Indiana & Michigan Electric Company

ANNUAL REPORT 1981

AMERICAN ELECTRIC POWER SYSTEM

Contents

Background of the Company

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 446,000 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 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: 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
W. A. Black
Lawrence R. Brunke (a)
Richard E. Disbrow
John E. Dolan
G. E. LeMasters
Gerald P. Maloney
Richard C. Menge
C. W. Roahrig
J. F. Stark
Beverly I. Stears (b)
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

Frank N. Bien
Vice President

Richard E. Disbrow
Vice President

John E. Dolan
Vice President

A. Joseph Dowd
Vice President

Richard F. Hering (c)
Vice President

Robert S. Hunter
Vice President

Gerald P. Maloney
Vice President

Richard C. Menge
Vice President

Beverly I. Stears
Vice President

Peter J. DeMaria
Treasurer

John R. Burton
Secretary

Allen H. Stuhlmann
Assistant Secretary and Assistant Treasurer

Richard P. Bourgerie (d)
Assistant Secretary

John F. DiLorenzo, Jr.
Assistant Secretary

Carl J. Moos
Assistant Secretary

William E. Olson
Assistant Secretary

William J. Prochaska
Assistant Secretary

Joan St. James (e)
Assistant Secretary

Leonard V. Assante
Assistant Treasurer

Bruce M. Barber (f)
Assistant Treasurer

William N. D'Onofrio
Assistant Treasurer

Gerald R. Knorr
Assistant Treasurer

The principal occupation of each of the above directors and officers of Indiana & Michigan Electric Company, with eight exceptions, is as an employee of American Electric Power Service Corporation. The exceptions are W. A. Black, G. E. LeMasters, 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 April 28, 1981
(b) Elected April 28, 1981
(c) Elected October 29, 1981
(d) Resigned October 30, 1981
(e) Elected February 1, 1982
(f) Elected February 26, 1981

Selected Financial Data

	Year Ended December 31,				
	1981	1980	1979	1978	1977
			(in thousands)		
INCOME STATEMENTS DATA:					
Operating Revenues — Electric	$812,149	$742,683	$683,013	$596,678	$505,591
Total Operating Expenses	634,209	577,502	524,800	439,516	377,849
Operating Income	177,940	165,181	158,213	157,162	127,742
Total Other Income and Deductions	29,713	30,541	29,042	29,750	28,346
Income Before Interest Charges	207,653	195,722	187,255	186,912	156,088
Net Interest Charges	104,313	99,151	91,475	74,300	61,241
Consolidated Net Income — before preferred stock dividend requirements	103,340	96,571	95,780	112,612	94,847
Preferred Stock Dividend Requirements	23,624	23,242	19,995	18,357	14,041
Earnings Applicable to Common Stock	$ 79,716	$ 73,329	$ 75,785	$ 94,255	$ 80,806

	December 31,				
	1981	1980	1979	1978	1977
			(in thousands)		
BALANCE SHEETS DATA:					
Electric Utility Plant	$3,356,987	$3,117,381	$2,657,930	$2,397,245	$2,107,032
Accumulated Provisions for Depreciation, Depletion and Amortization	611,699	561,773	475,643	410,520	358,826
Net Electric Utility Plant	2,745,288	2,555,608	2,182,287	1,986,725	1,748,206
Total Assets	3,034,290	2,826,172	2,616,996	2,360,813	2,130,899
Common Stock, Premiums on Capital Stock and Other Paid-in Capital	727,652	637,287	587,193	527,193	467,193
Retained Earnings	101,725	116,050	132,035	134,612	104,562
Cumulative Preferred Stock:					
Not Subject to Mandatory Redemption	197,000	197,000	197,000	197,000	157,000
Subject to Mandatory Redemption (a)	105,509	68,348	70,000	30,000	30,000
Long-term Debt (a)	1,404,044	1,264,673	1,124,255	1,050,626	1,038,483

(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 appearing on the following pages.

Operating Revenues and Expenses

Consolidated operating revenues increased 9.4% in 1981 and 8.7% in 1980 as energy sales decreased by 1.7% in 1981 and increased by 4.9% in 1980. The increases recorded in operating revenues were largely because of higher retail and wholesale rates, which went into effect during the three year period, and higher fuel and purchased power costs, a portion of which is passed on to customers through fuel adjustment charges.

Revenues from retail customers (residential, commercial and industrial) were up 11.1% in 1981 on a 0.6% increase in kilowatt-hour sales and decreased 1.6% in 1980 on a 3% decline in kilowatt-hour sales.

The Company shared in the AEP System's ability to take advantage of its high generating availability, low operating costs and efficient transmission system to increase its opportunity sales to neighboring utilities. Wholesale revenues increased 3.9% in 1981 despite a decrease of 3.6% in kilowatt-hour sales and increased 23.5% in 1980 on a 12.4% increase in kilowatt-hour sales. Wholesale sales to municipalities, electric cooperatives and other electric utilities are expected to continue to be significant during the next few years as well; however, the national economic picture could cause lower levels than those experienced in 1981.

The increase in purchased and interchange power expenses of 8.1% in 1981 resulted from a higher cost per unit purchased, which more than offset a 5% decrease in kilowatt-hours purchased. In 1980 the gain in wholesale sales was responsible for increased purchased and interchange power expenses of 5.7%. Because of AEP's powerful interconnection and transmission capacity, during periods of peak demand which exceeded the AEP System's then-available generating capacity, wholesale customers' requirements were able to be met by purchasing power from neighboring utilities for resale to others.

Fuel expenses increased by 2.4% in 1981 and 18% in 1980, mainly due to the increased cost of fuel for generation, with the result that total operating expenses increased in line with operating revenues (9.8% in 1981 and 10% in 1980). Future fuel expenses will be affected by a new contract between the coal industry and the United Mine Workers of America, increasing foreign purchases of United States coal, and the possibility of yet more stringent environmental restrictions on burning certain types of coal. Whether or not continued increases in fuel costs will adversely affect earnings will depend on the Company's continued ability to recover those costs promptly in the face of efforts by 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 program over the three-year period 1982-1984 are estimated to be approximately $633 million. Substantial additional expenditures may be required if existing generating plants require modification or additional facilities to comply with present and future environmental quality standards. In recent years, the construction program has been affected by substantial increases in construction costs and difficulties in obtaining financing for the program due to high costs of capital. 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. In recent years, 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 may, in the long run, be at least partially offset by cancellation charges and general inflationary trends. 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, such as allowances for funds used during construction (AFUDC) and other overheads, continue to accrue until the facility is placed in commercial operation.

It is estimated that approximately 15% of the Company's projected construction expenditures for 1982-1984 will be financed with internally-generated funds. The additional amounts needed 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 funds by issuing unsecured short-term debt (commercial paper and bank loans) and then periodically reduces

short-term debt with the proceeds from sales of long-term 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 instruments. At December 31, 1981, the Company had received authorizations from the Securities and Exchange Commission to issue a total of approximately $200,000,000 of short-term debt. Note 7 of Notes to Consolidated Financial Statements contains information on the Company's short-term bank lines of credit and revolving credit agreements. Bank lines of credit may be withdrawn by the banks extending them at any time 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 in its 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, 1981, the coverages of the Company under these provisions were at least 1.98 for long-term debt and 1.46 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.

Net Income

Consolidated net income before preferred dividend requirements increased by 7% in 1981 and 0.8% in 1980. These changes in net income were accompanied by an increase in the total proportion of AFUDC reflected in net income, 77.3% in 1981, 52% in 1980 and 39.1% in 1979, as a result of the increasing investment in the Rockport Plant now under construction. AFUDC does not represent cash income or a reduction in actual interest expense, but is an accounting convention required by regulatory systems of accounts. The net cost of borrowed funds used for construction and a reasonable rate of return on other funds when so used is capitalized as a cost of construction projects with a concurrent credit to the Income Statement. The amount capitalized is 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

The high rates of inflation in recent years have had a drastic 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 1981, adjusted for effects of inflation, and a comparison of selected supplementary data for a three-year period, similarly adjusted.

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:

February 23, 1982

We have examined the consolidated balance sheets of Indiana & Michigan Electric Company and its subsidiaries as of December 31, 1981 and 1980 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, 1981. 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 24, 1981, our opinion on the financial statements was qualified as being subject to the effects of such adjustments, if any, as might have been required had the outcome been known of the uncertainties concerning: (1) a court decision reversed in part and remanded back to the Public Service Commission of Indiana a 1978 Indiana retail rate order; and (2) the Company was collecting certain wholesale revenues subject to refund and was involved in anti-trust matters with certain wholesale customers. As discussed in Note 2 of Notes to Consolidated Financial Statements, management has assessed the effects of any adjustments that would be required in the event of any adverse resolution of the 1978 Indiana retail rate order and have concluded that such effects would not be material to the financial statements of the Company. Also, as explained in Note 9 of Notes to Consolidated Financial Statements, the Company settled the wholesale rate and anti-trust matters for 1980 and prior years, which has been reflected in the accompanying consolidated financial statements. Accordingly, our present opinion on the 1980 and 1979 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, 1981 and 1980 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, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins + Sells

Consolidated Statements of Income

	Year Ended December 31,		
	1981	1980	1979
		(in thousands)	
OPERATING REVENUES — ELECTRIC	$812,149	$742,683	$683,013
OPERATING EXPENSES:			
Operation:			
Fuel for Electric Generation	176,074	171,943	145,743
Purchased and Interchange Power (net)	139,119	128,645	121,706
Other	101,792	79,788	70,184
Maintenance	48,895	41,377	37,624
Depreciation, Depletion and Amortization	81,458	77,668	74,099
Taxes Other Than Federal Income Taxes	32,698	26,296	28,705
Federal Income Taxes	54,173	51,785	46,739
Total Operating Expenses	634,209	577,502	524,800
OPERATING INCOME	177,940	165,181	158,213
OTHER INCOME AND DEDUCTIONS:			
Allowance for Other Funds Used During Construction	32,885	18,438	17,365
Miscellaneous Nonoperating Income Less Deductions	(3,172)	12,103	11,677
Total Other Income and Deductions	29,713	30,541	29,042
INCOME BEFORE INTEREST CHARGES	207,653	195,722	187,255
INTEREST CHARGES:			
Interest on Long-term Debt	129,023	109,138	96,127
Interest on Short-term Debt	18,042	18,847	13,787
Miscellaneous Interest Charges	4,228	2,993	1,638
Total Interest Charges	151,293	130,978	111,552
Allowance for Borrowed Funds Used During Construction (credit)	(46,980)	(31,827)	(20,077)
Net Interest Charges	104,313	99,151	91,475
CONSOLIDATED NET INCOME — before preferred stock dividend requirements	103,340	96,571	95,780
PREFERRED STOCK DIVIDEND REQUIREMENTS	23,624	23,242	19,995
EARNINGS APPLICABLE TO COMMON STOCK	$ 79,716	$ 73,329	$ 75,785

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

	December 31, 1981	December 31, 1980
	(in thousands)	
ASSETS		
ELECTRIC UTILITY PLANT:		
Production	$1,512,548	$1,501,750
Transmission	438,849	433,653
Distribution	296,677	283,153
General and Miscellaneous (includes nuclear fuel and mining plant)	194,177	195,140
Construction Work in Progress	914,736	703,685
Total Electric Utility Plant	3,356,987	3,117,381
Less Accumulated Provisions for Depreciation, Depletion and Amortization	611,699	561,773
Electric Utility Plant Less Provisions	2,745,288	2,555,608
OTHER PROPERTY AND INVESTMENTS	24,838	27,409
CURRENT ASSETS:		
Cash	7,486	10,665
Special Deposits and Working Funds	18,574	3,630
Accounts Receivable:		
Customers	73,978	62,216
Associated Companies	9,995	23,066
Miscellaneous	9,037	5,319
Accumulated Provision for Uncollectible Accounts	(375)	(371)
Materials and Supplies (at average cost or less):		
Fuel	48,644	65,586
Construction and Operation Materials and Supplies	19,947	19,510
Accrued Utility Revenues	19,994	11,796
Prepayments and Other Current Assets	5,076	4,795
Total Current Assets	212,356	206,212
DEFERRED DEBITS:		
Unamortized Debt Expense	3,715	3,520
Property Taxes	1,729	1,473
Deferred Collection of Fuel Costs	502	789
Deferred Strike Costs	3,791	—
Other Work in Progress	6,048	10,696
Other Deferred Debits	36,023	20,465
Total Deferred Debits	51,808	36,943
Total	$3,034,290	$2,826,172

See Notes to Consolidated Financial Statements.

	December 31, 1981	December 31, 1980
	(in thousands)	
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
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	670,687	580,322
Retained Earnings	101,725	116,050
Total Common Shareowner's Equity	829,377	753,337
Cumulative Preferred Stock:		
Not Subject to Mandatory Redemption	197,000	197,000
Subject to Mandatory Redemption (less sinking fund requirements due within one year)	105,500	67,000
Long-term Debt (less portion due within one year)	1,298,502	1,245,403
Total Capitalization (less amounts due within one year)	2,430,379	2,262,740
CURRENT LIABILITIES:		
Cumulative Preferred Stock Sinking Fund Requirements Due Within One Year	9	1,348
Long-term Debt Due Within One Year	105,542	19,270
Short-term Debt:		
Notes Payable to Banks	15,500	104,550
Commercial Paper	38,100	41,975
Accounts Payable:		
General	38,440	41,701
Associated Companies	9,377	13,052
Dividends Declared:		
Common Stock	1,124	11,500
Cumulative Preferred Stock	6,303	5,805
Customer Deposits	2,483	2,202
Taxes Accrued	29,943	23,804
Interest Accrued	31,583	27,467
Revenue Refunds Accrued	20,216	35,337
Other Current Liabilities	33,182	24,136
Total Current Liabilities	331,802	352,147
COMMITMENTS AND CONTINGENCIES (Note 9)		
DEFERRED CREDITS AND OPERATING RESERVES:		
Deferred Income Taxes	230,223	190,475
Deferred Investment Tax Credits	22,907	12,316
Other Deferred Credits and Operating Reserves	18,979	8,494
Total Deferred Credits and Operating Reserves	272,109	211,285
Total	$3,034,290	$2,826,172

Consolidated Statements of Sources and Applications of Funds

	Year Ended December 31,		
	1981	1980	1979
		(in thousands)	
SOURCES OF FUNDS:			
Funds from Operations:			
Consolidated Net Income	$103,340	$ 96,571	$ 95,780
Principal Non-fund Charges (Credits) to Income:			
Depreciation, Depletion and Amortization	85,978	83,393	77,746
Provision for Deferred Income Taxes (net)	36,082	34,840	35,281
Deferred Investment Tax Credits (net)	9,247	11,124	8,460
Amortization of Deferred Strike Costs	3,195	—	—
Amortization of Deferred Collection of Fuel Costs	287	508	287
Allowance for Other Funds Used During Construction	(32,885)	(18,438)	(17,365)
Other (net)	710	767	1,093
Total Funds from Operations	205,954	208,765	201,282
Funds from Contributions and Financings:			
Contributions and Financings:			
Capital Contributions from Parent Company	90,000	50,000	60,000
Cumulative Preferred Stock	38,734	—	38,708
Long-term Debt	158,922	177,021	164,069
Short-term Debt (net)	(92,925)	(2,770)	24,355
Total	194,731	224,251	287,132
Less Retirements of Cumulative Preferred Stock and Long-term Debt	22,019	38,149	90,692
Net Funds from Contributions and Financings	172,712	186,102	196,440
Sales of Property	40,845	50,673	57,898
Total Sources of Funds	$419,511	$445,540	$455,620
APPLICATIONS OF FUNDS:			
Plant and Property Additions:			
Gross Additions to Utility Plant	$307,672	$304,678	$321,405
Gross Other Additions	578	6,013	47,028
Total Gross Additions	308,250	310,691	368,433
Allowance for Other Funds Used During Construction	(32,885)	(18,438)	(17,365)
Net Plant and Property Additions	275,365	292,253	351,068
Dividends on Common Stock	92,624	89,320	77,070
Dividends on Cumulative Preferred Stock	23,624	23,242	19,995
Deferred Strike Costs	6,986	—	—
Other Changes (net)	2,415	11,117	1,953
Increase in Working Capital (a)	18,497	29,608	5,534
Total Applications of Funds	$419,511	$445,540	$455,620
(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	$ 11,765	$ 5,707	$ (19,426)
Accounts Receivable	2,405	9,334	12,059
Materials and Supplies	(16,505)	18,503	37,698
Accrued Utility Revenues	8,198	(8,308)	6,293
Accounts Payable	6,936	6,933	4,079
Dividends Declared on Common Stock	10,376	18,630	(15,878)
Revenue Refunds Accrued	15,121	(10,038)	(9,803)
Taxes Accrued	(6,139)	(3,670)	(129)
Other (net)	(13,660)	(7,483)	(9,359)
	$ 18,497	$ 29,608	$ 5,534

See Notes to Consolidated Financial Statements.

Consolidated Statements of Retained Earnings

	Year Ended December 31,		
	1981	1980	1979
		(in thousands)	
Balance at Beginning of Year:			
As Previously Reported	$124,318	$136,802	$136,072
Restatement (Note 2)	(8,268)	(4,767)	(1,460)
As Restated	116,050	132,035	134,612
Consolidated Net Income	103,340	96,571	95,780
Total	219,390	228,606	230,392
Deductions:			
Cash Dividends Declared:			
Common Stock	92,624	89,320	77,070
Cumulative Preferred Stock:			
4⅛ % 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	3,226	3,425	3,600
$2.15 Series	3,440	3,440	3,440
$2.25 Series	3,600	3,600	3,600
$2.75 Series	4,400	4,400	978
$3.63 Series	581	—	—
Total Cash Dividends Declared	116,248	112,562	97,065
Capital Stock Expense	1,417	(6)	1,292
Total Deductions	117,665	112,556	98,357
Balance at End of Year	$101,725	$116,050	$132,035

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).

A wholly owned subsidiary, Indiana & Michigan Power Company (the Generating Subsidiary) was merged into the Company on November 30, 1979, at which time the Company assumed the obligations of the Generating Subsidiary.

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 intercompany 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% applied on a semi-annual compound basis during 1981 and 10.75% in 1980 and 1979, (the Generating Subsidiary used 10.5% during 1979 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	3.7%
Transmission	2.1%
Distribution	3.7%
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 2 to 30 years)
Coal Interests and Mine Development Costs	Units-of-production method (based on estimated recoverable tonnages; current rate averages $1.07 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, reduced where applicable by investment tax credits, are provided by the Company generally to the extent that such amounts are allowed for rate-making purposes.

The Company normalizes the effect of tax reductions resulting from investment tax credits recognized in connection with accruals of current income taxes and provisions for certain deferred Federal income taxes, consistent with rate-making policies. The deferred investment tax credits applicable to current Federal income taxes payable are amortized over 30 years.

The consolidated coal subsidiaries generally use the "flow-through" method of accounting for investment tax credits.

Pension Plans

The companies participate with other companies in the AEP System in a non-contributory trusteed 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, 1981, 1980 and 1979 were approximately $3,201,000, $3,416,000 and $3,117,000, 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.

A comparison of the plan's accumulated benefits and net assets as of January 1, 1981, the date of the most recent actuarial study, is presented below:

	January 1, 1981	January 1, 1980
	(in thousands)	
Actuarial present value of accumulated plan benefits:		
Vested	$46,410	$44,567
Nonvested	5,030	2,561
	$51,440	$47,128
Net assets available for benefits	$77,283	$66,615

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

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 $1,700,000 in 1981 and $1,690,000 in 1980. As of June 30, 1981, 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 $8,600,000.

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 over the average remaining life of the mines. Such provisions were approximately $398,000 and $391,000 in 1981 and 1980, respectively. A Black Lung Benefits Trust is maintained under Section 501(c)(21) of the Internal Revenue Code. As of January 1, 1981 (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 $6,000,000. In 1980, the companies began funding the actuarially determined liabilities, including a provision for the previously accrued but unfunded 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, 1981, 1980 and 1979 includes gains amounting to $489,000, $397,000 and $147,000, 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.

2. Restatements, Operating Revenues and Operating Expenses:

The 1980 and 1979 financial statements have been restated as explained in Note 9 to reflect the effects of certain revenue refunds as ordered by Federal and state regulatory commissions in 1981. The effects of such restatements are as follows:

Increase (Decrease) in:	1980	1979	Prior to 1979
	(in thousands)		
Operating Revenues	$(5,997)	$(6,053)	$(2,704)
Operating Expense:			
Federal Income Tax	(2,982)	(2,817)	(1,244)
Miscellaneous Interest Charges	486	71	—
Consolidated Net Income	$(3,501)	$(3,307)	$(1,460)

The Company has collected retail revenues under final orders of the Public Service Commission of In-na (PSCI) which became effective in February 1977 tember 1978. In November 1979, a Court of Appeals reversed the 1977 increase granted by the PSCI ($41,800,000 on an annual basis), and remanded the matter to PSCI for further hearings on the Company's Federal income tax allowance. The Company appealed the ruling to the Supreme Court of Indiana. The Company's petition to the Supreme Court of Indiana for review of this decision was denied on April 29, 1980. Hearings were held before the PSCI on October 30, 1980. On January 21, 1981, the PSCI issued an order requiring the Company to refund to its Indiana retail customers $9,315,000, including interest of $1,215,000. Prior periods were restated in 1980 to give effect to the refunds which were made during 1981. Further appeals were filed by intervenors in the case and on October 27, 1981 the Court of Appeals again returned the case to the PSCI concerning the lack of evidence regarding the calculation of the refund. Further hearings were held on this matter before the PSCI on February 22, 1982. An order by the PSCI is pending. In a separate proceeding before the Court of Appeals, certain petitioners have similarly challenged the tax provision allowed in the 1978 increase ($43,000,000 on an annual basis) granted by the PSCI. On February 5, 1981, the Court of Appeals of Indiana affirmed, in part, and reversed, in part, the PSCI decision, relating to the 1978 increase and remanded the matter to the PSCI for further proceedings with respect to certain issues, including the issue relating to Federal income tax expense. Additional testimony has been filed in this case, and hearings were held in early 1982. The Company cannot predict the outcome of these matters but has determined the effects of any adjustments that would be required in the event of any adverse resolution would not be material to the financial statements of the Company.

Three industrial customers filed a complaint with a Circuit Court in Michigan appealing an order of the Michigan Public Service Commission (MPSC) allowing the Company a $10,800,000 annual rate increase in 1979, seeking a summary judgment in connection with the tax provision allowed in the rate increase. As part of a settlement agreement reached in a subsequent rate proceeding, the Company and the three industrial customers agreed to drop their appeals. Although the Michigan Attorney General, an intervenor in the court appeal, failed to sign a stipulation dismissing the appeals, the Circuit Court subsequently dismissed the complaint.

Operating revenues derived from a certain wholesale customer represent approximately 9% of total operating revenues for 1981 and 1980 and 10% for 1979.

In 1978, the Company received approval of the PSCI to collect, over a five-year period ending in 1983, substantially all of its deferred fuel costs.

3. Federal Income Taxes:

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

	Year Ended December 31, 1981	1980 (in thousands)	1979
Charged to Operating Expenses:			
Current (net)	$ 8,672	$ 6,984	$ 5,293
Deferred (net)	36,254	33,677	32,986
Deferred Investment Tax Credits (net)	9,247	11,124	8,460
Total	54,173	51,785	46,739
Charged (Credited) to Other Income and Deductions:			
Current (net)	(1,988)	1,525	(1,297)
Deferred (net)	(172)	1,163	2,295
Total	(2,160)	2,688	998
Total Federal Income Taxes as Reported	$52,013	$54,473	$47,737

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, 1981	1980 (in thousands)	1979
Consolidated Net Income Before Preferred Stock Dividend Requirements	$103,340	$ 96,571	$ 95,780
Federal Income Taxes	52,013	54,473	47,737
Pre-tax Book Income	$155,353	$151,044	$143,517
Federal Income Taxes on Pre-tax Book Income at Statutory Rate (46%)	$ 71,462	$ 69,480	$ 66,018
Increase (Decrease) in Federal Income Taxes Resulting From the Following Items on Which Deferred Taxes Are Not Provided:			
Allowance for Funds Used During Construction and Miscellaneous Items Capitalized on the Books but Deducted for Tax Purposes	(19,658)	(11,203)	(9,434)
Investment Tax Credits Not Deferred	(1,799)	(409)	—
Amortization of Prior Years Deferred Investment Tax Credits	(327)	(641)	(209)
Other	2,335	(2,754)	(8,638)
Total Federal Income Taxes as Reported	$ 52,013	$ 54,473	$ 47,737
Effective Federal Income Tax Rate	33.5%	36.1%	33.3%

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

	Year Ended December 31, 1981	1980 (in thousands)	1979
Current:			
Federal Income Taxes	$11,598	$ 28,299	$ 16,066
Investment Tax Credit	(4,914)	(19,790)	(12,070)
Total Current Federal Income Taxes (net)	6,684	8,509	3,996
Deferred:			
Depreciation (liberalized, ADR and ACRS)	13,440	16,689	20,513
Allowance for Borrowed Funds Used During Construction and Miscellaneous Items Capitalized	18,465	13,330	8,904
Unbilled Revenues	3,660	(3,822)	2,590
Adjustments for Revenue Refunds	3,134	(5,469)	(3,589)
Amortization of Pollution Control Equipment	2,874	3,767	3,719
Percentage Repair Allowance	1,315	5,005	1,894
Other	(347)	(2,276)	(2,151)
Investment Tax Credit Applicable to Certain Deferred Income Taxes	(6,459)	7,616	3,401
Total Deferred Federal Income Taxes (net)	36,082	34,840	35,281
Total Deferred Investment Tax Credits (net)	9,247	11,124	8,460
Total Federal Income Taxes as Reported	$52,013	$ 54,473	$ 47,737

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. In 1981, the SEC amended its rules to permit the allocation of the benefit of current tax losses to the System companies giving rise to such losses in determining taxes currently payable. In prior years, in order to be consistent with rate-making, the benefits of these tax losses, without affecting taxes payable, were reallocated to the AEP System companies giving rise to such losses in determining each System company's Federal income tax expense. The tax loss of the System parent company, American Electric Power Company, Inc., continues to be allocated to its subsidiaries with taxable income. With the exception of the loss of the parent company, the new 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.

Unused System investment tax credits at December 31, 1981, aggregated approximately $260,000,000, of which $81,000,000, generated by the companies are available for their future utilization. Of the companies' investment tax credit carryforwards, approximately $600,000 has been applied as a reduction of deferred income taxes prior to December 31, 1981 and will not be reflected in net income when realized in future years except as affected by changes in deferred income taxes.

The System's consolidated Federal income tax returns for the years prior to 1970 have been settled. The returns for the years 1970 through 1976 have been reviewed by the Internal Revenue Service and additional taxes for those years have been proposed, some of which the System companies have protested. In the opinion of the System companies, adequate provision has been made for such additional taxes.

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

The Company received from its parent cash capital contributions of $90,000,000 in 1981, $50,000,000 in 1980 and $60,000,000 in 1979. In 1981 and 1980 a credit to other paid-in capital of $365,000 and $94,000, 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 1981, 1980 or 1979.

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 $48,400,000 at December 31, 1981, was so restricted.

6. Cumulative Preferred Stock:

At December 31, 1981, 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 issued and sold 1,600,000 shares of $2.75 series in 1979; and 1,600,000 shares of the $3.63 series in 1981.

A. Cumulative Preferred Stock Not Subject to Mandatory Redemption:

Series	Current Call Price	Redemption Restricted Prior to	Par Value	Shares Outstanding	Amount December 31, 1981 (in thousands)	Amount December 31, 1980 (in thousands)
4⅛%	$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%	107.44		100	300,000	30,000	30,000
$2.15	27.15	5/1/82	25	1,600,000	40,000	40,000
$2.25	27.25	3/1/83	25	1,600,000	40,000	40,000
					$197,000	$197,000

B. Cumulative Preferred Stock Subject To Mandatory Redemption:

Series (a)	Current Call Price	Redemption Restricted Prior to	Par Value	Shares Outstanding	Amount December 31, 1981 (in thousands)	Amount December 31, 1980 (in thousands)
12% (b)	$112		$100	255,085	$ 25,509	$ 28,348
$2.75 (c)	27.75	10/1/84	25	1,600,000	40,000	40,000
$3.63 (d)	28.63	11/1/86	25	1,600,000	40,000	—
					105,509	68,348
Less Sinking Fund Requirements Due Within One Year					9	1,348
					$105,500	$ 67,000

(a) The minimum sinking fund provisions of the series subject to mandatory redemption aggregate $1,500,000 in the years 1982 and 1983, and $3,500,000 in 1984, 1985 and 1986.

(b) A sinking fund for the 12% series requires the Company to provide, on or before October 1 of each year, 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, 1981 the Company had reacquired 14,915 shares in anticipation of 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 commencing on October 1, 1984. 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 October 1, 1984.

(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 (less portion due within one year):

	December 31, 1981	December 31, 1980
	(in thousands)	
First Mortgage Bonds	$1,103,101	$1,044,369
Sinking Fund Debentures	21,930	22,705
Installment Purchase Contracts	158,936	158,799
Other Long-term Debt	14,535	19,530
Total (less portion due within one year)	$1,298,502	$1,245,403

First mortgage bonds outstanding were as follows:

% Rate	Due	December 31, 1981	December 31, 1980
		(in thousands)	
3¼	1982 — January 1	$ 16,046	$ 16,046
10¼	1982 — June 1	70,000	70,000
3⅝	1983 — September 1	13,762	13,762
11	1983 — September 1	60,000	60,000
3⅛	1984 — October 1	15,082	15,082
10⅞	1984 — Dec. 1 (c)(d)(e)	59,250	61,500
10	1985 — March 1 (e)	11,250	12,000
10¼	1987 — January 1	80,000	80,000
13⅞	1987 — February 1	55,000	55,000
3⅞	1988 — February 1	22,974	22,974
4¾	1988 — November 1	17,557	17,557
14¾	1989 — March 1 (a)	120,000	—
11⅜	1990 — June 1	80,000	80,000
15⅝	1991 — November 1 (b)	40,000	—
4⅜	1993 — August 1	42,902	42,902
7	1998 — May 1	35,000	35,000
8⅞	2000 — April 1	50,000	50,000
9½	2003 — June 1 (d)(e)	277,000	288,500
8⅜	2003 — December 1	40,000	40,000
9½	2008 — March 1	100,000	100,000
Unamortized Discount (net)		(2,175)	(1,454)
		1,203,648	1,058,869
Less Portion Due Within One Year		100,547	14,500
Total		$1,103,101	$1,044,369

(a) Issued by the Company in March 1981.
(b) Issued by the Company in November 1981.
(c) Guaranteed by American Electric Power Company, Inc.
(d) On November 30, 1979, the Company assumed the obligation of the Generating Subsidiary to pay the principal of and interest on these bonds, which are secured by a first mortgage lien on the Nuclear Plant.
(e) Sinking fund payments are required as follows:
10% series due 1985 — $750,000 annually on March 1.
10⅞% series due 1984 — $2,250,000 annually on December 1, through 1983, with the noncumulative election to redeem an additional $2,250,000 in each year.
9½% series due 2003 — $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 elected to use unfunded property additions to meet these provisions in the past.

Sinking fund debentures outstanding were as follows:

	December 31, 1981	December 31, 1980
	(in thousands)	
5⅛% Due 1986 — June 1	$10,690	$11,266
7¼% Due 1998 — May 1	11,201	11,390
Unamortized Premium	39	49
Total	$21,930	$22,705

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:

% Rate	Date	December 31 1981	December 31 1980
		(in thousands)	
City of Lawrenceburg, Indiana:			
8½	2006 — July 1	$ 25,000	$ 25,000
7	2006 — May 1	40,000	40,000
6⅞	2006 — May 1	12,000	12,000
City of Rockport, Indiana:			
9⅛	2005 — June 1	6,500	6,500
9¼	2010 — June 1	33,500	33,500
City of Sullivan, Indiana:			
7⅜	2004 — May 1	7,000	7,000
6⅞	2006 — May 1	25,000	25,000
7½	2009 — May 1	13,000	13,000
Unamortized Discount		(3,064)	(3,201)
Total		$158,936	$158,799

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.

Other long-term debt outstanding consisted of:

	December 31, 1981	December 31, 1980
	(in thousands)	
Coal Reserve Obligations Payable in Equal Annual Installments Through 1985 with Interest at 8%	$18,950	$23,688
Notes Payable due 1981 Through 1985, 6%-7%	580	612
	19,530	24,300
Less Portion Due Within One Year	4,995	4,770
Total	$14,535	$19,530

Long-term debt, excluding premium or discount, outstanding at December 31, 1981 is due as follows:

	Principal Amount (in thousands)
1982	$ 105,542
1983	93,222
1984	87,352
1985	26,097
1986	20,490
Later Years	1,076,541
Total	$1,409,244

At December 31, 1981 and 1980, the principal amounts of debentures reacquired in anticipation of sinking fund requirements were $1,909,000 and $1,944,000, respectively. The Company may make additional debenture or first mortgage bond sinking fund payments of up to $14,550,000 annually.

At December 31, 1981, the Company had an unused revolving line of credit with various banks of $100,000,000. The line of credit requires a commitment fee of ½ of 1% per annum of unused credit through December 31, 1981 and ⅜ of 1% thereafter.

The Company had unused short-term bank lines of credit of approximately $387,000,000 and $195,000,000 at December 31, 1981 and 1980, 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 $334,000,000 and $181,000,000 at December 31, 1981 and 1980, 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.

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 $19,100,000, $17,400,000 and $17,000,000 for the years ended December 31, 1981, 1980 and 1979, respectively.

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

	Year Ended December 31, 1981	1980	1979
	(in thousands)		
Purchased Power (a)	$ 38,557	$ 42,147	$ 16,485
Interchange Power (net):			
AEP System Electric Utilities	100,960	87,111	105,606
Other Companies (b)	(398)	(613)	(385)
	$139,119	$128,645	$121,706
Taxes Other Than Federal Income Taxes:			
Real and Personal Property Taxes	$18,958	$16,193	$15,230
State Gross Sales, Excise and Franchise Taxes and Miscellaneous State and Local Taxes	9,399	7,309	9,501
State Income Taxes	1,074	165	1,529
Social Security Taxes — Federal and State	3,267	2,629	2,445
	$32,698	$26,296	$28,705
Fuel for Electric Generation includes charges relating to mining operations, as follows:			
Maintenance	$3,778	$5,680	$3,787
Depreciation, Depletion and Amortization	4,434	5,653	3,643
Taxes Other Than Federal Income Taxes	1,336	1,061	686

(a) Includes power purchased from Ohio Valley Electric Corporation (OVEC) of approximately $15,066,000 in 1981, $15,837,000 in 1980 and $4,205,000 in 1979.

(b) Includes interchange power sold to OVEC of approximately $186,000 in 1981, $386,000 in 1980 and $1,367,000 in 1979.

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:

The construction budget of the companies for the year 1982 is estimated at $279,000,000 and, in connection therewith, commitments have been made.

The Company participates with its parent, three associated utility companies, several unaffiliated utility companies and OVEC in supplying the U.S. Department of Energy (DOE) with the power requirements of its plant near Portsmouth, Ohio. The proceeds from the sales of power by OVEC 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 participant, is entitled to receive from OVEC, and is obligated to pay for, 7.6% of the power not required by DOE. In addition, the participating utilities are obligated to purchase, in proportion to their equity-participation ratio, an additional $10,000,000 of OVEC common stock in the event outstanding demand notes are called and are obligated to provide any additional capital required by OVEC, not available from other sources. The power agreement terminates by its terms, in 1992.

In 1981, the Company, its parent and American Electric Power Service Corporation entered into settlement agreements with 14 municipal wholesale customers settling certain antitrust litigation and proceedings before the FERC. The settlement agreements provide generally (i) for the termination of certain proceedings before the FERC which relate to, among other issues, the Company's wholesale rates and alleged practices of the Company which the municipal systems challenged, and (ii) that, upon approval by the FERC of the terms of these agreements, which include provisions for payments by the Company related to or arising out of the FERC proceedings of approximately $15,000,000, the antitrust litigation will be dismissed with prejudice and the FERC proceedings terminated. The FERC approved the settlement agreements on January 19, 1982, and they have been substantially implemented. The Company, as provided in the FERC Uniform System of Accounts, recorded on its books in November 1981 a provision for refund, restated to the years of prior collection.

Two contractors, United Nuclear Corporation (UNC) and General Atomic Company (GAC), the latter a partnership formed by Gulf Oil Corporation and Scallop Nuclear, Inc., each instituted actions against the Company regarding the obligation of these contractors to supply the Company with 3.4 million pounds of uranium concentrates and six fabricated nuclear fuel reloads for the Donald C. Cook Nuclear Plant (Nuclear Plant). The UNC suit is pending in the United States District Court for the District of New Mexico, but has been stayed temporarily by stipulation and court order. The GAC suit (to which UNC also was a party) was brought in the New Mexico State District Court in Santa Fe and was settled pursuant to a settlement agreement dated October 22, 1981. GAC claimed, among other things, that it was not obligated to make deliveries of uranium concentrates or fabricated nuclear fuel reloads not theretofore made, or that it was entitled to a price higher than that specified in its contract with the Company with respect to any such deliveries. The settlement agreement provides generally that: (i) GAC will perform at the contract price, without penalty for delay or late delivery, the balance of the contract remaining to be performed, namely, delivery of the fabricated nuclear fuel reloads for Batch 9 for Unit No. 1 of the Nuclear Plant and approximately 655,000 pounds of uranium for the Nuclear Plant, such performance to be guaranteed by Gulf; (ii) the Company will waive its claim against GAC for money damages in the principal amount of $15,179,000 incurred in connection with the purchase by the Company of fabricated nuclear fuel reloads in 1976 and 1977 during the pendency of the litigation; (iii) GAC will waive any bonus that may be due it under the contract on account of the actual performance of the fuel reloads; and (iv) the GAC suit will be dismissed with prejudice and GAC will withdraw its motion to intervene in the UNC suit in contemplation of the termination of that litigation.

In 1978, a retail customer of the Company commenced an action, individually and as representative 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 is in violation of Federal antitrust laws. The complaint seeks to have the lease declared null and void, asks that the Company be restrained from charging excessive prices for the purchase of electric power, seeks treble damages in an unspecified amount in respect of allegedly excessive charges to residents of the City of Fort Wayne and seeks 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 and certified a class of residential customers who may maintain the action.

In 1975, the Federal Power Commission issued an order instituting an investigation under the Federal Power Act concerning the reasonableness and prudence of the coal purchasing policies and practices of members of the System, the manner in which wholesale fuel adjustment clauses are implemented by System members, and related matters. A complainant and eight intervenors are also participating in the proceeding. In 1978, the FERC staff issued a preliminary report which alleged overcharges on the part of the entire System, and of which only a portion relates to the Company's operations. The report also questioned certain aspects of the System's fuel policies, including the AEP System's decision to expand its use of coal from mines owned by affiliates and its use of Western coal. In November 1979, the FERC staff submitted its final recommendations to the administrative law judge. The final recommendations urge refunds of alleged overcharges, corrections of alleged improper coal accounting and pricing practices, disallowances of certain fuel costs associated with Western coal acquisitions, revision of FERC regulations regarding affiliate fuel costs and establishment of hearing procedures to resolve certain of the issues and that a separate investigation be instituted concerning System administration of long-term fuel supply contracts. The System companies have submitted a written response supporting the decisions previously made by the System companies. On February 14, 1980, FERC issued an order directing the administrative law judge immediately to certify to FERC the entire record in the proceeding for review by the Commission and ordered that the procedural schedule be placed in abeyance, pending a further directive. On March 18, 1980, FERC ordered a new investigation into the System's administration of certain long-term coal supply contracts with non-affiliated suppliers. On June 10, 1981 and July 29, 1981, FERC issued orders which included termination of certain portions of the original investigations, the referral of other portions to the Chief Accountant of FERC for resolution and the ordering of a hearing, which is currently in its discovery phase, relating to the procurement of Western coal from mines operated by the System and from non-affiliated sources in the light of the possible availability of coal from other sources. The Company cannot assess the outcome or significance of this proceeding.

The Company has filed a petition with the PSCI requesting recovery of nuclear decommissioning costs associated with its nuclear plant through the inclusion of such costs in its base rates. An independent consulting firm employed by the Company for the purposes of this rate proceeding has estimated the cost of decommissioning this plant to be in excess of $170,000,000 in 1982 dollars.

The Price-Anderson Act limits the public liability of a licensee of a nuclear plant to $560,000,000 for a single nuclear incident, to be covered in part by private insurance with the balance to be covered by agreements of indemnity with the Nuclear Regulatory Commission. The Company has purchased private insurance in the maximum available amount of $160,000,000. In the event of a nuclear incident involving any commercial nuclear facility in the country, the Company, together with other licensees, could be individually assessed $5,000,000 per incident for each reactor owned (subject to a maximum of $10,000,000 in any year in the event of more than one incident). The Price-Anderson indemnities have been decreased by the aggregate amount which is assessable against existing licensees and will continue to decrease as new operating units are licensed.

I&M has procured property insurance in the amount of $300,000,000 for damage to its nuclear plant facilities and is a self-insurer for any property loss in excess of that amount. The Company has arranged for this property insurance coverage to increase to an amount of $450,000,000.

The Company also has obtained membership in Nuclear Electric Insurance Limited (NEIL), which provides its members with 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 $2,300,000 per week (starting 26 weeks after the outage) for one year and $1,150,000 per week for the second year, or 80% of those amounts per unit if both are down for the same reason. The Company would be subject to a retrospective premium of up to $8,200,000 per unit (five times the annual premium) if NEIL's losses exceed its accumulated funds.

10. Leases:

The Company, as part of its operations, leases property, plant and equipment under leases ranging in length from 1 to 35 years. Most of the leases require the Company to pay related property taxes, maintenance costs and other costs of operation. The Company expects 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.

Rentals are analyzed as follows:

	Year Ended December 31,		
	1981	1980	1979
	(in thousands)		
Gross Rentals	$95,000	$88,000	$70,000
Less Rental Recoveries (including sublease rentals) (a)	3,000	3,000	2,000
Net Rentals (b)	$92,000	$85,000	$68,000
(a) Includes amounts paid for or reimbursed by associated companies.			
(b) Classified as:			
Operating Expenses	$87,000	$82,000	$62,000
Clearing and Miscellaneous Accounts (portions of which are charged to income)	5,000	3,000	6,000
	$92,000	$85,000	$68,000

Future minimum lease payments, by year and in the aggregate, of the Company's capital leases and noncancelable operating leases consisted of the following at December 31, 1981:

	Capital Leases (a)	Operating Leases
	(in thousands)	
1982	$ 8,000	$ 11,000
1983	7,000	11,000
1984	7,000	11,000
1985	6,000	12,000
1986	6,000	12,000
Later Years	64,000	203,000
Total Future Minimum Lease Payments	98,000	$260,000
Less Estimated Interest Element Included Therein (b)	55,000	
Estimated Present Value of Future Minimum Lease Payments	$43,000	

(a) Excludes leases of nuclear fuel, all of which are capital leases. Nuclear fuel rentals comprise the unamortized balance of the lessor's cost (approximately $108,000,000 at December 31, 1981), less salvage value, if any, to be paid in proportion to heat produced, and carrying charges on the lessor's unrecovered cost. It is contemplated that portions of the presently leased material will be replenished by additional leased material.

(b) Interest rates used range from 4.9% to 21.9%.

The following is a pro forma analysis of properties under capital leases and related obligations assuming that such leases are capitalized:

	December 31,	
	1981	1980
	(in thousands)	
Nuclear Fuel	$203,000	$214,000
Coal-mining and Coal-transportation Equipment	14,000	14,000
Other Transportation Equipment	14,000	11,000
Real Estate	13,000	13,000
Electric Distribution System Property	13,000	13,000
Gross Properties under Capital Leases	257,000	265,000
Less Accumulated Provision for Amortization	113,000	104,000
Net Properties under Capital Leases	$144,000	$161,000
Obligations under Capital Leases (a)	$151,000	$167,000

(a) Including an estimated $56,000,000 and $44,000,000 at December 31, 1981 and 1980, respectively, due within one year.

Had capital leases been capitalized, any additional net expense for each of the three years ended December 31, 1981 would have been insignificant. The above pro forma analysis does not give recognition to offsetting adjustments in allowable revenues that the Company believes would normally be expected to occur through the regulatory rate-making process, if the related leases had been capitalized.

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 portion 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 Company 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 restated 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)		
1981 —			
Mar. 31	$202,158	$48,607	$26,858
June 30	209,533	40,347	21,799
Sept. 30	203,816	44,099	27,162
Dec. 31	196,642	44,887	27,521
1980 —			
Mar. 31	203,877	47,642	32,044
June 30	162,107	32,425	16,553
Sept. 30	185,599	40,156	22,226
Dec. 31	191,100	44,958	25,748
1979 —			
Mar. 31	169,344	46,780	29,890
June 30	172,006	32,520	19,176
Sept. 30	168,302	41,029	25,388
Dec. 31	173,361	37,884	21,326

*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 Financial Accounting Standards Board (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.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power as measured by the average level of the 1981 Consumer Price Index for All Urban Customers (CPI-U).

Current cost amounts reflect the changes in specific prices of property, plant and equipment from the date such assets were acquired to the present, and differ from constant dollar amounts to the extent that specific prices have risen at a different rate than the general inflation rate as measured by the CPI-U. 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, 1981	As Stated in the Primary Financial Statements	Adjusted for General Inflation (constant dollar)	Adjusted for Changes in Specific Prices (current cost)
		(in thousands)	
Operating Revenues	$ 812,149	$ 812,000	$ 812,000
Operating Expenses:			
Operation:			
Fuel for Electric Generation (a)	176,074	177,000	177,000
Purchased and Interchange Power (net)	139,119	139,000	139,000
Other	101,792	102,000	102,000
Maintenance	48,895	49,000	49,000
Depreciation, Depletion and Amortization (a)	81,458	179,000	179,000
Taxes Other Than Federal Income Taxes	32,698	33,000	33,000
Federal Income Taxes	54,173	54,000	54,000
Total Operating Expenses	634,209	733,000	733,000
Operating Income	177,940	79,000	79,000
Other Income and Deductions	29,713	30,000	30,000
Net Interest Charges	(104,313)	(104,000)	(104,000)
Preferred Stock Dividend Requirements	(23,624)	(24,000)	(24,000)
Earnings Applicable to Common Stock (b)	$ 79,716	$ (19,000)	$ (19,000)
Increase in Specific Prices (current cost) of Property, Plant and Equipment Held During the Year (c)			$ 407,000
Reduction to Net Recoverable Cost (d)		$(131,000)	(99,000)
Effect of Increase in General Price Level			(423,000)
Excess of Increase in General Price Level over Increase in Specific Prices After Reduction to Net Recoverable Cost			(115,000)
Gain from Decline in Purchasing Power of Net Amounts Owed (e)		144,000	144,000
Net		$ 13,000	$ 29,000

(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 reduction to net recoverable cost, the loss from operations on a constant dollar basis and current cost basis would have been $150,000,000 and $118,000,000, respectively.

(c) At December 31, 1981, current cost of property, plant and equipment net of accumulated depreciation, depletion and amortization was $5,202,000,000 while historical cost or net cost recoverable through depreciation, depletion and amortization was $2,746,000,000.

(d) The reduction to net recoverable cost of property, plant and equipment (as expressed in terms of inflation-adjusted cost) to historical cost recognized 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 reduction 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.

Five-Year Comparison of Selected Supplementary Data
Adjusted for Effects of Changing Prices
(dollar amounts are expressed in terms of average 1981 dollars)

	Year Ended December 31,				
	1981	1980	1979	1978	1977
	(in thousands, except index data)				
Operating Revenues	$812,000	$819,000	$855,000	$831,000	$758,000
Historical Cost Information Adjusted for General Inflation					
Income (Loss) from Operations (excluding reduction to net recoverable cost)	$(19,000)	$(5,000)	$25,000		
Net Assets at Year-end at Net Recoverable Cost	$992,000	$1,001,000	$1,084,000		
Current Cost Information					
Income (Loss) from Operations (excluding reduction to net recoverable cost)	$(19,000)	$(9,000)	$8,000		
Excess of Increase in General Price Level over Increase in Specific Prices after Reduction to Net Recoverable Cost	$(17,000)	$(298,000)	$(239,000)		
Net Assets at Year-end at Net Recoverable Cost	$992,000	$1,001,000	$1,084,000		
General Financial Data					
Gain from Decline in Purchasing Power of Net Amounts Owed	$144,000	$200,000	$216,000		
Average Consumer Price Index	272.1	246.8	217.5	195.4	181.5
General Information on Mining Operations					
Proven and Probable Coal Reserves at End of Year (thousands of tons) (Note)	412,546	413,964	415,023		
Tons of Coal Mined (thousands)	779	1,059	669		
Average Market Price (at current cost per ton)	$60.14	$58.16	$57.55		

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.

Operating Statistics

	1981	1980	1979	1978	1977
ELECTRIC OPERATING REVENUES (in thousands):					
From Kilowatt-hour Sales:					
Residential:					
Without Electric Heating	$116,340	$106,488	$102,543	$ 95,676	$ 89,675
With Electric Heating	59,826	54,277	55,458	53,557	46,324
Total Residential	176,166	160,765	158,001	149,233	135,999
Commercial	117,725	108,764	106,151	95,423	91,153
Industrial	134,519	116,165	127,815	120,180	107,931
Sales for Resale:					
Municipalities	42,839	37,754	37,505	36,014	41,313
Cooperatives	21,929	20,196	20,646	17,732	15,619
Other Electric Utilities	295,328	288,563	222,488	166,391	103,517
Total Sales for Resale	360,096	346,513	280,639	220,137	160,449
Miscellaneous	6,953	6,150	6,099	7,655	5,974
Total from Kilowatt-hour Sales	795,459	738,357	678,705	592,628	501,506
Other Operating Revenues	16,690	4,326	4,308	4,050	4,085
Total Electric Operating Revenues	$812,149	$742,683	$683,013	$596,678	$505,591

	1981	1980	1979	1978	1977
SOURCES AND SALES OF ENERGY (in millions of kilowatt-hours):					
Sources:					
Net Generated — Steam:					
Fossil Fuel	6,373	6,719	6,443	7,231	7,317
Nuclear Fuel	13,167	13,153	11,614	10,101 (a)	4,786
Net Generated — Hydroelectric	98	85	79	75	68
Subtotal	19,638	19,957	18,136	17,407	12,171
Purchased	1,570	1,883	811	301	182
Net Interchange	3,704	3,669	5,389	4,475	7,922
Total Sources	24,912	25,509	24,336	22,183	20,275
Less: Losses, Company Use, Etc.	1,239	1,426	1,386	1,340	1,270
Net Sources	23,673	24,083	22,950	20,843	19,005
Sales:					
Residential:					
Without Electric Heating	2,467	2,493	2,389	2,352	2,456
With Electric Heating	1,513	1,549	1,619	1,622	1,605
Total Residential	3,980	4,042	4,008	3,974	4,061
Commercial	2,748	2,716	2,629	2,498	2,671
Industrial	4,021	3,932	4,380	4,319	4,473
Sales for Resale:					
Municipalities	1,535	1,541	1,534	1,585	1,642
Cooperatives	802	803	819	814	786
Other Electric Utilities	10,388	10,854	9,386	7,468	5,195
Total Sales for Resale	12,725	13,198	11,739	9,867	7,623
Miscellaneous	199	195	194	185	177
Total Sales	23,673	24,083	22,950	20,843	19,005

(a) Includes 691 million kilowatt-hours as test generation. The fuel cost associated with such generation is charged to other operating expense.

OPERATING STATISTICS (Concluded)

	1981	1980	1979	1978	1977
Annual Cost of Fuel Consumed (in cents): (a)					
Cents per Million Btu:					
Coal	187.13	164.49	151.91	109.68	74.96
Nuclear	49.90	48.44	37.82	34.65	29.72
Overall	91.35	84.95	76.25	71.16	59.12
Cents per Kilowatt-hour Generated:					
Coal	1.81	1.59	1.52	1.11	.73
Nuclear	.54	.52	.41	.38	.33
Overall	.95	.89	.81	.75	.61
Residential Service — Averages:					
Annual Kwh Use per Customer:					
Total	10,008	10,206	10,210	10,260	10,641
With Electric Heating	19,866	20,584	21,611	22,067	22,830
Annual Electric Bill:					
Total	$443	$406	$402	$389	$361
With Electric Heating	$785	$721	$740	$736	$668
Price per Kwh (in cents):					
Total	4.43	3.98	3.94	3.79	3.39
With Electric Heating	3.95	3.50	3.43	3.34	2.93
Number of Electric Customers:					
Year-End:					
Residential:					
Without Electric Heating	321,850	321,432	319,477	315,472	313,085
With Electric Heating	77,002	75,618	75,606	74,900	72,059
Total Residential	398,852	397,050	395,083	390,372	385,144
Commercial	42,957	42,758	42,563	42,106	41,907
Industrial	2,873	2,802	2,748	2,689	2,500
Sales for Resale:					
Municipalities	23	23	23	23	23
Cooperatives	65	65	65	64	61
Other Electric Utilities	16	17	15	20	16
Total Sales for Resale	104	105	103	107	100
Miscellaneous	1,440	1,424	1,373	1,331	1,304
Total Electric Customers	446,226	444,139	441,870	436,605	430,955

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

Price Range of Cumulative Preferred Stock

By Quarters (1981 and 1980)

Cumulative Preferred Stock	1981 — Quarters 1st	2nd	3rd	4th	1980 — Quarters 1st	2nd	3rd	4th
($100 Par Value)								
4⅛% 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 (OTC)								
Ask (high/low)	—	—	—	—	—	—	—	—
Bid (high/low)	—	—	—	—	—	—	—	—
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	49½	47½	46	47½	56½	59	58⅛	51½
— Low	46	44	42	41¾	47	48	51	44½
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	54	53½	50	51¼	64⅜	67½	64⅝	55
— Low	51⅛	48½	48	45	48	52	55	46¾
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	61	58	56	56½	70½	72	74	64
— Low	55⅛	55	50½	54	60	59	65	55½
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	93½	91	88½	84	103½	104	102	100
— Low	85	88¾	78	78⅛	86½	87½	95	83⅛
($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	15½	14¾	14⅜	15¼	17½	18¾	18	15¾
— Low	13¾	13¾	12½	12¾	13⅝	14⅛	14¾	13½
$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	16	16	15	16	18¼	19¼	18⅞	17
— Low	14½	13⅝	13⅜	13	14¼	15	16	14
$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	20	22½	22	18⅜	25	24½	23⅝	21½
— Low	18½	19¾	17	18	22¾	22	22	18¼
$3.63 Series*								
Dividends Paid Per Share	—	—	—	—	—	—	—	—
Market Price — $ Per Share								
(NYSE) — High	—	—	—	—	—	—	—	—
— Low	—	—	—	—	—	—	—	—

OTC — Over-the-Counter

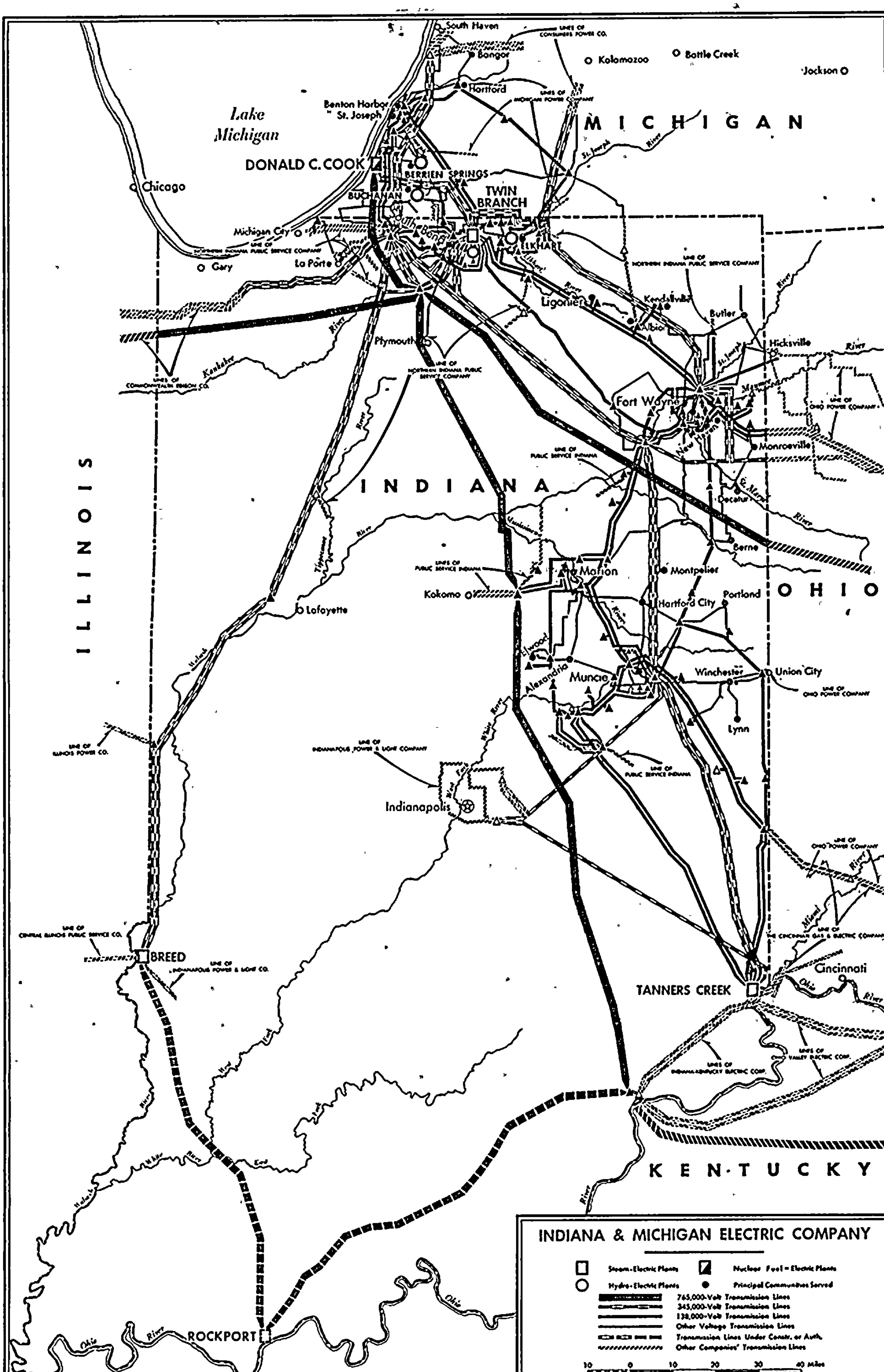
NYSE — New York Stock Exchange

*Issued in November 1981

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.



INDIANA & MICHIGAN ELECTRIC COMPANY
Steam-Electric Plants
Nuclear Fuel-Electric Plants
Hydro-Electric Plants
Principal Communities Served
765,000-Volt Transmission Lines
345,000-Volt Transmission Lines
138,000-Volt Transmission Lines
Other Voltage Transmission Lines
Transmission Lines Under Constr. or Auth.
Other Companies' Transmission Lines
10 0 10 20 30 40 Miles
MICHIGAN
INDIANA
ILLINOIS
OHIO
KENTUCKY
Lake Michigan
DONALD C. COOK
BERRIEN SPRINGS
BUCHANAN
TWIN BRANCH
ELKHART
BREED
TANNERS CREEK
ROCKPORT
South Haven
Bangor
Hartford
Kalamazoo
Battle Creek
Jackson
Benton Harbor
St. Joseph
Chicago
Michigan City
Gary
La Porte
Plymouth
Ligonier
Kendallville
Albion
Butler
Hicksville
Fort Wayne
New Haven
Monroeville
Decatur
Berne
Marion
Montpelier
Hartford City
Portland
Kokomo
Lafayette
Elwood
Alexandria
Muncie
Winchester
Union City
Lynn
Indianapolis
Cincinnati

The Company's Annual Report
(Form 10-K) to the Securities and
Exchange Commission will be available
on or about March 31, 1982 to shareowners
upon written request and at no cost.
Please address such requests to:

Mr. H. D. Post
Assistant Treasurer
American Electric Power
Service Corporation
180 East Broad Street
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

Enclosure 2
To AEP:NRC:0740

1982 Internal Cash Flow Projection for Donald C. Cook Nuclear Plant

(Millions)

	Actual 1981	Projected 1982
Net income after taxes	103.3	131.0
Less dividends paid	116.2	129.0
Retained earnings	(12.9)	2.0
Adjustments:		
Depreciation and amortization	86.0	88.0
Deferred income taxes and investment tax credits	45.3	54.0
AFUDC	(79.9)	(106.0)
Total adjustments	51.4	36.0
Internal cash flow	38.5	38.0
Average quarterly cash flow	9.6	9.5
Average cash balances and cash items	20.1	18.0
Total	29.7	27.5

% Ownership in all operating nuclear units: Unit 1 and Unit 2 - 100%

Maximum Total Contingent Liability - $20.0 million (2 units)