Sinking Fund Requirements Due Within One Year, Long-term Debt Due Within One Year and Short-term Debt and is represented by increase (decrease) as follows:			
Cash and Cash Items .....	\$129,986	\$ (849)	\$ (11,962)
Accounts Receivable .....	(15,638)	52,393	(22,948)
Materials and Supplies .....	(882)	701	24,041
Accrued Utility Revenues .....	(3,171)	26,676	1,880
Accounts Payable .....	24,034	(47,988)	84
Dividends Declared on Common Stock .....	14,956	(17,616)	1,124
Taxes Accrued .....	(11,854)	(3,504)	18,479
Revenue Refunds Accrued .....	(19,579)	11,823	11,174
Other (net) .....	(2,739)	(12,067)	2,618
	<u>\$115,113</u>	<u>\$ 9,569</u>	<u>\$ 24,490</u>

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Retained Earnings

	Year Ended December 31,		
	1984	1983	1982
	(in thousands)		
Balance at Beginning of Year .....	\$ 95,616	\$ 91,756	\$100,170
Consolidated Net Income .....	<u>142,185</u>	<u>139,876</u>	<u>121,023</u>
Total .....	<u>237,801</u>	<u>231,632</u>	<u>221,193</u>
Deductions:			
Cash Dividends Declared:			
Common Stock .....	115,779	107,632	100,800
Cumulative Preferred Stock:			
4 1/8 % Series .....	495	495	495
4.56% Series .....	273	273	273
4.12% Series .....	165	165	165
7.08% Series .....	2,124	2,124	2,124
7.76% Series .....	2,716	2,716	2,716
8.68% Series .....	2,604	2,604	2,604
12 % Series .....	2,615	2,873	3,003
\$2.15 Series .....	3,440	3,440	3,440
\$2.25 Series .....	3,600	3,600	3,600
\$2.75 Series .....	3,865	4,286	4,400
\$3.63 Series .....	<u>5,808</u>	<u>5,808</u>	<u>5,808</u>
Total Cash Dividends Declared .....	143,484	136,016	129,428
Capital Stock Expense .....	—	—	9
Total Deductions .....	<u>143,484</u>	<u>136,016</u>	<u>129,437</u>
Balance at End of Year .....	<u>\$ 94,317</u>	<u>\$ 95,616</u>	<u>\$ 91,756</u>

See Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

## 1. Significant Accounting Policies:

The common stock of the Company is wholly owned by American Electric Power Company, Inc. (AEP).

The accounting and rates of the Company are subject in certain respects to the requirements of state regulatory bodies and in certain respects to the requirements of the Federal Energy Regulatory Commission (FERC).

The consolidated financial statements include the accounts of the Company and two wholly owned subsidiaries engaged in coal mining. Significant inter-company items have been eliminated in consolidation. The consolidated financial statements have been prepared on the basis of the accounts which are maintained for FERC purposes.

### *Electric Utility Plant; Other Property and Investments; Depreciation, Depletion and Amortization*

Electric utility plant is stated at original cost. Generally, the plant of the Company is subject to first mortgage liens.

The Company capitalizes, as a construction cost, an allowance for funds used during construction, an item not representing cash income, which is defined in the applicable regulatory systems of accounts as the net cost of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. The composite rates used by the Company were 12.5% in 1984 and 1983 and 12.75% in 1982 applied on a semi-annual compound basis.

The Company provides for depreciation on a straight-line basis over the estimated useful lives of the property. The current provisions are determined largely with the use of functional composite rates as follows:

Functional Class of Property	Composite Annual Rates
Production:	
Steam — Nuclear .....	4.0%
Steam — Fossil-fired .....	3.6%
Transmission .....	2.1%
Distribution .....	3.6%
General .....	2.8%

Depreciation, depletion and amortization of coal-mining property are provided in amounts estimated to be sufficient to amortize the costs of the related assets, less any estimated salvage (which is not significant), over their useful lives and are calculated by use of the following methods:

Description	Method
Mining Structures and Equipment	Straight-line method (original lives range from 3 to 32 years)
Coal Interests and Mine Development Costs	Units-of-production method (based on estimated recoverable tonnages; current rate averages \$1.13 per ton)

Substantially all of the amount of the provisions for depreciation, depletion and amortization of coal-mining property is classified in the Consolidated Statements of Income as fuel for electric generation.

Operating expenses are charged with the costs of labor, materials, supervision and other costs incurred in maintaining the properties. Property accounts are charged with costs of betterments and major replacements of property and the accumulated provisions for depreciation are charged with retirements, together with removal costs less salvage.

Other property and investments are generally stated at cost.

### *Income Taxes*

Deferred Federal income taxes are provided to the extent that such amounts are reflected in revenue levels. The Company normalizes the effect of tax reductions resulting from investment tax credits utilized in connection with current Federal income tax accruals consistent with rate-making policies.

The Company's consolidated coal subsidiaries generally use the flow-through method of accounting for investment tax credits and practice deferred tax accounting for the effects of certain timing differences.

### *Pension Plans*

The companies participate with other companies in the AEP System in a non-contributory trustee plan to provide pensions for all their employees who are not participants in pension plans of the United Mine Workers of America (UMWA), subject to certain eligibility requirements.

Pension costs for the years ended December 31, 1984, 1983 and 1982 were approximately \$2,713,000, \$3,162,000 and \$3,057,000, respectively. The amounts cover the costs of currently accruing benefits and amortization of, and interest on, unfunded prior-service costs, which are being amortized over 30 years. The companies make annual contributions to the plan equal to the amounts accrued for pension expense. In addition to providing pension benefits, the companies pro-

vide certain health care benefits for retired employees. Substantially all of the companies' employees may become eligible for these benefits if they have completed 10 years of continuous service. The cost of retiree health care benefits is recognized as expense as paid. In 1984, these costs totaled \$852,000.

A comparison of the plan's accumulated benefits and net assets as of January 1, 1984, the date of the most recent actuarial study, is presented below:

	January 1,	
	1984	1983
	(in thousands)	
Actuarial present value of accumulated plan benefits:		
Vested .....	\$54,976	\$51,088
Nonvested .....	7,436	5,913
	<u>\$62,412</u>	<u>\$57,001</u>
Net assets available for benefits .....	<u>\$103,364</u>	<u>\$88,400</u>

The assumed rate of return used by the actuary in determining the actuarial present value of accrued benefits was 8% at each valuation date.

The Company is of the opinion that comparing the actuarial value of accumulated plan benefits with net assets available for benefits, as in the above table, may tend to be misleading. The plan — as required by the Employee Retirement Income Security Act of 1974 (ERISA) — is being funded on an ongoing basis on the assumption that it will be in existence for many years to come. However, the statement of actuarial value of accumulated plan benefits — as required by the Financial Accounting Standards Board (FASB) — is essentially a hypothetical plan *termination* calculation not taking into account future salary and wage increases or future service. Additionally, it should be recognized that net assets, which are at fair value, will fluctuate from time to time, which may create erroneous impressions of the status of the long-term funding process.

Under a contract with the UMWA, a subsidiary is required to make payments into two multi-employer pension plans based on coal production and hours worked. The cost of the plans was approximately \$1,120,000 in 1984, \$713,000 in 1983 and \$2,442,000 in 1982. As of June 30, 1984, the Company's actuary estimates, based on information that is available, that the subsidiary's share of the unfunded vested liabilities of the UMWA pension plans approximates \$4,090,000.

#### Black Lung Benefits

The coal-mining subsidiaries are liable under the Federal Coal Mine Health and Safety Act of 1969 (Act),

as amended, to pay certain black lung benefits to eligible present and former employees. The subsidiaries provide self-insurance accruals sufficient to amortize the actuarially computed present and future liabilities for such benefits as a level percentage of pay over the future working lifetime of the employees, taking into account the remaining life of the mines. Such provisions were approximately \$139,000, \$131,000 and \$530,000 in 1984, 1983 and 1982, respectively. A Black Lung Benefits Trust is maintained under the Internal Revenue Code. As of January 1, 1984 (the latest valuation date), the companies' actuary estimates the unfunded actuarial value of medical and liability benefits under the Act, as well as comparable state legislation, was approximately \$1,080,000. The companies fund the actuarially determined liabilities at a level which currently approximates the recorded expense provisions.

#### Other

The Company accrues unbilled revenues for electric service rendered subsequent to the last billing cycle through month-end.

Miscellaneous nonoperating income for the years ended December 31, 1984, 1983 and 1982 includes gains amounting to \$474,000, \$274,000 and \$496,000, respectively, on certain long-term debt reacquired.

Debt discount or premium and debt expenses are being amortized over the lives of the related debt issues and the amortization thereof is included within miscellaneous interest charges.

Operating revenues derived from a certain wholesale customer represent approximately 11% of total operating revenues for 1984 and 1983 and 10% for 1982.

Certain prior year amounts have been reclassified to conform to current year presentation.

#### 2. Rate Matters:

The Public Service Commission of Indiana approved a two-step rate increase of \$48,500,000 and \$23,000,000, respectively, for the Company. The first step, effective December 10, 1984, concurrent with the commercial operating date of Unit No. 1 of Rockport Plant, and the second step, effective one year later, excluded from rate base \$315,153,000 and \$245,000,000, respectively, of construction costs associated with Rockport Plant but allowed the Company to accrue a deferred return based on its current AFUDC rate and to defer annual depreciation expense on the amounts excluded from rate base. Based on the AFUDC rate in effect at De-

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

cember 31, 1984, such deferred return amounts for the next two years would be approximately \$39,394,000 and \$30,625,000, respectively. Depreciation expense of \$10,957,000 and \$8,624,000, respectively, will be deferred on the amounts excluded from rate base. The two-step rate increase further provided for amortization to cost of service of the deferred return and depreciation expense over a 30-year period.

The Company also filed with the FERC for a two-step increase in wholesale rates. Settlement agreements were agreed to in principle in November 1984 for a total increase of \$35,000,000, one half to be effective in October 1984 and the other half effective in December 1984. As agreed by the parties, construction costs associated with the Rockport Plant of \$170,724,000 are not included in rate base, but the Company will accrue a

deferred return based on its current AFUDC rate and defer annual depreciation expense on such costs. Based on the AFUDC rate in effect at December 31, 1984, such deferred return amount would be approximately \$21,340,000 during 1985. Depreciation expense of \$5,936,000 will be deferred. These deferred amounts are expected to be recovered through amortization to cost of service in future periods.

On September 26, 1984, the Michigan Public Service Commission approved a two-step increase for the Company in response to a December 1983 request for approximately \$27,600,000 annually. The first step of \$12,000,000 annually became effective with the commercial operation of Rockport Plant and the second step of \$3,000,000 annually will become effective one year from the date of implementation of the first step.

## 3. Federal Income Taxes:

The details of Federal income taxes as reported are as follows:

	Year Ended December 31,		
	1984	1983	1982
	(in thousands)		
Charged (Credited) to Operating Expenses:			
Current (net)	\$(45,036)	\$(14,004)	\$(16,503)
Deferred (net)	56,342	79,409	29,064
Deferred Investment Tax Credits (net)	58,078	5,556	25,638
Total	69,384	70,961	38,199
Charged (Credited) to Other Income and Deductions:			
Current	(8,429)	(11,112)	(890)
Deferred (net)	(1,704)	4,887	(6,531)
Total	(10,133)	(6,225)	(7,421)
Total Federal Income Taxes as Reported	\$ 59,251	\$ 64,736	\$ 30,778

The following is a reconciliation of the difference between the amount of Federal income taxes computed by multiplying book income before Federal income taxes by the statutory tax rate, and the amount of Federal income taxes reported in the Consolidated Statements of Income.

	Year Ended December 31,		
	1984	1983	1982
	(in thousands)		
Consolidated Net Income Before Preferred Stock Dividend Requirements	\$142,185	\$139,876	\$121,023
Federal Income Taxes	59,251	64,736	30,778
Pre-tax Book Income	\$201,436	\$204,612	\$151,801
Federal Income Taxes on Pre-tax Book Income at Statutory Rate (46%)	\$ 92,661	\$ 94,122	\$ 69,828
Increase (Decrease) in Federal Income Taxes Resulting From the Following Items on Which Deferred Taxes Are Not Provided:			
Excess of Book Over Tax Depreciation	2,659	1,185	5,009
Allowance for Funds Used During Construction and Miscellaneous Items Capitalized on the Books but Deducted for Tax Purposes	(31,437)	(32,019)	(32,040)
Mine Development Costs	227	144	(4,771)
Investment Tax Credits Not Deferred	295	1,144	(1,727)
Amortization of Deferred Investment Tax Credits	(2,233)	(267)	(931)
Other	(2,921)	427	(4,590)
Total Federal Income Taxes as Reported	\$ 59,251	\$ 64,736	\$ 30,778
Effective Federal Income Tax Rate	29.4%	31.6%	20.3%

The following are the principal components of Federal income taxes as reported:

	Year Ended December 31,		
	1984	1983	1982
	(in thousands)		
<b>Current:</b>			
Federal Income Taxes .....	\$ 26,589	\$ (26,903)	\$ (4,008)(a)
Investment Tax Credits .....	(80,054)(b)	1,787	(13,385)(b)
<b>Total Current Federal Income Taxes (net) .....</b>	<b>(53,465)</b>	<b>(25,116)</b>	<b>(17,393)</b>
<b>Deferred:</b>			
Depreciation (liberalized, ADR and ACRS) .....	22,582	26,993	12,441
Allowance for Borrowed Funds Used During Construction and Miscellaneous Items Capitalized .....	24,168	23,986	20,410
Percentage Repair Allowance .....	14,420 (c)	(278)	(1,539)
Nuclear Decommissioning Costs .....	(4,945)	(4,287)	—
Deferred Fuel .....	(415)	8,470	(1,158)
Adjustments for Revenue Refunds .....	(9,052)	2,401	8,304
Nuclear Fuel Lease Adjustments .....	(4,141)	(2,338)	4,033
Spent Nuclear Fuel Fee .....	(4,084)	31,671	—
Book Provision for Subsidiary Mine Standby Costs .....	—	6,900	(6,900)
Other .....	(3,933)	(2,756)	1,853
Investment Tax Credits Applicable to Certain Deferred Income Taxes .....	20,038	(6,466)	(14,911)
<b>Total Deferred Federal Income Taxes (net) .....</b>	<b>54,638</b>	<b>84,296</b>	<b>22,533</b>
<b>Total Deferred Investment Tax Credits (net) .....</b>	<b>58,078</b>	<b>5,556</b>	<b>25,638</b>
<b>Total Federal Income Taxes as Reported .....</b>	<b>\$ 59,251</b>	<b>\$ 64,736</b>	<b>\$ 30,778</b>

(a) The consolidated current Federal income taxes were significantly decreased in 1982 by the tax loss of a coal mining subsidiary, the tax effect of which was not reduced by investment tax credits.

(b) The Company was able to utilize investment tax credits in excess of the statutory limitation as a result of the lack of available credits of other System companies with taxable income.

(c) Based on Internal Revenue Service regulations issued in 1984, the Company elected percentage repair allowance on the 1983 tax return and filed amended tax returns for 1981 and 1982. The deferred taxes provided in 1984 represent the cumulative effect of these elections as well as amounts for the current year.

The companies join in the filing of a consolidated Federal income tax return with their affiliated companies in the AEP System. The allocation of the AEP System's consolidated Federal income tax to the System companies is in accordance with Securities and Exchange Commission (SEC) rules under the Public Utility Holding Company Act of 1935. These rules permit the allocation of the benefit of current tax losses to the System companies giving rise to such losses in determining taxes currently payable. The tax loss of the System parent company, American Electric Power Company, Inc., is allocated to its subsidiaries with taxable income. With the exception of the loss of the parent company, the method of allocation approximates a separate return result for each company in the consolidated group. Consolidated investment tax credits utilized are generally allocated to the System companies giving rise to them.

At December 31, 1984, the companies' cumulative net amount of income tax timing differences on which deferred taxes have not been provided totaled \$445,000,000.

Unused System investment tax credits at December 31, 1984, aggregated approximately \$105,000,000.

The System has reached a settlement with the Internal Revenue Service (IRS) for the majority of issues from the audit of the consolidated Federal income tax returns for the years 1974-1976. Several issues regarding these returns are not covered by the settlement

agreement and are subject to future disposition. Returns for the years 1977-1980 have been reviewed by the IRS, and additional taxes for these years have been proposed, some of which the System companies have protested. In the opinion of management, the final resolution of open matters will not have a material effect on the earnings of the Company.

#### 4. Common Stock, Premiums on Capital Stock and Other Paid-in Capital:

The Company received from its parent cash capital contributions of \$20,000,000 in 1984, \$30,000,000 in 1983 and \$50,000,000 in 1982. In 1984, 1983 and 1982 a credit to other paid-in capital of \$419,000, \$142,000 and \$131,000, respectively, represented the excess of par value over cost of cumulative preferred stock reacquired by the Company to meet sinking fund requirements. There were no other changes in any of the aforementioned accounts in 1984, 1983 or 1982.

#### 5. Retained Earnings:

Various restrictions on the use of retained earnings for cash dividends on common stock and other purposes are contained in or result from covenants in mortgage indentures, debenture and bank loan agreements, charter provisions, and orders of regulatory authorities. Approximately \$45,900,000 at December 31, 1984, was so restricted.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 6. Cumulative Preferred Stock:

At December 31, 1984, authorized shares of cumulative preferred stock were as follows:

Par Value	Shares Authorized
\$100 .....	2,250,000
25 .....	11,200,000

The cumulative preferred stock is callable at the option of the Company at the price indicated plus accrued dividends. The involuntary liquidation preference is par value. Unissued shares of the cumulative preferred stock may or may not possess mandatory redemption characteristics upon issuance. The Company reacquired 141,900 shares of the \$2.75 series in 1984 and 126,200 shares in 1983 and 27,527, 17,940 and 10,620 shares of the 12% series in 1984, 1983 and 1982, respectively.

### A. Cumulative Preferred Stock Not Subject to Mandatory Redemption:

Series	Current Call Price	Redemption Restricted Prior to	Par Value	Shares Outstanding	Amount	
					December 31,	
					1984	1983
					(in thousands)	
4¼% .....	\$106.125	—	\$100	120,000	\$ 12,000	\$ 12,000
4.56% .....	102	—	100	60,000	6,000	6,000
4.12% .....	102.728	—	100	40,000	4,000	4,000
7.08% .....	104.68	—	100	300,000	30,000	30,000
7.76% .....	105.38	—	100	350,000	35,000	35,000
8.68% .....	105.27	—	100	300,000	30,000	30,000
\$2.15 .....	26.61	—	25	1,600,000	40,000	40,000
\$2.25 .....	26.69	—	25	1,600,000	40,000	40,000
					<u>\$197,000</u>	<u>\$197,000</u>

### B. Cumulative Preferred Stock Subject to Mandatory Redemption:

Series (a)	Current Call Price	Redemption Restricted Prior to	Par Value	Shares Outstanding	Amount	
					December 31,	
					1984	1983
					(in thousands)	
12% (b) .....	\$112	—	\$100	198,998	\$19,900	\$22,652
\$2.75 (c) .....	27.07	—	25	1,331,900	33,297	36,845
\$3.63 (d) .....	28.63	11/1/86	25	1,600,000	40,000	40,000
					93,197	99,497
Less Sinking Fund Requirements Due Within One Year .....					—	152
					\$93,197	\$99,345

(a) The sinking fund provisions of the series subject to mandatory redemption aggregate \$399,800 in 1986, \$4,797,500 in 1987, and \$5,500,000 in 1988 and 1989.

(b) A sinking fund for the 12% series requires the Company to provide, on or before October 1 of each year, for the redemption of 15,000 shares of such series. This provision may be satisfied through shares previously purchased or by redemption at \$100 a share. The Company has the right, on each sinking fund date, to redeem an additional 15,000 shares. At December 31, 1984, the Company had reacquired 26,002 shares in anticipation of future sinking fund requirements. Unless all sinking fund provisions have been met, no distribution may be made on the common stock.

(c) A cumulative sinking fund for the \$2.75 series requires the Company to redeem 80,000 shares on each October 1. The Company has the option to credit shares purchased or otherwise acquired in lieu of redeeming shares for the sinking fund and has the noncumulative option to double the number of shares to be redeemed in any year. At December 31, 1984, the Company had acquired 188,100 shares in anticipation of future sinking fund requirements.

(d) A cumulative sinking fund for the \$3.63 series requires the Company to redeem 80,000 shares on each January 1 commencing on January 1, 1987. The Company has the option to credit shares purchased or otherwise acquired in lieu of redeeming shares for the sinking fund and has the noncumulative option to double the number of shares to be redeemed in any year on and after January 1, 1987.

**7. Long-term Debt, Lines of Credit, and  
Compensating Balances:**

Long-term debt by major category was outstanding  
as follows:

	December 31,	
	1984	1983
	(in thousands)	
First Mortgage Bonds .....	\$1,093,884	\$1,184,598
Sinking Fund Debentures .....	17,434	20,166
Installment Purchase Contracts ....	159,346	159,209
Other Long-term Debt .....	76,959	81,731
	1,347,623	1,445,704
Less Portion Due Within One Year .....	16,496	86,874
Total .....	<u>\$1,331,127</u>	<u>\$1,358,830</u>

First mortgage bonds outstanding were as follows:

	December 31,	
	1984	1983
	(in thousands)	
% Rate Due		
3½% 1984 — October 1 .....	\$ —	\$ 15,082
10% 1984 — December 1 ....	—	54,750
10% 1985 — March 1 .....	—	9,750
10½% 1987 — January 1 .....	80,000	80,000
13% 1987 — February 1 .....	55,000	55,000
3% 1988 — February 1 .....	22,974	22,974
4% 1988 — November 1 ....	17,557	17,557
14% 1989 — March 1 .....	120,000	120,000
11% 1990 — June 1 .....	80,000	80,000
15% 1991 — November 1 ....	40,000	40,000
16½% 1992 — April 1 .....	100,000	100,000
4% 1993 — August 1 .....	42,902	42,902
7% 1998 — May 1 .....	35,000	35,000
8% 2000 — April 1 .....	50,000	50,000
9½% 2003 — June 1 (a) .....	242,500	254,000
8% 2003 — December 1 ....	40,000	40,000
9½% 2008 — March 1 .....	100,000	100,000
13% 2013 — August 1 .....	70,000	70,000
Unamortized Discount (net) .....	(2,049)	(2,417)
	1,093,884	1,184,598
Less Portion Due Within One Year .....	11,500	82,082
Total .....	<u>\$1,082,384</u>	<u>\$1,102,516</u>

(a) The 9½% series due 2003 requires sinking fund payments of \$11,500,000 annually on June 1, through 1991 and \$13,500,000 annually on June 1, 1992 through 2002 with the noncumulative option to redeem an additional amount in each of the specified years from a minimum of \$100,000 to a maximum equal to the scheduled requirement for each year, but with a maximum optional redemption, as to all years in the aggregate, of \$75,000,000.

The indentures relating to the first mortgage bonds contain improvement, maintenance and replacement provisions requiring the deposit of cash or bonds with the trustee, or in lieu thereof, certification of unfunded property additions. The Company has generally elected to use unfunded property additions to meet these provisions in the past.

Sinking fund debentures outstanding were as follows:

	December 31,	
	1984	1983
	(in thousands)	
5½% Due 1986 — June 1 .....	\$ 7,758	\$10,022
7¼% Due 1998 — May 1 .....	9,663	10,123
Unamortized Premium .....	13	21
	17,434	20,166
Less Portion Due Within One Year ...	—	22
Total .....	<u>\$17,434</u>	<u>\$20,144</u>

At December 31, 1984 and 1983, the principal amounts of debentures reacquired in anticipation of sinking fund requirements were \$3,979,000 and \$2,055,000, respectively. The Company may make additional debenture payments of up to \$800,000 annually.

Installment purchase contracts have been entered into by the Company in connection with the issuance of pollution control revenue bonds by governmental authorities as follows:

	December 31,	
	1984	1983
	(in thousands)	
% Rate Due		
City of Lawrenceburg, Indiana:		
8½% 2006 — July 1 .....	\$ 25,000	\$ 25,000
7% 2006 — May 1 .....	40,000	40,000
6% 2006 — May 1 .....	12,000	12,000
City of Rockport, Indiana:		
9½% 2005 — June 1 .....	6,500	6,500
9½% 2010 — June 1 .....	33,500	33,500
City of Sullivan, Indiana:		
7% 2004 — May 1 .....	7,000	7,000
6% 2006 — May 1 .....	25,000	25,000
7½% 2009 — May 1 .....	13,000	13,000
Unamortized Discount .....	(2,654)	(2,791)
Total .....	<u>\$159,346</u>	<u>\$159,209</u>

Under the terms of certain installment purchase contracts, the Company is required to pay purchase price installments in amounts sufficient to enable the cities to pay interest on and the principal (at stated maturities and upon mandatory redemption) of related pollution control revenue bonds issued to finance the construction of pollution control facilities at certain generating plants of the Company.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other long-term debt outstanding consisted of:

	December 31,	
	1984	1983
	(in thousands)	
Nuclear Fuel Disposal Costs (a) .....	\$71,964	\$71,964
Coal Reserve Obligations Payable in Equal Annual Installments Through 1985 with Interest at 8% .....	4,737	9,475
Notes Payable due 1985, 6%-7% .....	258	292
	76,959	81,731
Less Portion Due Within One Year ...	4,996	4,770
Total .....	<u>\$71,963</u>	<u>\$76,961</u>

(a) See Note 9.

Long-term debt, excluding premium or discount, outstanding at December 31, 1984 is due as follows:

	Principal Amount
	(in thousands)
1985 .....	\$ 16,496
1986 .....	19,258
1987 .....	146,500
1988 .....	52,031
1989 .....	131,500
Later Years .....	986,529
Total .....	<u>\$1,352,314</u>

The Company had unused short-term bank lines of credit of approximately \$454,000,000 and \$383,000,000 at December 31, 1984 and 1983, respectively, under which notes could be issued with no maturity more than 270 days. The available lines of credit are subject to withdrawal at the banks' option, and \$417,000,000 and \$343,000,000 at December 31, 1984 and 1983, respectively, of such lines are shared with other AEP System companies. In accordance with informal agreements with the banks, compensating balance deposits of up to 10% or equivalent fees are required to maintain the lines of credit and on any amounts actually borrowed, generally either additional compensating balance deposits of up to 10% are maintained or adjustments in interest rates are made. Substantially all bank balances are maintained by the Company to compensate the banks for services and for the Company's share of both used and available lines of credit.

The Company has a letter of credit from a bank supporting the short-term installment purchase contracts.

## 8. Supplementary Income Statement Information and Related-party Transactions:

Electric operating revenues shown in the Consolidated Statements of Income include sales of energy to AEP System companies of approximately \$27,000,000, \$25,000,000 and \$18,800,000 for the years ended December 31, 1984, 1983 and 1982, respectively.

Operating expenses shown in the Consolidated Statements of Income include certain items not shown separately, as follows:

	Year Ended December 31,		
	1984	1983	1982
	(in thousands)		
Purchased Power (a) .....	\$106,755	\$ 82,245	\$ 40,817
Interchange Power (net):			
AEP System Electric			
Utilities .....	76,271	104,271	116,666
Other Companies (b) ....	(13,809)	(27,430)	(2,800)
	<u>\$169,217</u>	<u>\$159,086</u>	<u>\$154,683</u>
Taxes Other Than Federal			
Income Taxes:			
Real and Personal Property			
Taxes .....	\$25,263	\$22,062	\$19,485
State Gross Sales, Excise			
and Franchise Taxes and			
Miscellaneous State and			
Local Taxes .....	13,023	11,269	8,567
State Income Taxes ....	2,113	(193)	708
Social Security Taxes ...	4,522	3,915	3,807
	<u>\$44,921</u>	<u>\$37,053</u>	<u>\$32,567</u>

Fuel for Electric Generation includes charges relating to mining operations, as follows:

Maintenance .....	\$1,582	\$ 765	\$3,424
Depreciation, Depletion and Amortization .....	2,698	1,826	4,284
Taxes Other Than Federal Income Taxes .....	1,656	1,184	2,109

(a) Includes power purchased from Ohio Valley Electric Corporation (OVEC) of approximately \$17,688,000 in 1984, \$45,787,000 in 1983 and \$20,229,000 in 1982. Also includes power purchased from AEP Generating Company of approximately \$26,034,000 in 1984.

(b) Includes interchange power sold to OVEC of approximately \$105,000 in 1984, \$66,000 in 1983 and \$143,000 in 1982.

Charges to operating expenses for royalties and for advertising are less than 1% of gross revenues in each year.

Sales and purchases of energy and interchange power transactions are regulated by the various commissions having jurisdiction.

American Electric Power Service Corporation provides certain services to the Company and the affiliated companies in the AEP System. The costs of the services are determined by the service company on a direct charge basis to the extent practicable and on reasonable bases of proration for indirect costs. The charges for services are made on a cost basis and include no compensation for the use of equity capital, all of which is furnished to the service company by AEP. The service company is subject to the regulation of the SEC under the Public Utility Holding Company Act of 1935.

## 9. Commitments and Contingencies:

### *Construction*

The construction budget of the companies for the year 1985 is estimated at \$232,000,000 and, in connection therewith, commitments have been made.

AEP Generating Company (AEGCo), a subsidiary of AEP, organized in 1982, commenced in April 1982 to acquire a 35% interest in the Company's 2.6 million kilowatt capacity Rockport Plant. The total estimated cost of the Rockport Plant is \$2.41 billion. It was anticipated that Kentucky Power Company (KEPCo) would also acquire a 15% interest in the Rockport Plant on a buy-in basis; however, in August 1984, the Kentucky Public Service Commission (KPSC) issued an order denying KEPCo's request to purchase a 15% ownership interest and revoked a March 1983 KPSC order in that regard. As a result, AEGCo has now acquired this 15% ownership interest. In September 1984, the Company received approximately \$174,000,000 from AEGCo in order to bring AEGCo's ownership interest in the Rockport Plant to 50%.

On August 2, 1984, Unit Power Agreements between AEGCo and the Company and AEGCo and KEPCo were filed with FERC. The Company Unit Power Agreement provides for the sale by AEGCo to the Company of the output of the Rockport Plant to which AEGCo is entitled. Pursuant to an agreement between the Company and KEPCo, and the KEPCo Unit Power Agreement, AEGCo will sell to KEPCo the output of Rockport equivalent in amount to that associated with KEPCo's intended 15% ownership interest. As a result, the Company will effectively purchase 35% of the output of the Rockport Plant from AEGCo. The Company has also entered into an agreement with an unaffiliated utility to sell this 35% output of Unit No. 1 of the Rockport Plant from January 1, 1987 through December 31, 1999. The effective date for the Unit Power Agreements was December 10, 1984, the date of commercial operation of Unit No. 1 at the Rockport Plant. Several parties including the KPSC, have intervened and protested the filing in the FERC proceeding. On October 1, 1984, FERC issued an order accepting the application for filing and permitting the proposed rates to become effective, subject to refund. Hearings concerning the Unit Power Agreements are scheduled to commence in May 1985.

### *Ohio Valley Electric Corporation*

AEP and Columbus and Southern Ohio Electric Company own 42.1% of Ohio Valley Electric Corpora-

tion (OVEC), which supplies the U.S. Department of Energy (DOE) with the power requirements of its gaseous diffusion plant near Portsmouth, Ohio. The proceeds from the sales of power by OVEC, aggregating \$290,000,000 in 1984, are designed to be sufficient for OVEC to meet its operating expenses and fixed costs, and to provide for a return on its equity capital. The Company, as a sponsoring company, is entitled to receive from OVEC, and is obligated to pay for, the power not required by DOE in proportion to its power participation ratio, which was 11.2% in December 1984. The DOE power agreement terminates in 1992.

### *Regulatory Matter*

The Federal Power Commission in 1975 commenced an investigation of, among other things, the reasonableness and prudence of the coal-purchasing policies and practices of certain System companies. In 1981, the FERC ordered a hearing on the issue of the System's prudence in continuing to procure Western coal from affiliated mines in the light of the possible availability of coal from other sources. On January 9, 1985, certain System companies entered into a settlement agreement with the FERC staff, subject to approval by appropriate regulatory agencies and other conditions, under which the FERC proceeding would be dismissed on the following terms: (i) certain System companies would refund \$21,000,000 (\$17,693,000 by the Company) to wholesale customers which purchased energy during the period 1982-1984 produced using Western coal from affiliated mines; (ii) depending upon the dates of regulatory approvals, certain System companies might refund an additional \$437,500 per month from June 1, 1985 until the settlement agreement becomes effective; (iii) recovery of the cost of Western coal in electric rates to wholesale customers would be limited by a cap related to prices of similar coal delivered to certain unaffiliated electric utilities, and (iv) subject to the cap, the Company could, during a period not to exceed 12 years, include in the cost of coal up to \$75,000,000 to be used to amortize part of its investment in the Western coal mines. In December 1984, the Company recorded provisions aggregating \$11,336,000, net of taxes, to reflect certain terms of the settlement agreement. The Company is unable to determine when all necessary approvals of the settlement agreement will be received or whether it will complete the amortization program.

### *Litigation*

In 1978, several retail customers of the Company commenced an action, individually and as representatives of an alleged class, in the U.S. District Court, alleging that the Company's lease of electric utility assets from the City of Fort Wayne was in violation of Federal antitrust laws. The complaint sought to have the lease declared null and void, asked that the Company be restrained from charging excessive prices for the purchase of electric power, sought treble damages in an unspecified amount in respect of allegedly excessive charges to residents of the City of Fort Wayne and sought to restore the control of the electric utility assets in question to the City of Fort Wayne. In May, June and July, 1979 the court granted in part and denied in part the Company's motion to dismiss or for summary judgment. The court dismissed plaintiff's allegations concerning abuse of a legally acquired monopoly but ruled that plaintiffs could continue to assert other theories of violation of Federal antitrust laws. The case was tried in March 1982 and in May 1984, the court ruled in favor of the Company on all issues. This decision was upheld upon appeal by the plaintiffs to the U.S. Court of Appeals.

The Company terminated its contract with Terre Haute Industries, Inc. (THI) on the grounds that THI was not meeting the schedule for the construction of an electro-static precipitator at the Breed Plant. THI instituted a suit for breach of contract against the Company in an Indiana circuit court claiming damages in an unspecified amount. THI also named the American Electric Power Service Corporation as a defendant and requested damages from it for interference with THI's contract with the Company and for libel. The defendants denied THI's complaint and the Company counterclaimed for damages in the amount of \$6,801,000 which the Company claims it suffered as a result of the delay in the construction work. On February 20, 1981, the Company's motion to add an insurance company-surety as a defendant to the Company's counterclaim was granted. The insurance company-surety was later dismissed. Trial of this action was completed in December 1982. In an order dated January 9, 1984, the court awarded compensatory and punitive damages to THI in the amounts of \$4,934,000 and \$12,000,000, respectively, exclusive of interest. As a result of that judgment, the Company recorded in 1983 a liability, including interest, on the Consolidated Balance Sheet for the compensatory damages. The Company and the Service Corporation are appealing the court decision.

### *Environmental Matters*

The companies are subject to regulation by Federal, state and local authorities with regard to air- and water-quality control and other environmental matters, and are subject to zoning and other regulation by local authorities. Although the cumulative, long-term effect of changing environmental requirements upon the companies cannot be estimated at present, compliance with such requirements may make it necessary, at costs which may be substantial, to retrofit existing facilities with additional air-pollution-control equipment; to construct cooling towers or some other closed-cycle cooling systems; to undertake new measures in connection with the storage, transportation and disposal of by-products and wastes; to curtail or cease operations at existing facilities and to delay the commercial operation of, or make design changes with respect to, facilities under construction.

Legislative proposals are pending before the Congress which expressly seek to control acid deposition in the eastern portion of the United States. If any of these bills become law, stringent controls upon the emission of sulfur dioxide would be required at various existing Company generating plants. These controls would entail very substantial capital and operating costs which, in turn, could necessitate substantial rate increases by the Company. In addition, a number of states have commenced proceedings under the Clean Air Act seeking to control the emission of sulfur dioxide in certain midwestern states.

### *Nuclear Insurance*

The Price-Anderson Act limits the public liability of a licensee of a nuclear plant to \$560 million for a single nuclear incident. When the 80th nuclear power reactor went into operation on November 15, 1982, the Nuclear Regulatory Commission's indemnity obligation was eliminated. Now, as each new reactor is licensed to operate, the \$560 million limit increases by another \$5 million. The current level is \$620,000,000. The Company has insurance covering its two-unit Cook Nuclear Plant in the maximum available amount of \$160 million, and the balance of \$460 million is covered by a mandatory program of deferred premiums which would be assessed, after a nuclear incident, against all owners of nuclear reactors. In the event of a nuclear incident the Company could be assessed \$5 million per incident for each of its two generating units (subject to a maximum of \$10 million per reactor in any year in the event of more than one incident).

The Company also has property insurance for damage to the Cook Plant facilities in the amount of \$1.06 billion. The primary layer of \$500 million is provided through nuclear insurance pools. The excess coverage above \$500 million is provided through insurance pools (\$85 million), and Nuclear Electric Insurance Limited (NEIL). NEIL's excess property insurance program provides \$475 million in coverage. The maximum assessment under this program could be \$9,347,000 (seven and one-half times the annual premium on a 100% coverage basis).

NEIL's extra-expense program provides insurance to cover extra costs of replacement power resulting from a prolonged accidental outage of a nuclear unit. The Company's policy insures against such increased costs up to \$2.5 million per week (starting 26 weeks after the outage) for one year and \$1.25 million per week for the second year; or 80% of those amounts per unit if both units are down for the same reason. The Company would be subject to a retrospective premium of up to \$13,270,000 (five times annual premium) if NEIL's losses exceed its accumulated funds.

#### *Disposal of Spent Nuclear Fuel and Nuclear Decommissioning*

The Nuclear Waste Policy Act of 1982 establishes Federal responsibility for the permanent disposal of spent nuclear fuel. Disposal costs are paid by fees assessed against owners of nuclear plants and deposited into the Nuclear Waste Fund created by the Act. For the disposal of nuclear fuel consumed after April 6, 1983 by the Company's Cook Nuclear Plant, the Company must pay to the fund a fee of one mill per kilowatthour, which the Company is currently recovering from its customers. In June 1983, the Company entered into a contract with DOE for the disposal of spent nuclear fuel. Under terms of the contract the Company must pay to the U.S. Treasury a fee estimated at approximately \$71,964,000, exclusive of interest, for the disposal of nuclear fuel consumed prior to April 7, 1983. Approval by DOE of the calculation of the fee is currently pending. The Company has deferred the \$71,964,000 on its balance sheet pending recovery through the rate-making process. The Company has received regulatory approval in certain of its jurisdictions for the recovery of a portion of this amount and has begun to reduce the amount deferred as it is being recovered.

With respect to decommissioning, the Public Service Commission of Indiana held in an order dated De-

cember 22, 1982 that "a reasonable estimate for the costs of decommissioning the (Cook Plant), when measured in 1982 dollars, should be set at \$155,000,000." In certain of its jurisdictions, the Company is currently recovering, through inclusion in its current charges to customers, a portion of the future costs associated with decommissioning.

Funds recovered through the rate-making process for disposal of spent nuclear fuel consumed prior to April 7, 1983 and for nuclear decommissioning generally have been deposited in either external trust funds or internal special funds for the future payment of such costs. The Company will attempt to obtain in all its jurisdictions regulatory approval for the recovery of the remainder of such future costs.

#### 10. Leases:

The companies, as part of their operations, lease property, plant and equipment under leases ranging in length from 1 to 35 years. Most of the leases require the companies to pay related property taxes, maintenance costs and other costs of operation. The companies expect that in the normal course of business, leases will generally be renewed or replaced by other leases. The majority of the various rentals are included in leases having purchase options or renewal options for substantially all of the economic lives of the properties.

An accounting standard now requires the companies to capitalize leases beginning in 1984 for all capital leases entered into after December 31, 1982 and all earlier leases beginning in 1987. This standard requires the companies to record rental expense in a manner consistent with rate-making treatment, therefore there is no effect on the Consolidated Statements of Income.

The following is an analysis of properties under capital leases and related obligations entered into after December 31, 1982:

	December 31, 1984 (in thousands)
Electric Utility Plant:	
Production .....	\$1,998
General and Miscellaneous (includes mining plant) .....	5,008
Total Electric Utility Plant .....	7,006
Less Accumulated Provision for Amortization .....	904
Net Properties under Capital Leases ..	<u>\$6,102</u>
Obligation under Capital Leases (a) ..	<u>\$6,102</u>

(a) Including an estimated \$959,000 at December 31, 1984 due within one year.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Payments made under capital leases entered into after December 31, 1982 include \$710,000 of amortization expense for the year ended December 31, 1984.

The following is a pro forma analysis of properties under capital leases and related obligations assuming that leases entered into prior to January 1, 1983 were capitalized:

	December 31,	
	1984	1983
	(in thousands)	
Nuclear Fuel .....	\$289,000	\$285,000
Coal-mining and Coal-transportation		
Equipment .....	25,000	28,000
Other Transportation Equipment .....	9,000	19,000
Real Estate .....	12,000	12,000
Electric Distribution System Property ...	20,000	13,000
Gross Properties under Capital Leases ..	355,000	357,000
Less Accumulated Provision for		
Amortization .....	163,000	162,000
Net Properties under Capital Leases ....	\$192,000	\$195,000
Obligations under Capital Leases (a) ....	\$192,000	\$196,000

(a) Including an estimated \$65,000,000 and \$69,000,000 at December 31, 1984 and 1983, respectively, due within one year.

Future minimum lease payments, by year and in the aggregate, of the companies' capital leases and noncancelable operating leases consisted of the following at December 31, 1984:

	Capital Leases (a)(b)	Operating Leases
	(in thousands)	
1985 .....	\$12,000	\$ 19,000
1986 .....	10,000	19,000
1987 .....	8,000	19,000
1988 .....	7,000	18,000
1989 .....	5,000	18,000
Later Years .....	51,000	232,000
Total Future Minimum Lease		
Payments .....	93,000	\$325,000
Less Estimated Interest Element		
Included Therein .....	46,000	
Estimated Present Value of Future		
Minimum Lease Payments .....	\$47,000	

(a) Includes capital leases entered into prior to January 1, 1983 assuming that such leases were capitalized.

(b) Minimum payments do not include leases of nuclear fuel. Nuclear fuel rentals comprise the unamortized balance of the lessor's cost (approximately \$151,000,000) less salvage value, if any, to be paid in proportion to heat produced, and carrying charges on the lessor's unrecovered costs. It is contemplated that portions of the presently leased material will be replenished by additional leased material.

Rentals for all operating leases are classified approximately as follows:

	Year Ended December 31,		
	1984	1983	1982
	(in thousands)		
Gross Rentals .....	\$100,000	\$92,000	\$96,000
Less Rental Recoveries (including			
sublease rentals) (a) .....	3,000	3,000	3,000
Net Rentals (b) .....	\$ 97,000	\$89,000	\$93,000
(a) Includes amounts paid for or			
reimbursed by associated			
companies.			
(b) Classified approximately as:			
Operating Expenses .....	\$ 90,000	\$82,000	\$88,000
Clearing and Miscellaneous			
Accounts (portions of which			
are charged to income) .....	7,000	7,000	5,000
	\$ 97,000	\$89,000	\$93,000

Included in the above analysis of future minimum lease payments and of properties under capital leases and related obligations are certain leases as to which portions of the related rentals are paid for or reimbursed by associated companies in the AEP System based on their usage of the leased property. The companies cannot predict the extent to which or proportion in which the associated companies will utilize the properties under such leases in the future.

## 11. Unaudited Quarterly Financial Information:

The following consolidated quarterly financial information is unaudited but, in the opinion of the Company, includes all adjustments (consisting of only normal recurring accruals) necessary for a fair presentation of the amounts shown:

Quarterly Periods Ended	Operating Revenues	Operating Income	Net Income*
	(in thousands)		
1984 —			
March 31 .....	\$252,092	\$57,030	\$45,535
June 30 .....	227,872	36,371	28,771
September 30 .....	242,720	46,059	38,368
December 31 .....	243,288	40,698	29,511
1983 —			
March 31 .....	197,685	47,323	32,338
June 30 .....	191,193	43,199	30,142
September 30 .....	235,221	43,959	38,955
December 31 .....	244,881	48,262	38,441

\*Before preferred stock dividend requirements.

## 12. Unaudited Information On Inflation and Changing Prices:

The supplementary information in the statements below is presented in compliance with the requirements of the FASB. The information is intended to disclose

the effects of both general inflation and changing prices; however, the amounts should be considered approximations of such effects rather than precise measures since a number of subjective judgments and estimating techniques were employed in developing the information.

Current cost amounts reflect the changes in specific prices of property, plant and equipment from the date such assets were acquired to the present. The current

cost of property, plant and equipment represents the approximate cost of replacing such resources and includes utility plant in service, construction work in progress, land, land rights and other property and investments. Current cost amounts were determined primarily by applying appropriate indexes from the Handy-Whitman Index of Public Utility Construction Costs.

Consolidated Statement of Income  
Adjusted for Effects of Changing Prices

Year Ended December 31, 1984	As Stated in the Primary Financial Statements	Adjusted for Changes in Specific Prices (current cost)
	(in thousands)	
Operating Revenues .....	\$965,972	\$966,000
Operating Expenses:		
Operation:		
Fuel for Electric Generation (a) .....	192,592	194,000
Purchased and Interchange Power (net) .....	169,217	169,000
Other .....	161,430	161,000
Maintenance .....	63,002	63,000
Depreciation, Depletion and Amortization (a) .....	85,268	201,000
Taxes Other Than Federal Income Taxes .....	44,921	45,000
Federal Income Taxes .....	69,384	69,000
Total Operating Expenses .....	785,814	902,000
Operating Income .....	180,158	64,000
Other Income and Deductions .....	53,044	53,000
Net Interest Charges .....	(91,017)	(91,000)
Preferred Stock Dividend Requirements .....	(27,705)	(28,000)
Earnings (Loss) Applicable to Common Stock (b) .....	\$114,480	\$ (2,000)
Increase in Specific Prices (current cost) of Property, Plant and Equipment		
Held During the Year (c) .....		\$ 161,000
Adjustment to Net Recoverable Cost (d) .....		73,000
Effect of Increase in General Price Level .....		(231,000)
Excess of Increase in Specific Prices after Adjustment to Net Recoverable Cost over		
Increase in General Price Level .....		3,000
Gain from Decline in Purchasing Power of Net Amounts Owed (e) .....		70,000
Net .....		\$ 73,000

(a) As prescribed by the FASB, the items in the Consolidated Statement of Income that have been adjusted are depreciation, depletion and amortization (including portions classified as fuel for electric generation and other income and deductions). Depreciation, depletion and amortization charges were computed by applying current accrual rates to the various plant accounts (production, transmission, distribution, general and miscellaneous) after adjusting such accounts for the effects of changing prices.

(b) Including the adjustment to net recoverable cost, the income from operations on a current cost basis would have been \$71,000,000.

(c) At December 31, 1984, current cost of property, plant and equipment net of accumulated depreciation, depletion and amortization was \$5,820,000,000 while historical cost or net cost recoverable through depreciation, depletion and amortization was \$2,881,000,000.

(d) The adjustment to net recoverable cost of property, plant and equipment (as expressed in terms of inflation-adjusted cost) to historical cost recognizes that the rate-making process limits the Company to recovery of the historical cost of the subject assets.

(e) To reflect properly the economics of rate regulation in the Consolidated Statement of Income Adjusted for Effects of Changing Prices, the adjustment to net recoverable cost should be offset by the gain that results from the decline in purchasing power of the net amounts owed by the Company. During a period of inflation, holders of monetary assets such as cash and receivables suffer a loss of general purchasing power while holders of monetary liabilities, generally long-term debt, experience a gain (because debt will be repaid in dollars having less purchasing power). The Company's gain from the decline in purchasing power of its net amounts owed is primarily attributable to the substantial amount of debt and cumulative preferred stock subject to mandatory redemption which has been used to finance utility plant.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Concluded)

## Five-Year Comparison of Selected Supplementary Data Adjusted for Effects of Changing Prices (dollar amounts are expressed in terms of average 1984 dollars)

	Year Ended December 31,				
	1984	1983	1982	1981	1980
	(in thousands, except index data)				
Operating Revenues .....	\$966,000	\$906,000	\$872,000	\$928,000	\$937,000
<i>Current Cost Information</i>					
Income (Loss) from Operations (excluding adjustment to net recoverable cost) .....	\$(2,000)	\$1,000	\$(11,000)	\$(22,000)	\$(9,000)
Excess (Deficit) of Increase in Specific Prices after Adjustment to Net Recoverable Cost over Increase in General Price Level .....	\$3,000	\$10,000	\$(9,000)	\$(132,000)	\$(340,000)
Net Assets at Year-end at Net Recoverable Cost ....	\$1,104,000	\$1,128,000	\$1,131,000	\$1,135,000	\$1,145,000
<i>General Financial Data</i>					
Gain from Decline in Purchasing Power of Net Amounts Owed .....	\$70,000	\$71,000	\$79,000	\$165,000	\$229,000
Average Consumer Price Index .....	311.2	298.4	289.2	272.1	246.8
<i>General Information on Mining Operations</i>					
Proven and Probable Coal Reserves at End of Year (thousands of tons) (Note) .....	413,672	414,207	411,377	412,546	413,964
Tons of Coal Mined (thousands) .....	535	360	1,168	779	1,059
Average Market Price (at current cost per ton) .....	\$72.05	\$88.29	\$53.07	\$68.78	\$66.52

**Note:** Proven reserves — The estimated quantities of commercially recoverable reserves that, on the basis of geological, geophysical and engineering data, can be demonstrated with a reasonably high degree of certainty to be recoverable in the future from known mineral deposits by either primary or improved methods.

Probable reserves — The estimated quantities of commercially recoverable reserves that are less well defined than proven reserves and that may be estimated or indicated to exist on the basis of geological, geophysical and engineering data.

## Auditors' Opinion

**Deloitte  
Haskins+Sells**

155 East Broad Street  
Columbus, Ohio 43215  
(614) 221-1000  
Cable DEHANDS

To the Shareowners and the Board of  
Directors of Indiana & Michigan  
Electric Company:

We have examined the consolidated balance sheets of Indiana & Michigan Electric Company and its subsidiaries as of December 31, 1984 and 1983 and the related consolidated statements of income, retained earnings and sources and applications of funds for each of the three years in the period ended December 31, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated February 21, 1984, our opinion on the 1983 and 1982 consolidated financial statements was qualified as being subject to the effects on the 1983 and 1982 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty been known concerning the claim by the Federal Energy Regulatory Commission staff that the Company paid excessive prices for coal from affiliated mines resulting in overcharges to customers which may have to be refunded. As discussed in Note 9 of Notes to Consolidated Financial Statements, the Company recorded a provision for refund in 1984 of \$17,693,000 as agreed to in a settlement agreement with the Federal Energy Regulatory Commission. Accordingly, our present opinion on the 1983 and 1982 consolidated financial statements, as expressed herein, is different from that expressed in our previous report.

In our opinion, such consolidated financial statements present fairly the financial position of the Company and its subsidiaries at December 31, 1984 and 1983 and the results of their operations and their sources and applications of funds for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

*Deloitte Haskins + Sells*

February 26, 1985



# Operating Statistics

	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>
<b>ELECTRIC OPERATING REVENUES (in thousands):</b>					
From Kilowatt-hour Sales:					
Retail:					
Residential:					
Without Electric Heating .....	\$150,334	\$144,370	\$125,798	\$116,340	\$106,488
With Electric Heating .....	<u>82,739</u>	<u>70,851</u>	<u>68,793</u>	<u>59,826</u>	<u>54,277</u>
Total Residential .....	233,073	215,221	194,591	176,166	160,765
Commercial .....	150,733	137,616	127,470	117,725	108,764
Industrial .....	173,986	154,751	137,152	134,519	116,165
Miscellaneous .....	<u>9,666</u>	<u>8,696</u>	<u>7,568</u>	<u>6,953</u>	<u>6,150</u>
Total Retail .....	567,458	516,284	466,781	435,363	391,844
Wholesale (sales for resale) .....	<u>400,811</u>	<u>343,427</u>	<u>325,468</u>	<u>360,096</u>	<u>346,513</u>
Total from Kilowatt-hour Sales ..	968,269	859,711	792,249	795,459	738,357
Less: Provision for Revenue Refunds ..	<u>(12,494)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Net of Provision for					
Revenue Refunds .....	955,775	859,711	792,249	795,459	738,357
Other Operating Revenues .....	<u>10,197</u>	<u>9,269</u>	<u>17,554</u>	<u>16,690</u>	<u>4,326</u>
Total Electric Operating Revenues .	<u>\$965,972</u>	<u>\$868,980</u>	<u>\$809,803</u>	<u>\$812,149</u>	<u>\$742,683</u>

## SOURCES AND SALES OF ENERGY

(in millions of kilowatt-hours):

### Sources:

#### Net Generated — Steam:

Fossil Fuel .....	7,071	5,684	4,587	6,373	6,719
Nuclear Fuel .....	12,913	12,301	12,349	13,167	13,153
Net Generated — Hydroelectric .....	<u>68</u>	<u>55</u>	<u>77</u>	<u>98</u>	<u>85</u>
Subtotal .....	20,052	18,040	17,013	19,638	19,957
Purchased .....	4,905	4,881	2,154	1,570	1,883
Net Interchange .....	<u>748</u>	<u>573</u>	<u>3,775</u>	<u>3,704</u>	<u>3,669</u>
Total Sources .....	25,705	23,494	22,942	24,912	25,509
Less: Losses, Company Use, Etc. ....	<u>1,508</u>	<u>1,441</u>	<u>1,243</u>	<u>1,239</u>	<u>1,426</u>
Net Sources .....	<u>24,197</u>	<u>22,053</u>	<u>21,699</u>	<u>23,673</u>	<u>24,083</u>

### Sales:

#### Retail:

##### Residential:

Without Electric Heating .....	2,534	2,596	2,472	2,467	2,493
With Electric Heating .....	<u>1,561</u>	<u>1,458</u>	<u>1,540</u>	<u>1,513</u>	<u>1,549</u>
Total Residential .....	4,095	4,054	4,012	3,980	4,042
Commercial .....	2,870	2,807	2,803	2,748	2,716
Industrial .....	4,201	3,941	3,701	4,021	3,932
Miscellaneous .....	<u>209</u>	<u>204</u>	<u>197</u>	<u>199</u>	<u>195</u>
Total Retail .....	11,375	11,006	10,713	10,948	10,885
Wholesale (sales for resale) .....	<u>12,822</u>	<u>11,047</u>	<u>10,986</u>	<u>12,725</u>	<u>13,198</u>
Total Sales .....	<u>24,197</u>	<u>22,053</u>	<u>21,699</u>	<u>23,673</u>	<u>24,083</u>

OPERATING STATISTICS (Concluded)

	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>
<b>ANNUAL COST OF FUEL CONSUMED (in cents): (a)</b>					
Cents per Million Btu:					
Coal .....	189.11	183.97	189.59	187.13	164.49
Nuclear .....	65.05	54.37	49.55	49.90	48.44
Overall .....	103.02	91.99	84.85	91.35	84.95
Cents per Kilowatt-hour Generated:					
Coal .....	1.83	1.76	1.85	1.81	1.59
Nuclear .....	.70	.59	.53	.54	.52
Overall .....	1.08	.96	.89	.95	.89
<b>RESIDENTIAL SERVICE — AVERAGES:</b>					
Annual Kwh Use per Customer:					
Total .....	10,249	10,187	10,084	10,008	10,206
With Electric Heating .....	19,771	18,780	19,990	19,866	20,584
Annual Electric Bill:					
Total .....	\$583	\$541	\$489	\$443	\$406
With Electric Heating .....	\$1,048	\$912	\$893	\$785	\$721
Price per Kwh (in cents):					
Total .....	5.69	5.31	4.85	4.43	3.98
With Electric Heating .....	5.30	4.86	4.47	3.95	3.50
<b>NUMBER OF ELECTRIC CUSTOMERS:</b>					
Year-End:					
Retail:					
Residential:					
Without Electric Heating .....	321,286	320,655	320,097	321,850	321,432
With Electric Heating .....	79,823	78,311	77,335	77,002	75,618
Total Residential .....	401,109	398,966	397,432	398,852	397,050
Commercial .....	42,912	42,552	42,233	42,957	42,758
Industrial .....	3,415	3,253	3,249	2,873	2,802
Miscellaneous .....	1,584	1,571	1,458	1,440	1,424
Total Retail .....	449,020	446,342	444,372	446,122	444,034
Wholesale (sales for resale) .....	105	106	105	104	105
Total Electric Customers .....	<u>449,125</u>	<u>446,448</u>	<u>444,477</u>	<u>446,226</u>	<u>444,139</u>

(a) Excludes effect of deferred collection of fuel costs.

# Dividends and Price Ranges of Cumulative Preferred Stock

By Quarters (1984 and 1983)

Cumulative Preferred Stock	1984 — Quarters				1983 — Quarters			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
(\$100 Par Value)								
4½% Series								
Dividends Paid Per Share	\$1.03125	\$1.03125	\$1.03125	\$1.03125	\$1.03125	\$1.03125	\$1.03125	\$1.03125
Market Price — \$ Per Share								
(MSE) — High	—	—	—	—	30	59	30½	55½
— Low	—	—	—	—	27	29¼	29½	30
4.56% Series								
Dividends Paid Per Share	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14
Market Price — \$ Per Share								
(OTC)								
Ask (high/low)	—	—	—	—	—	—	—	—
Bid (high/low)	—	—	—	—	—	—	—	—
4.12% Series								
Dividends Paid Per Share	\$1.03	\$1.03	\$1.03	\$1.03	\$1.03	\$1.03	\$1.03	\$1.03
Market Price — \$ Per Share								
(OTC)								
Ask (high/low)	—	—	—	—	—	—	—	—
Bid (high/low)	—	—	—	—	—	—	—	—
7.08% Series								
Dividends Paid Per Share	\$1.77	\$1.77	\$1.77	\$1.77	\$1.77	\$1.77	\$1.77	\$1.77
Market Price — \$ Per Share								
(NYSE) — High	53	51½	50½	54	58	59½	55	56
— Low	49½	45½	45	48	52½	54½	51½	49¾
7.76% Series								
Dividends Paid Per Share	\$1.94	\$1.94	\$1.94	\$1.94	\$1.94	\$1.94	\$1.94	\$1.94
Market Price — \$ Per Share								
(NYSE) — High	59½	55	52¾	59	62¼	64½	61	61¾
— Low	53½	49	49	51	57	57½	56	54
8.68% Series								
Dividends Paid Per Share	\$2.17	\$2.17	\$2.17	\$2.17	\$2.17	\$2.17	\$2.17	\$2.17
Market Price — \$ Per Share								
(NYSE) — High	65	62½	58¾	66½	70	73¾	70¾	70
— Low	60	55½	54½	57	63½	65½	65¾	60¼
12% Series								
Dividends Paid Per Share	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00
Market Price — \$ Per Share								
(NYSE) — High	99½	98	95¼	102½	100½	103½	103¼	101¾
— Low	95¾	93	91½	94	94	99	97	96½
(\$25 Par Value)								
\$2.15 Series								
Dividends Paid Per Share	\$0.5375	\$0.5375	\$0.5375	\$0.5375	\$0.5375	\$0.5375	\$0.5375	\$0.5375
Market Price — \$ Per Share								
(NYSE) — High	16¾	16	15½	17½	17¾	18¾	17½	17¾
— Low	15½	14	14½	14½	15¾	16¾	15¾	14¾
\$2.25 Series								
Dividends Paid Per Share	\$0.5625	\$0.5625	\$0.5625	\$0.5625	\$0.5625	\$0.5625	\$0.5625	\$0.5625
Market Price — \$ Per Share								
(NYSE) — High	17¾	16¾	16¾	17½	18¾	19¾	18¼	18
— Low	16	15	14¾	15½	16½	17¼	16½	15½
\$2.75 Series								
Dividends Paid Per Share	\$0.6875	\$0.6875	\$0.6875	\$0.6875	\$0.6875	\$0.6875	\$0.6875	\$0.6875
Market Price — \$ Per Share								
(NYSE) — High	23¼	22¼	21¼	22½	23¾	25	24	24
— Low	22¼	21	20½	21	21¾	23¾	23¾	23
\$3.63 Series								
Dividends Paid Per Share	\$0.9075	\$0.9075	\$0.9075	\$0.9075	\$0.9075	\$0.9075	\$0.9075	\$0.9075
Market Price — \$ Per Share								
(NYSE) — High	28½	26½	26½	28	29¾	30¾	28¾	28¾
— Low	26	23¾	23¾	25¾	26¼	27¾	27	26½

MSE — Midwest Stock Exchange

OTC — Over-the-Counter

NYSE — New York Stock Exchange

Note — The above bid and asked quotations represent prices between dealers and do not represent actual transactions.

Market quotations provided by National Quotation Bureau, Inc.

Dash indicates quotation not available.

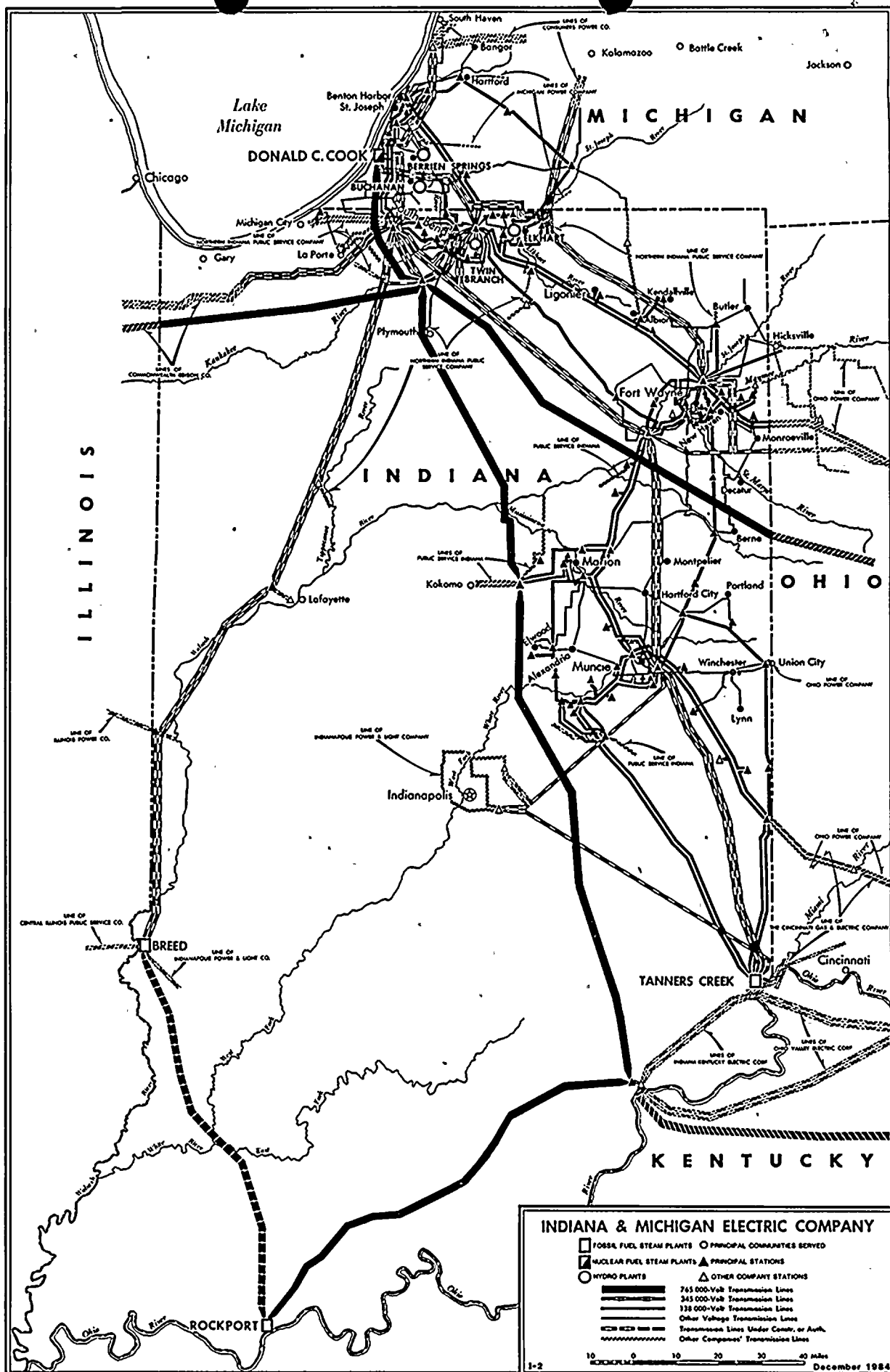
The Company's Annual Report  
(Form 10-K) to the Securities and  
Exchange Commission will be available  
on or about March 31, 1985 to shareowners  
upon written request and at no cost.  
Please address such requests to:

Mr. T. P. Bowman  
American Electric Power  
Service Corporation  
1 Riverside Plaza  
Columbus, Ohio 43215

Transfer Agent and Registrar of Cumulative Preferred Stock

Morgan Guaranty Trust Company of New York

30 West Broadway, New York, N.Y. 10007



Attachment 2

