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INDIANA & MICHIGAN ELECTRIC COMPANY

P.O. BOX 16631
COLUMBUS, OHIO 43216

May 18, 1987
AEP:NRC:0909C
10 CFR 50.71(b) & 140.21(e)

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

U.S. Nuclear Regulatory Commission
Attn: Document Control Desk
Washington, D.C. 20555

Attn: T. E. Murley

Dear Mr. Murley:

Enclosure 1 contains the Indiana & Michigan Electric Company's (I&MECo) annual report for 1986. Enclosure 2 contains a copy of I&MECo's projected cash flow for 1987. 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,

MPAlexich

M. P. Alexich
Vice President

cm

Enclosures

cc: John E. Dolan (w/o enclosures)
W. G. Smith, Jr. - Bridgman (w/o enclosures)
R. C. Callen (w/o enclosures)
G. Charnoff (w/o enclosures)
G. Bruchmann (w/o enclosures)
NRC Resident Inspector - Bridgman
A. B. Davis - Region III

M004
1/1

1987 Internal Cash Flow Projection for Donald C. Cook Nuclear Plant
(Millions)

	Actual 1986	Projected 1987
Net income after taxes	152.5	152
Less dividends paid	139.5	136
Retained earnings	13.0	16
Adjustments:		
Depreciation and amortization	107.9	117
Deferred income taxes and investment tax credits	49.5	10
AFUDC	(52.0)	(51)
Total adjustments	105.4	76
Internal cash flow	118.4	92
Average quarterly cash flow	29.6	23
Average cash balances and short-term investments	49.0	35
Total	78.6	58

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

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

ENCLOSURE 1 TO AEP:NRC:0909C

Indiana & Michigan Electric Company

ANNUAL REPORT 1986

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 and Price River Coal Company, which were formerly engaged in coal-mining operations.

The Company serves approximately 457,000 customers in northern and eastern Indiana and a portion of southwestern Michigan. Among the principal industries served are transportation equipment, primary metals, fabricated metal products, electrical and electronic machinery, and rubber and plastic products. 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.

Selected Financial Data

	Year Ended December 31,				
	1986	1985	1984	1983	1982
			(in thousands)		
INCOME STATEMENTS DATA:					
Operating Revenues — Electric	$1,069,359	$1,059,903	$965,972	$868,980	$809,803
Total Operating Expenses	878,215	868,014	785,814	686,237	634,858
Operating Income	191,144	191,889	180,158	182,743	174,945
Total Other Income and Deductions	66,905	76,879	53,044	53,629	48,725
Income Before Interest Charges	258,049	268,768	233,202	236,372	223,670
Net Interest Charges	105,568	122,667	91,017	96,496	102,647
Consolidated Net Income — before preferred stock dividend requirements	152,481	146,101	142,185	139,876	121,023
Preferred Stock Dividend Requirements	26,256	27,056	27,705	28,384	28,628
Earnings Applicable to Common Stock	$ 126,225	$ 119,045	$114,480	$111,492	$ 92,395

	December 31,				
	1986	1985	1984	1983	1982
			(in thousands)		
BALANCE SHEETS DATA:					
Electric Utility Plant	$3,783,973	$3,878,707	$3,715,005	$3,666,823	$3,541,114
Accumulated Provisions for Depreciation, Depletion and Amortization	999,716	938,369	836,963	760,889	685,789
Net Electric Utility Plant	2,784,257	2,940,338	2,878,042	2,905,934	2,855,325
Total Assets	3,669,867	3,559,078	3,463,874	3,343,963	3,135,884
Common Stock, Premiums on Capital Stock and Other Paid-in Capital	828,347	828,347	828,344	807,925	777,783
Retained Earnings	113,123	100,130	94,317	95,616	91,756
Cumulative Preferred Stock:					
Not Subject to Mandatory Redemption	197,000	197,000	197,000	197,000	197,000
Subject to Mandatory Redemption (a)	79,030	86,030	93,197	99,497	104,447
Long-term Debt (a)	1,421,523	1,442,070	1,347,623	1,445,704	1,397,475

(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.

RESULTS OF OPERATIONS

Net Income

Consolidated net income before preferred dividend requirements increased by 4.4% in 1986 and 2.8% in 1985. The 1986 increase resulted primarily from lower fixed charges for interest and increased miscellaneous nonoperating income less deductions due predominantly to a decrease in certain costs associated with a subsidiary's Utah mining properties.

The proportion of allowances for funds used during construction (AFUDC) included in net income before preferred dividend requirements remained even with the previous year: 34.1% (27.2% net of income taxes) in 1986 and 33.3% (27.1% net of income taxes) in 1985. This is in contrast to 82.1% (66.0% net of income taxes) in 1984. The decrease in the AFUDC percentage in 1985, compared with 1984, was largely the result of a decrease in construction work in progress subject to such allowance due to the commercial operation of Rockport Plant Unit No. 1 (Rockport 1) in late 1984. See Note 1 of the Notes to Consolidated Financial Statements for a description of AFUDC.

Another item affecting earnings was a deferred return recorded by the Company on its investment in Rockport Unit 1. The deferred return represented 28.5% of net income in 1986 and 41.3% in 1985. See Note 3 of the Notes to Consolidated Financial Statements.

Operating Revenues and Expenses

Consolidated operating revenues increased slightly in 1986 over the previous year compared to a 9.7% increase in 1985. The increase in 1986 revenues was mostly due to additional rate relief and a small increase in sales of electric energy partially offset by reduced fuel cost recoveries. In 1985, kilowatt-hour (kwh) sales decreased 10.5% primarily due to a drop in kwh sales to wholesale customers. Operating revenues increased in 1985 even with this sales decline, primarily due to rate relief along with increased recovery of fuel costs.

Revenues from retail customers (residential, commercial and industrial) were up 1.2% in 1986, after increasing by 18.4% in 1985. The increase in 1986 retail revenues was mainly because of additional rate relief coupled with a slight increase in energy sales partially offset by lower fuel cost recoveries. The slight increase in 1986 energy sales included an increase in industrial and commercial sales of 2.1% and 1.3%, respectively, partially offset by a decrease of 1.5% in residential sales. The increase in energy sales to industrial customers, the fourth consecutive year of growth, reflected a continuation of a recovery in the industrial sector of the Company's service territory. The increase in 1985 revenues was due primarily to higher rates.

Revenues from energy sales to other utilities remained virtually unchanged despite a 3.5% rise in kwh sales, and dropped 5.7% in 1985 on a 20.9% drop in kwh sales. Although kwh sales rose in 1986, revenues remained flat because of a lower average realization per kwh sold. Competition and price cutting in the wholesale market were directly responsible for the reduced realization per kwh. The decrease in 1985 kwh sales, caused primarily by lower sales to neighboring utilities, was partially offset by increased rates charged by the Company to its wholesale customers. The highly competitive wholesale marketplace is expected to continue in the near future since a number of nonaffiliated midwestern utilities have capacity to sell.

The Company has a long-term contract that expires on December 31, 1987 to provide 400,000 kilowatts of energy (200,000 kilowatts after February 1, 1987) to a nonaffiliated utility. This contract contributed approximately 12%, 12% and 11% of the Company's total operating revenues and 37%, 37% and 32% of the Company's earnings applicable to common stock before any pro-forma adjustments for the AEP System Interchange Power Pool (Pool) in 1986, 1985 and 1984, respectively. If this contract did not exist the Company would have been required to make payments in a lesser amount, or alternatively been entitled to certain receipts, due to the operation of the Pool. After these pro-forma adjustments, the contract contributed approximately 18%, 17% and 24% of such earnings for such respective years.

The Company has reflected the reduction in revenues resulting from the February 1 reduction in the contract in its petition before the Public Service Commission of Indiana for a rate increase. The Company can give no assurance that it will receive such relief or arrange other transactions and failure to receive such relief or arrange other transactions could have a material adverse effect on the Company's net income.

Purchased and interchange power expense decreased 23.9% in 1986 following a 23.2% increase in 1985. The changes in 1986 and 1985 were mostly caused by the unavailability of the Donald C. Cook Nuclear Plant Unit No. 1 (Cook 1) during 1985, because of the 10-year anniversary service outage required by the Nuclear Regulatory Commission. When Cook 1 was returned to service, the purchased and interchange power transactions were no longer needed to meet the Company's load requirements. In addition, the purchase of an affiliated company's share of the generation of Rockport 1 further increased purchased and interchange power expense in 1985.

Fuel expense, the single largest expense of the Company, increased by 8.7% and 11.4% in 1986 and 1985, respectively. In 1986 the consumption of fuel increased as a result of a higher generation level mostly the result of Cook 1 being returned to service as explained above. In 1985 fuel expense increased due primarily to the commercial operation of Rockport 1 as well as an increase in other internal fossil generation. This relatively more expensive fossil generation was used to help offset the decrease in nuclear generation available because of the Cook 1 outage discussed earlier. Future fuel expense will be affected by generation levels, supply-and-demand factors, contractual agreements between the coal industry and the United Mine Workers of America and the possibility of more stringent environmental restrictions on the burning of certain types of coal. Whether or not future increases in fuel costs will affect earnings adversely will depend on the Company's continued ability to recover such costs promptly in the face of efforts by some consumer groups and others to delay or reduce rate increases and to eliminate or reduce the extent of coverage of fuel-adjustment clauses.

Maintenance expense had a small decrease in 1986 but increased 28.7% in 1985. The 1985 increase included the expense of the 10-year anniversary service outage of Cook 1, the commercial operation of Rockport 1, and the failure of step-up transformers at Rockport 1.

Depreciation expense increased in both 1986 and 1985. The increase in 1985 was due mainly to the commercial operation of Rockport 1. The 1986 increase was due largely to the amortization of previously deferred Rockport 1 costs.

Federal income taxes increased 31.4% in 1986 compared to a modest increase in 1985. The 1986 increase in Federal income taxes was due primarily to an increase in pre-tax book operating income and changes in certain book/tax timing differences, the tax effects of which are accounted for on a flow-through basis.

Total interest charges decreased 8.9% in 1986 after a small decrease in 1985. The 1986 decrease resulted from the Company's replacement of high-interest bonds with bonds having lower interest rates.

Effects of Inflation

Inflation has had an effect on the Company's consolidated revenues, expenses and net income before preferred stock dividend requirements that is not readily evident in conventional financial statements. Over the past three years, consolidated revenues showed a slight increase on an historical basis; however, when adjusted for the effects of inflation they remain relatively flat. Most of the Company's assets are long-lived property, plant and equipment acquired over a period of years. The depreciation of these assets charged to income is based on historical cost and would be substantially greater when adjusted for the cost of replacing these resources at current cost. However, the rate-making process limits the Company to recovery of the historical cost of assets. If the income statement were adjusted for inflation, net income would be substantially lower. The low rate of inflation over the past several years did not eliminate these effects but rather minimized the variation from year to year.

LIQUIDITY AND CAPITAL RESOURCES

Construction and Financing Program

The Company has a construction program to build, acquire, improve and replace plant, property and equipment used for the generation, transmission and distribution of electricity and for other utility services. Construction expenditures for the three-year period 1987-1989 are estimated at $748 million. If acid rain legislation similar to that currently proposed is enacted into law, the Company would be required to make substantial additional expenditures. See "Environmental Matters" in Note 10 of the Notes to Consolidated Financial Statements for additional information.

The need for external funds to support the construction program is expected to increase. It is expected that approximately 45% of the Company's projected construction expenditures for 1987-1989 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 with investments in the Company's common equity by AEP.

The Company generally issues short-term debt (commercial paper and bank loans) to provide interim financing of construction expenditures in excess of available internally generated and other funds. The Company then periodically reduces short-term debt with the proceeds of sales of long-term debt securities and preferred stock and with investments in its common equity by AEP.

The amounts of short-term debt that 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, 1986, the Company had received authorizations from the Securities and Exchange Commission to issue a total of approximately $220 million of short-term debt, and had outstanding unused short-term lines of credit with banks of approximately $269 million shared with other AEP System companies. The 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.

The Company can issue additional long-term debt and preferred stock only if it complies with earnings-coverage requirements contained in its mortgage bond and debenture indentures and charter. 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, 1986, the long-term debt and preferred stock coverages of the Company were at least 2.80 and 1.80, respectively.

Cook Nuclear Plant

The Cook Nuclear units are exhibiting indications of intergranular corrosion (IGC) in the steam generator tubing, a condition which has developed in other pressurized water reactors. This has led to a decision to operate Unit No. 2 at 80% power and Unit No. 1 at 90% power as a steam-generator life conservation measure. It is presently planned to replace the Unit No. 2 steam generators in late 1988 or 1989, at an estimated cost of $160 million, to correct this condition. The IGC problem in the Unit No. 1 steam generators is occurring at a slower rate than in Unit No. 2, but it is possible that the Unit No. 1 steam generators will also have to be replaced eventually. However, there are no present plans for such replacement. When the Unit No. 2 replacement program occurs, it will require an extended outage, estimated at 12 months. This is not expected to have a materially adverse effect on the Company's operations or financial results.

Tax Reform Act

The Tax Reform Act of 1986, enacted October 22, 1986, provides for extensive revisions to Federal tax law. A major provision of the Act reduces the corporate income tax rate from 46% to 34%, effective July 1, 1987. As a result of this and other changes in the tax law, our regulatory commissions are reviewing the Act's impact on rates to consumers in their jurisdictions. While the Company is not able to quantify, at this time, the overall effects on financial results for all of the Company's jurisdictions, the Company does not anticipate a material impact on net income as a result of these changes in the tax law. However, provisions in the Act relating to depreciation lives, repeal of the investment tax credit and taxation of unbilled revenues will result in reduced internal cash flow.

Deloitte
Haskins+Sells

155 East Broad Street
Columbus, Ohio 43215-3650
(614) 221-1000
ITT Telex: 4995627

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, 1986 and 1985 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, 1986. 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 opinion, such consolidated financial statements present fairly the financial position of the Company and its subsidiaries at December 31, 1986 and 1985 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, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

February 24, 1987

Consolidated Statements of Income

	Year Ended December 31,		
	1986	1985	1984
		(in thousands)	
OPERATING REVENUES — ELECTRIC	$1,069,359	$1,059,903	$965,972
OPERATING EXPENSES:			
Operation:			
Fuel for Electric Generation	233,241	214,545	192,592
Purchased and Interchange Power (net)	158,684	208,501	169,217
Other	157,500	151,658	161,430
Maintenance	80,171	81,089	63,002
Depreciation and Amortization	101,456	92,895	85,268
Taxes Other Than Federal Income Taxes	51,291	46,339	44,921
Federal Income Taxes	95,872	72,987	69,384
Total Operating Expenses	878,215	868,014	785,814
OPERATING INCOME	191,144	191,889	180,158
OTHER INCOME AND DEDUCTIONS:			
Allowance for Other Funds Used During Construction	25,397	26,214	61,361
Deferred Return — Rockport Plant	43,438	60,378	3,401
Miscellaneous Nonoperating Income Less Deductions	(1,930)	(9,713)	(11,718)
Total Other Income and Deductions	66,905	76,879	53,044
INCOME BEFORE INTEREST CHARGES	258,049	268,768	233,202
INTEREST CHARGES:			
Interest on Long-term Debt	124,333	134,117	142,719
Interest on Short-term Debt	6,118	9,119	1,809
Miscellaneous Interest Charges	1,725	1,909	1,884
Total Interest Charges	132,176	145,145	146,412
Allowance for Borrowed Funds Used During Construction (credit)	(26,608)	(22,478)	(55,395)
Net Interest Charges	105,568	122,667	91,017
CONSOLIDATED NET INCOME — before preferred stock dividend requirements	152,481	146,101	142,185
PREFERRED STOCK DIVIDEND REQUIREMENTS	26,256	27,056	27,705
EARNINGS APPLICABLE TO COMMON STOCK	$ 126,225	$ 119,045	$114,480

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

	December 31, 1986	December 31, 1985
	(in thousands)	
ASSETS		
ELECTRIC UTILITY PLANT:		
Production	$2,239,863	$2,164,035
Transmission	713,398	599,029
Distribution	362,314	340,769
General and Miscellaneous	46,301	229,269
Construction Work in Progress	422,097	545,605
Total Electric Utility Plant	3,783,973	3,878,707
Less Accumulated Provisions for Depreciation and Amortization	999,716	938,369
Electric Utility Plant Less Provisions	2,784,257	2,940,338
OTHER PROPERTY AND INVESTMENTS	260,569	74,092
CURRENT ASSETS:		
Cash	3,062	4,503
Special Deposits and Working Funds	41,891	52,281
Temporary Cash Investments (at cost, which approximates market)	—	4,972
Accounts Receivable:		
Customers	89,129	88,743
Associated Companies	5,360	5,611
Miscellaneous	10,701	7,117
Accumulated Provision for Uncollectible Accounts	(609)	(526)
Materials and Supplies (at average cost or less):		
Fuel	58,463	48,507
Construction and Operation Materials and Supplies	20,947	21,542
Accrued Utility Revenues	49,000	71,615
Prepayments and Other Current Assets	9,727	8,772
Total Current Assets	287,671	313,137
DEFERRED DEBITS:		
Unamortized Debt Expense	5,619	5,398
Property Taxes	2,776	2,478
Other Work in Progress	1,566	2,449
Deferred Nuclear Fuel Disposal Costs	64,546	72,620
Deferred Depreciation and Return — Rockport Plant	134,483	80,313
Other Deferred Debits	128,380	68,253
Total Deferred Debits	337,370	231,511
Total	$3,669,867	$3,559,078

See Notes to Consolidated Financial Statements.

CAPITALIZATION AND LIABILITIES

	December 31, 1986	December 31, 1985
	(in thousands)	
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	771,382	771,382
Retained Earnings	113,123	100,130
Total Common Shareowner's Equity	941,470	928,477
Cumulative Preferred Stock:		
Not Subject to Mandatory Redemption	197,000	197,000
Subject to Mandatory Redemption (less sinking fund requirements due within one year)	75,030	86,030
Long-term Debt (less portion due within one year)	1,410,023	1,302,872
Total Capitalization (less amounts due within one year)	2,623,523	2,514,379
OTHER NONCURRENT LIABILITIES	59,520	45,544
CURRENT LIABILITIES:		
Cumulative Preferred Stock Sinking Fund Requirements Due Within One Year	4,000	—
Long-term Debt Due Within One Year	11,500	139,198
Short-term Debt:		
Notes Payable	11,325	—
Commercial Paper	38,600	—
Accounts Payable:		
General	34,420	35,431
Associated Companies	25,009	34,569
Dividends Declared on Cumulative Preferred Stock	6,414	6,614
Customer Deposits	3,662	3,155
Taxes Accrued	53,472	32,918
Interest Accrued	32,143	35,381
Revenue Refunds Accrued	—	18,625
Other Current Liabilities	48,521	34,156
Total Current Liabilities	269,066	340,047
COMMITMENTS AND CONTINGENCIES (Note 10)		
DEFERRED CREDITS:		
Deferred Income Taxes	525,044	492,728
Deferred Investment Tax Credits	180,306	154,745
Other Deferred Credits	12,408	11,635
Total Deferred Credits	717,758	659,108
Total	$3,669,867	$3,559,078

Consolidated Statements of Sources and Applications of Funds

	Year Ended December 31,		
	1986	1985	1984
		(in thousands)	
SOURCES OF FUNDS:			
Funds from Operations:			
Consolidated Net Income	$152,481	$ 146,101	$ 142,185
Principal Non-fund Charges (Credits) to Income:			
Depreciation and Amortization	107,915	93,460	88,298
Provision for Deferred Income Taxes (net)	24,219	82,163	54,638
Deferred Investment Tax Credits (net)	25,328	46,571	58,078
Amortization of Deferred Nuclear Fuel Disposal Costs	13,247	9,206	4,163
Allowance for Other Funds Used During Construction	(25,397)	(26,214)	(61,361)
Deferred Return — Rockport Plant	(43,438)	(60,378)	(3,401)
Other (net)	4,585	3,789	5,187
Total Funds from Operations	258,940	294,698	287,787
Funds from Contributions and Financings:			
Contributions and Financings:			
Capital Contributions from Parent Company	—	—	20,000
Long-term Debt	197,681	144,660	—
Short-term Debt (net)	49,925	(110,000)	46,605
Total	247,606	34,660	66,605
Less Retirements of Cumulative Preferred Stock and Long-term Debt	235,432	80,347	103,982
Net Funds from Contributions and Financings	12,174	(45,687)	(37,377)
Sales of Property	39,476	52,828	243,579
Decrease (Increase) in Working Capital (a)	28,258	73,710	(115,113)
Total Sources of Funds	$338,848	$ 375,549	$ 378,876
APPLICATIONS OF FUNDS:			
Plant and Property Additions:			
Gross Additions to Utility Plant	$204,942	$ 222,625	$ 297,232
Gross Other Additions	3,933	105	122
Total Gross Additions	208,875	222,730	297,354
Allowance for Other Funds Used During Construction	(25,397)	(26,214)	(61,361)
Net Plant and Property Additions	183,478	196,516	235,993
Dividends on Common Stock	113,232	113,232	115,779
Dividends on Cumulative Preferred Stock	26,256	27,056	27,705
Deferred Depreciation — Rockport Plant	12,765	16,652	—
Other Changes (net)	3,117	22,093	(601)
Total Applications of Funds	$338,848	$ 375,549	$ 378,876
(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 decrease (increase) as follows:			
Cash and Cash Items	$ 16,803	$ 81,479	$(129,986)
Accounts Receivable	(3,636)	5,497	15,638
Materials and Supplies	(9,361)	22,402	882
Accrued Utility Revenues	22,615	(26,236)	3,171
Accounts Payable	(10,571)	(1,687)	(24,034)
Dividends Declared on Common Stock	—	(2,660)	(14,956)
Taxes Accrued	20,554	6,096	11,854
Revenue Refunds Accrued	(18,625)	(1,052)	19,579
Other (net)	10,479	(10,129)	2,739
	$ 28,258	$ 73,710	$(115,113)

See Notes to Consolidated Financial Statements.

Consolidated Statements of Retained Earnings

	Year Ended December 31,		
	1986	1985	1984
		(in thousands)	
Balance at Beginning of Year	$100,130	$ 94,317	$ 95,616
Consolidated Net Income	152,481	146,101	142,185
Total	252,611	240,418	237,801
Deductions:			
Cash Dividends Declared:			
Common Stock	113,232	113,232	115,779
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	1,918	2,278	2,615
$2.15 Series	3,440	3,440	3,440
$2.25 Series	3,600	3,600	3,600
$2.75 Series	3,113	3,553	3,865
$3.63 Series	5,808	5,808	5,808
Total Deductions	139,488	140,288	143,484
Balance at End of Year	$113,123	$100,130	$ 94,317

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 previously engaged in coal-mining operations. 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; Depreciation and Amortization; Other Property and Investments

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 (AFUDC), 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 after compounding on a semi-annual basis were 11.5% in 1986, 12.55% in 1985 and 12.5% in 1984.

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	3.6%
General	2.9%

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 trusteed plan to provide pensions for all their employees, subject to certain eligibility requirements.

The companies recorded no pension cost for the years ended December 31, 1986 and 1985. Pension cost for the year ended December 31, 1984 was approximately $2,713,000. In 1985 the companies changed the actuarial cost method from the projected benefit method to the projected unit credit method and changed the assumed investment rate of return used in determining pension expense under the plan to 9% from 7%. The 1985 cost was reduced by approximately $2,035,000 because of the change in assumed rate of return and by approximately $678,000 because of the change in cost method. The actuarial changes made are believed to reflect more appropriate actuarial assumptions and will position the plan to reflect forthcoming changes in accounting for pension costs scheduled to take effect in 1987. Pension costs provide for the cost of currently accruing benefits and amortization of, and interest on, unfunded prior service costs amortized over periods of up to 30 years. Pension cost, if determined under the forthcoming accounting standards, would not be significantly different. The companies make annual contributions to the plan equal to the amounts accrued for pension expense. In addition to providing pension benefits, the companies provide 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 at retirement. The cost of retiree health care benefits is recognized as expense when paid. In 1986, 1985 and 1984, these costs totaled $1,061,000, $780,000 and $852,000, respectively.

A comparison of the plan's accumulated benefits and net assets as of January 1, 1986, the date of the most recent actuarial study, is presented below:

	January 1,	
	1986	1985
	(in thousands)	
Actuarial present value of accumulated plan benefits:		
Vested	$ 75,124	$ 67,421
Nonvested	8,233	7,945
	$ 83,357	$ 75,366
Net assets available for benefits	$128,726	$108,534

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 — 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. However, the 1987 pension accounting changes referred to above do provide for including the effect of future salary increases on accumulated plan benefits, in addition to changing the pension cost determination. As such, the new standard would provide for a more appropriate ongoing basis of comparing accumulated plan benefits with assets.

Other

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

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 12% of total operating revenues for 1986, 12% for 1985 and 11% for 1984.

2. Mining Operations:

In May 1986, Blackhawk Coal Company (Blackhawk), a subsidiary formerly engaged in coal-mining operations, consummated an agreement to lease or sublease certain of its coal rights, land and related mining equipment and facilities in Carbon County, Utah. In connection with the lease/sublease transaction, Blackhawk transferred $107,000,000 of its investment from general and miscellaneous electric utility plant to other property and investments. The remainder of its investment in this property not recovered in the lease/sublease transaction, approximately $50,000,000, is subject to recovery in the future from wholesale customers in accordance with a FERC settlement agreement and was transferred to other deferred debits. See Note 10.

Blackhawk's remaining partially developed Carbon County, Utah coal rights not being recovered from wholesale customers or through the above lease/sublease transaction, with a net book value of approximately $51,000,000, have been retained as an investment and transferred to other property and investments.

3. Rate Matters:

The Company has been engaged in rate proceedings for the inclusion in rate base of construction costs of Unit 1 of the Rockport Plant (Rockport 1). Rockport 1 is a 1,300,000-kilowatt generating unit jointly owned by the Company and AEP Generating Company (AEGCo), also an AEP subsidiary. The unit began commercial operation on December 10, 1984. The Company and AEGCo have expended $725,847,000 through December 1986 on the construction of a second unit at the Rockport Plant (Rockport 2), which is expected to be completed in 1989 at an estimated cost of $1.3 to $1.4 billion. The Company is committed to purchase 70% of AEGCo's share of Rockport 2 energy. The inclusion of Rockport 2 in rate base, the recovery of related purchased power and the timing of such are dependent on the outcome of future regulatory proceedings.

The Public Service Commission of Indiana (PSCI) approved a two-step rate increase with the first step effective in December 1984 and the second step effective one year later. The first step and the second step excluded from rate base $315,153,000 and $245,000,000, respectively, of construction costs associated with Rockport 1 but allowed the Company to accrue a deferred return based on a rate equal to its AFUDC rate and to defer annual depreciation expense on the amounts excluded from rate base. The second-step rate levels provide for amortization of the first-step deferred return and deferred depreciation to cost of service over a 30-year period. In May 1986, the Company petitioned the PSCI for a rate increase which included placing in rate base the remainder of Rockport 1 and the amortization of the second-step deferred return and deferred depreciation to cost of service over a 30-year period.

The FERC issued orders in 1985, providing for a total increase of approximately $47,216,000 in three steps. Step I of approximately $17,446,000 was effective in October 1984; Step II of approximately $17,534,000 was effective in December 1984; and Step III of approximately $12,236,000 was effective in December 1985. The Step II and Step III rates excluded from rate base $170,724,000 and $132,721,000, respectively, of construction costs associated with Rockport 1 but allowed the Company to accrue a deferred return based on a rate equal to its AFUDC rate and to defer annual depreciation expense on the amounts excluded from rate base. The Step III rate levels provide for amortization of the Step II deferred return and deferred depreciation to cost of service over a 30-year period.

As a result of the above rate proceedings, the Company has recorded through December 31, 1986 and 1985 a net deferred return of $105,065,000 and $63,661,000, respectively, and net deferred depreciation of $29,418,000 and $16,652,000, respectively, on Rockport 1.

The Company has received regulatory approvals in each of its jurisdictions to utilize a fuel-cost-levelization plan in connection with a certain long-term coal supply contract for Rockport 1. Under these plans, the difference between actual fuel costs and average fuel costs was deferred through June 1986 with monthly amortization to fuel expense of Rockport 1 beginning in July 1986. At December 31, 1986, the Company had approximately $33,585,000 deferred pursuant to these plans.

In December 1986, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 90, "Regulated Enterprises — Accounting for Abandonments and Disallowances of Plant Costs," which amended Statement No. 71, "Accounting for the Effects of Certain Types of Regulation," as it relates to the accounting for plant abandonments and partial rate disallowances, which presently does not affect the Company. The FASB continues to consider additional amendments to FASB 71 which, among other things, will address phase-in plans.

In October 1986, the FERC approved an offer of settlement concerning wholesale rates that AEGCo may charge under its Unit Power Agreements with the Company and Kentucky Power Company (KEPCo). The Company Unit Power Agreement provides for the sale by AEGCo to the Company of 50% of the total output of the Rockport Plant. Pursuant to an agreement between the Company and KEPCo, AEGCo has entered into a unit power agreement with KEPCo to sell KEPCo 15% of the total output of Rockport Plant. As a result, the Company purchased 35% of the output of the Rockport Plant from AEGCo through December 31, 1986. The Company has also entered into an agreement with an unaffiliated utility which permits AEGCo to sell from January 1, 1987 through December 31, 1999 the 35% of the output of Rockport 1 which the Company is obligated to purchase from AEGCo. The FERC had permitted the Unit Power Agreements between affiliated companies to become effective subject to refund December 10, 1984. As a result of the FERC approval of the settlement offer, the Company received from AEGCo a refund of approximately $4,700,000 in November 1986 which was credited to purchased and interchange power expense.

KEPCo is involved in litigation at both the state and Federal levels related to its participation in the Unit Power Agreement with AEGCo. In the event that KEPCo does not pay for its future purchases under the Unit Power Agreement, the Company would be contractually obligated to make such payments and purchase the related energy.

4. Federal Income Taxes:

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

	Year Ended December 31,		
	1986	1985	1984
		(in thousands)	
Charged (Credited) to Operating Expenses:			
Current (net)	$44,340	$(55,991)	$(45,036)
Deferred (net)	26,208	82,407	56,342
Deferred Investment Tax Credits (net)	25,324	46,571	58,078
Total	95,872	72,987	69,384
Charged (Credited) to Other Income and Deductions:			
Current	(7,414)	(7,706)	(8,429)
Deferred (net)	(1,989)	(244)	(1,704)
Deferred Investment Tax Credits (net)	4	—	—
Total	(9,399)	(7,950)	(10,133)
Total Federal Income Taxes as Reported	$86,473	$ 65,037	$ 59,251

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,		
	1986	1985	1984
		(in thousands)	
Consolidated Net Income Before Preferred Stock Dividend Requirements	$152,481	$146,101	$142,185
Federal Income Taxes	86,473	65,037	59,251
Pre-tax Book Income	$238,954	$211,138	$201,436
Federal Income Taxes on Pre-Tax Book Income at Statutory Rate (46%)	$109,919	$ 97,123	$ 92,661
Increase (Decrease) in Federal Income Taxes Resulting From the Following Items on Which Deferred Taxes Are Not Provided:			
Excess of Book Over Tax Depreciation	6,242	4,930	2,659
Allowance for Funds Used During Construction and Miscellaneous Items Capitalized on the Books but Deducted for Tax Purposes	(15,529)	(15,633)	(31,437)
Deferred Return — Rockport Plant	(9,228)	(14,929)	(820)
Investment Tax Credits Not Deferred	751	(82)	295
Amortization of Deferred Investment Tax Credits	(4,530)	(4,786)	(2,233)
Other	(1,152)	(1,586)	(1,874)
Total Federal Income Taxes as Reported	$ 86,473	$ 65,037	$ 59,251
Effective Federal Income Tax Rate	36.2%	30.8%	29.4%

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

	Year Ended December 31, 1986	1985 (in thousands)	1984
Current:			
Federal Income Taxes	$ 68,308	$(11,824)	$ 26,589
Investment Tax Credits	(31,382)	(51,873)(a)	(80,054)(a)
Total Current Federal Income Taxes (net)	36;926	(63,697)	(53,465)
Deferred:			
Depreciation (liberalized, ADR and ACRS)	26,272	33,099	22,582
Allowance for Borrowed Funds Used During Construction and Miscellaneous Items Capitalized	9,448	6,511	24,168
Percentage Repair Allowance	1,452	(329)	14,420 (b)
Nuclear Decommissioning Costs	(4,820)	(4,820)	(4,945)
Unrecovered and Levelized Fuel	(2,466)	14,506	(415)
Adjustments for Revenue Refunds	—	9,052	(9,052)
Nuclear Fuel Lease Adjustments	(638)	9,530	(4,141)
Spent Nuclear Fuel Fee	(7,845)	(3,175)	(4,084)
Unbilled Revenue	(4,247)	6,804	1,219
Deferred Return — Rockport Plant	9,818	12,791	745
Other	(5,031)	(2,240)	(5,897)
Investment Tax Credits Applicable to Certain Deferred Income Taxes	2,276	434	20,038
Total Deferred Federal Income Taxes (net)	24,219	82,163	54,638
Total Deferred Investment Tax Credits (net)	25,328	46,571	58,078
Total Federal Income Taxes as Reported	$ 86,473	$ 65,037	$ 59,251

(a) 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.

(b) 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 1984 current year accruals.

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 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 allocated to the System companies giving rise to them.

At December 31, 1986, the companies' cumulative net amount of income tax timing differences on which deferred taxes have not been provided totaled $493,000,000.

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 1977-1982 have been reviewed by the IRS, and additional taxes for these years have been proposed, some of which the System companies have protested or will be protesting. In the opinion of management, the final resolution of open matters will not have a material effect on the earnings of the Company.

5. 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. In 1985 and 1984 a credit to other paid-in capital of $3,000 and $419,000, 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 1986, 1985 or 1984.

6. 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, 1986, was so restricted.

7. Cumulative Preferred Stock:

At December 31, 1986, 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.

A. Cumulative Preferred Stock Not Subject To Mandatory Redemption:

Series	Year-end Call Price	Par Value	Number of Shares Redeemed Year Ended December 31, 1986	1985	1984	Shares Outstanding	Amount December 31, 1986 (in thousands)	1985
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%	102.91	100	—	—	—	300,000	30,000	30,000
7.76%	103.44	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
							$197,000	$197,000

B. Cumulative Preferred Stock Subject to Mandatory Redemption:

Series (a)	Year-end Call Price	Par Value	Number of Shares Redeemed Year Ended December 31, 1986	1985	1984	Shares Outstanding	Amount December 31, 1986 (in thousands)	1985
12% (b)	$106	$100	30,000	31,673	27,527	137,325	$13,733	$16,733
$2.75 (c)	27.07	25	160,000	160,000	141,900	1,011,900	25,297	29,297
$3.63 (d)	27.72	25	—	—	—	1,600,000	40,000	40,000
							79,030	86,030
Less Sinking Fund Requirements Due Within One Year							4,000	—
							$75,030	$86,030

(a) The sinking fund provisions of the series subject to mandatory redemption aggregate $2,000,000 in 1987, $2,232,500 in 1988, $4,797,500 in 1989, $5,500,000 in 1990 and 1991. Unless all sinking fund provisions have been met, no distribution may be made on the common stock.

(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, 1986, the Company had reacquired 27,675 shares in anticipation of future sinking fund requirements.

(c) A cumulative sinking fund for the $2.75 series requires the Company to redeem 80,000 shares on or before October 1, of each year. 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, 1986, the Company had acquired 188,100 shares in anticipation of future sinking fund requirements.

(d) Commencing with the year 1987, a cumulative sinking fund for the $3.63 series requires the Company to redeem 80,000 shares on or before January 1, of each year. 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.

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

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

	December 31, 1986	December 31, 1985
	(in thousands)	
First Mortgage Bonds	$1,008,248	$1,026,400
Sinking Fund Debentures	8,357	16,911
Installment Purchase Contracts	307,289	307,068
Other Long-term Debt (a)	97,629	91,691
	1,421,523	1,442,070
Less Portion Due Within One Year	11,500	139,198
Total	$1,410,023	$1,302,872

(a) Nuclear Fuel Disposal Costs. See Note 10.

First mortgage bonds outstanding were as follows:

% Rate	Due	December 31, 1986	December 31, 1985
		(in thousands)	
10¼	1987 — January 1	$ —	$ 80,000
3⅞	1988 — February 1	22,974	22,974
4¾	1988 — November 1	17,557	17,557
14¾	1989 — March 1	—	120,000
11⅜	1990 — June 1	80,000	80,000
15⅝	1991 — November 1	38,800	39,600
16½	1992 — April 1	97,000	99,000
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 (a)	219,500	231,000
8⅜	2003 — December 1	40,000	40,000
9½	2008 — March 1	100,000	100,000
13¾	2013 — August 1	67,200	70,000
9⅝	2015 — October 1	100,000	—
9¾	2016 — July 1	100,000	—
Unamortized Discount (net)		(2,685)	(1,633)
		1,008,248	1,026,400
Less Portion Due Within One Year		11,500	131,500
Total		$ 996,748	$ 894,900

(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.

Sinking fund debentures outstanding were as follows:

	December 31, 1986	December 31, 1985
	(in thousands)	
5⅛% Due 1986 — June 1	$.—	$ 7,698
7¼% Due 1998 — May 1	8,357	9,210
Unamortized Premium	—	3
	8,357	16,911
Less Portion Due Within One Year	—	7,698
Total	$8,357	$ 9,213

At December 31, 1986 and 1985, the principal amounts of debentures reacquired in anticipation of sinking fund requirements were $2,443,000 and $3,692,000, respectively. In addition to the sinking fund requirements the Company may call additional debentures of up to $300,000 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:

% Rate	Due	December 31, 1986	December 31, 1985
		(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
9¼	2014 — August 1	50,000	50,000
7½ (a)	2014 — August 1	50,000	50,000
(b)	2014 — August 1	50,000	50,000
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		(4,711)	(4,932)
Total		$307,289	$307,068

(a) Adjustable interest rate will change August 1, 1990 and every five years thereafter.

(b) Variable interest rate is determined weekly. The average weighted interest was 5.3% for 1986 and 5.6% for 1985.

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. On certain series the principal will be payable at stated maturities or on the demand of the owners at periodic-interest adjustment dates.

Certain series are supported by letters of credit from a bank which expire in 1990 and 1992.

Portions of the proceeds of the installment purchase contracts are deposited with trustees and may be used only for specified construction expenditures. Approximately $35,743,000 and $43,566,000 of funds so deposited is included in special deposits and working funds at December 31, 1986 and 1985, respectively.

Long-term debt, excluding premium or discount, outstanding at December 31, 1986 is due as follows:

	Principal Amount (in thousands)
1987	$ 11,500
1988	52,031
1989	11,500
1990	91,500
1991	50,300
Later Years	1,212,088
Total	$1,428,919

The Company had unused short-term bank lines of credit of approximately $269,000,000 and $375,000,000 at December 31, 1986 and 1985, 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 $269,000,000 and $345,000,000 at December 31, 1986 and 1985, 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.

9. 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 $33,000,000, $32,000,000 and $27,000,000 for the years ended December 31, 1986, 1985 and 1984, respectively.

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

	Year Ended December 31,		
	1986	1985	1984
	(in thousands)		
Purchased and Interchange Power (net):			
Purchased Power (a)	$166,179	$145,518	$106,755
Interchange Power (net):			
AEP System Electric Utilities	10,720	78,718	76,271
Other Companies	(18,215)	(15,735)	(13,809)
Total	$158,684	$208,501	$169,217
Taxes Other Than Federal Income Taxes:			
Real and Personal Property Taxes	$27,795	$27,141	$25,263
State Gross Receipts, Excise and Franchise Taxes and Miscellaneous State and Local Taxes	13,832	13,305	13,023
State Income Taxes	4,121	632	2,113
Social Security Taxes	5,543	5,261	4,522
Total	$51,291	$46,339	$44,921

(a) Includes power purchased from Ohio Valley Electric Corporation (OVEC) of approximately $39,378,000 in 1986, $6,733,000 in 1985 and $17,688,000 in 1984. Also includes power purchased from AEGCo of approximately $122,023,000 in 1986, $119,952,000 in 1985 and $26,034,000 in 1984.

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 (AEPSC) 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.

10. Commitments and Contingencies:

Construction

The construction budget of the companies for the year 1987 is estimated at $243,000,000 and, in connection therewith, commitments have been made.

Ohio Valley Electric Corporation

AEP and Columbus and Southern Ohio Electric Company own 42.1% of Ohio Valley Electric Corporation (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 $332,000,000 in 1986, 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 averaged 18.5% in 1986. The DOE power agreement terminates in 1992.

Regulatory Matters

In January 1985 a settlement agreement was reached stemming from a Federal Power Commission investigation begun in 1975 into the reasonableness and prudence of the coal-purchasing policies and practices of certain System companies. The settlement agreement provides for a $21,931,000 refund ($18,084,000 by the Company) to certain wholesale customers. The agreement further provides the opportunity for the Company to recover from certain wholesale customers certain costs totaling $50,000,000 which when increased for related income taxes cannot exceed $75,000,000 in revenues and can be recovered over a period not to exceed 12 years. The Company has recovered $7,660,000 through December 1986. The status of the remainder of the investment in Utah coal mines is discussed in Note 2. In anticipation of the settlement agreement, the Company recorded in December 1984 provisions aggregating $11,336,000, net of taxes, to reflect the refund terms of the settlement agreement.

Litigation

The Company terminated a contract with Terre Haute Industries, Inc. (THI) on the grounds that THI was not meeting the schedule for the construction of an electrostatic 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 AEPSC 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. 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 respect 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 change fuel supplies to lower sulfur content coal; 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 United States Congress that expressly seek to control acid deposition in the eastern portion of the United States. If any of these bills become law, significant reductions in the emission of sulfur dioxide from various existing Company generating plants would be required. These reductions would entail very substantial capital and operating costs that, in turn, could necessitate substantial rate increases by the Company. In addition, a number of states and environmental organizations have commenced proceedings under the Clean Air Act seeking substantial reductions in the emission of sulfur dioxide in certain midwestern states.

Further, the U.S. Environmental Protection Agency is contemplating a number of significant policy changes in its rules governing sulfur dioxide emissions. Adoption of any of the contemplated policy changes could require substantial reductions in sulfur dioxide emissions from the Company's coal-fired generating plants.

Transmission Agreement

The Company participates with other AEP System companies in a Transmission Agreement. This agreement pools certain AEP System companies' investments in extra-high-voltage lines and shares among the parties the costs of ownership in proportion to the parties' respective demand ratios. The equalization of costs among the parties will be phased-in over the period 1985-1989. The agreement was permitted by the FERC to be implemented, effective January 22, 1985, subject to refund.

Pursuant to the terms of the agreement, the Company recorded credits of $10,672,000 and $5,338,000 for transmission services in other operation expense for the years ended December 31, 1986 and 1985, respectively.

Nuclear Insurance

The Price-Anderson Act limits the public liability of a licensee of a nuclear plant to $560,000,000 for a single nuclear incident. When the 80th nuclear power reactor in the United States 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 $560,000,000 limit is increased by another $5,000,000. The current level is $700,000,000. The Company has insurance covering its two-unit Donald C. Cook Nuclear Plant in the maximum available amount of $160,000,000, and the balance of $540,000,000 is covered by a mandatory program of deferred premiums that 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 $5,000,000 per incident for each of its two nuclear generating units (subject to a maximum of $10,000,000 per reactor in any year in the event of more than one incident). The Price-Anderson Act expires in 1987, and Congress has begun consideration of its renewal. If the Act is not renewed, the Cook Plant would continue to be subject to the program currently in existence. If the Act is renewed, it is likely that the limits of public liability will be increased.

The Company also has property insurance for damage to the Cook Plant facilities in the amount of $1.23 billion. The primary layer of $500,000,000 is provided through nuclear insurance pools. The excess coverage above $500,000,000 is provided through insurance pools ($120,000,000) and Nuclear Electric Insurance Limited (NEIL). NEIL's excess property insurance program provides $610,000,000 in coverage. The maximum assessment under this program could be $9,250,000 (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 approximately $2,250,000 per week (starting 26 weeks after the outage) for one year and $1,125,000 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 $8,326,000 (five times annual premium) if NEIL's losses exceeded its accumulated funds.

An incident at the Cook Plant could have a substantial adverse effect upon the Company.

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. The Company has deferred this amount plus accrued interest on its balance sheet pending recovery through the rate-making process. The Company has received regulatory approval for the recovery of this amount and has begun to reduce the amount deferred as it is being recovered.

The Company has filed a petition with the PSCI which, among other things, requests an increase in the amounts being recovered for nuclear decommissioning costs associated with the Cook Plant. An independent consulting firm employed by the Company for the purposes of this proceeding has estimated that the cost of decommissioning this plant could range from $284,000,000 to $321,000,000 in 1986 dollars. The Company is recovering from its customers nuclear decommissioning costs based on levels less than $284,000,000.

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.

11. 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 required 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,	
	1986	1985
	(in thousands)	
Electric Utility Plant:		
Production	$ 2,714	$1,998
General and Miscellaneous	8,568	7,773
Total Electric Utility Plant	11,282	9,771
Less Accumulated Provision for Amortization	2,982	1,861
Electric Utility Plant Less Provision	8,300	7,910
Other Property	421	38
Less Accumulated Provision for Amortization	217	13
Other Property Less Provision	204	25
Net Properties under Capital Leases	$ 8,504	$7,935
Obligations under Capital Leases (a)	$ 8,504	$7,935

(a) Including an estimated $1,826,000 and $1,504,000 at December 31, 1986 and 1985, respectively, due within one year.

Payments made under capital leases entered into after December 31, 1982 include $1,013,000, $999,000 and $710,000 of amortization expense for the years ended December 31, 1986, 1985 and 1984, respectively.

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, 1986	December 31, 1985
	(in thousands)	
Nuclear Fuel	$308,000	$327,000
Coal-mining and Coal-transportation Equipment	22,000	24,000
Other Transportation Equipment	6,000	7,000
Real Estate	12,000	12,000
Electric Distribution System Property	19,000	20,000
Gross Properties under Capital Leases	367,000	390,000
Less Accumulated Provision for Amortization	188,000	185,000
Net Properties under Capital Leases	$179,000	$205,000
Obligations under Capital Leases (a)	$179,000	$205,000

(a) Including an estimated $60,000,000 at December 31, 1986 and 1985, 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, 1986:

	Capital Leases (a)(b)	Operating Leases
	(in thousands)	
1987	$10,000	$ 19,000
1988	9,000	19,000
1989	6,000	19,000
1990	5,000	19,000
1991	4,000	19,000
Later Years	45,000	198,000
Total Future Minimum Lease Payments	79,000	$293,000
Less Estimated Interest Element Included Therein	37,000	
Estimated Present Value of Future Minimum Lease Payments	$42,000	

(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 $146,000,000) 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, 1986	1985	1984
	(in thousands)		
Gross Rentals	$92,000	$73,000	$100,000
Less Rental Recoveries (including sublease rentals) (a)	3,000	3,000	3,000
Net Rentals (b)	$89,000	$70,000	$ 97,000
(a) Includes amounts paid for or reimbursed by associated companies.			
(b) Classified approximately as: Operating Expenses	$81,000	$63,000	$90,000
Clearing and Miscellaneous Accounts (portions of which are charged to income)	8,000	7,000	7,000
Total	$89,000	$70,000	$97,000

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.

12. 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)	
1986			
March 31	$274,112	$54,720	$37,921
June 30	261,147	36,674	27,665
September 30	268,939	47,534	41,485
December 31	265,161	52,216	45,410
1985			
March 31	274,692	58,061	43,460
June 30	240,360	40,622	26,116
September 30	269,603	39,975	30,608
December 31	275,248	53,231	45,917

*Before preferred stock dividend requirements.

Operating Statistics

	1986	1985	1984	1983	1982
ELECTRIC OPERATING REVENUES (in thousands):					
From Kilowatt-hour Sales:					
Retail:					
Residential:					
Without Electric Heating	$ 174,550	$ 175,534	$150,334	$144,370	$125,798
With Electric Heating	90,881	90,949	82,739	70,851	68,793
Total Residential	265,431	266,483	233,073	215,221	194,591
Commercial	184,276	181,240	150,733	137,616	127,470
Industrial	219,344	213,161	173,986	154,751	137,152
Miscellaneous	11,171	11,234	9,666	8,696	7,568
Total Retail	680,222	672,118	567,458	516,284	466,781
Wholesale (sales for resale)	378,843	378,090	400,811	343,427	325,468
Total from Kilowatt-hour Sales	1,059,065	1,050,208	968,269	859,711	792,249
Provision for Revenue Refunds	541	(105)	(12,494)	—	—
Total Net of Provision for Revenue Refunds	1,059,606	1,050,103	955,775	859,711	792,249
Other Operating Revenues	9,753	9,800	10,197	9,269	17,554
Total Electric Operating Revenues	$1,069,359	$1,059,903	$965,972	$868,980	$809,803

	1986	1985	1984	1983	1982
SOURCES AND SALES OF ENERGY (in millions of kilowatt-hours):					
Sources:					
Net Generated — Steam:					
Fossil Fuel	8,187	7,933	7,071	5,684	4,587
Nuclear Fuel	10,986	7,800	12,913	12,301	12,349
Net Generated — Hydroelectric	79	74	68	55	77
Subtotal	19,252	15,807	20,052	18,040	17,013
Purchased	4,733	3,065	4,905	4,881	2,154
Net Interchange	(272)	4,319	748	573	3,775
Total Sources	23,713	23,191	25,705	23,494	22,942
Less: Losses, Company Use, Etc.	1,645	1,542	1,508	1,441	1,243
Net Sources	22,068	21,649	24,197	22,053	21,699
Sales:					
Retail:					
Residential:					
Without Electric Heating	2,536	2,557	2,534	2,596	2,472
With Electric Heating	1,442	1,481	1,561	1,458	1,540
Total Residential	3,978	4,038	4,095	4,054	4,012
Commercial	3,007	2,968	2,870	2,807	2,803
Industrial	4,371	4,282	4,201	3,941	3,701
Miscellaneous	212	216	209	204	197
Total Retail	11,568	11,504	11,375	11,006	10,713
Wholesale (sales for resale)	10,500	10,145	12,822	11,047	10,986
Total Sales	22,068	21,649	24,197	22,053	21,699

OPERATING STATISTICS (Concluded)

	1986	1985	1984	1983	1982
AVERAGE COST OF FUEL CONSUMED (in cents): (a)					
Per Million Btu:					
Coal	185	194	189	184	190
Nuclear	74	80	65	54	50
Overall	118	136	103	92	85
Per Kilowatt-hour Generated:					
Coal	1.82	1.97	1.83	1.76	1.85
Nuclear	.83	.86	.70	.59	.53
Overall	1.25	1.42	1.08	.96	.89
RESIDENTIAL SERVICE — AVERAGES:					
Annual Kwh Use per Customer:					
Total	9,813	10,050	10,249	10,187	10,084
With Electric Heating	17,716	18,486	19,771	18,780	19,990
Annual Electric Bill:					
Total	$654.88	$663.18	$583.35	$540.74	$489.08
With Electric Heating	$1,116.86	$1,135.42	$1,048.27	$912.31	$892.91
Price per Kwh (in cents):					
Total	6.67	6.60	5.69	5.31	4.85
With Electric Heating	6.30	6.14	5.30	4.86	4.47
NUMBER OF ELECTRIC CUSTOMERS:					
Year-End:					
Retail:					
Residential:					
Without Electric Heating	325,623	322,922	321,286	320,655	320,097
With Electric Heating	82,324	80,734	79,823	78,311	77,335
Total Residential	407,947	403,656	401,109	398,966	397,432
Commercial	43,689	43,017	42,912	42,552	42,233
Industrial	3,882	3,701	3,415	3,253	3,249
Miscellaneous	1,846	1,852	1,584	1,571	1,458
Total Retail	457,364	452,226	449,020	446,342	444,372
Wholesale (sales for resale)	106	104	105	106	105
Total Electric Customers	457,470	452,330	449,125	446,448	444,477

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

Directors

J. M. Allison (a)
W. A. Black
Richard E. Disbrow
John E. Dolan
William N. D'Onofrio
M. R. Harrell
E. W. Hermansen (b)
Gerald P. Maloney
Richard C. Menge
C. W. Roahrig (a)
J. F. Stark (c)
Joseph H. Vipperman
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 (c)
Senior Vice President

Milton P. Alexich
Vice President

Richard E. Disbrow
Vice President

John E. Dolan
Vice President

William N. D'Onofrio
Vice President

A. Joseph Dowd
Vice President

Richard F. Hering
Vice President

Gerald P. Maloney
Vice President

Richard C. Menge
Vice President

Joseph H. Vipperman
Vice President

Peter J. DeMaria
Treasurer

John R. Burton
Secretary

Elio Bafile
Assistant Secretary and Assistant Treasurer

John F. DiLorenzo, Jr.
Assistant Secretary

William C. Harvey
Assistant Secretary

Carl J. Moos
Assistant Secretary

John B. Shinnock
Assistant Secretary

Joan St. James
Assistant Secretary

Leonard V. Assante
Assistant Treasurer

Bruce M. Barber
Assistant Treasurer

James D. Huebner
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 J. M. Allison, Elio Bafile, W. A. Black, William N. D'Onofrio, M. R. Harrell, E. W. Hermansen, Richard C. Menge, Carl J. Moos, C. W. Roahrig and J. F. Stark whose principal occupations are as officers or employees of Indiana & Michigan Electric Company.

(a) Elected April 22, 1986
(b) Resigned February 28, 1986
(c) Resigned January 29, 1987

Dividends and Price Ranges of Cumulative Preferred Stock

By Quarters (1986 and 1985)

	1986 — Quarters				1985 — Quarters			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Cumulative Preferred Stock								
($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								
(MSE) — High	36½	—	36½	44	—	—	—	—
— Low	34⅝	—	35	35⅛	—	—	—	—
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	76	80⅜	80½	88½	56⅜	62	62⅛	66
— Low	65	67¾	70	77	50½	53½	57¾	57¾
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	84	89	87¼	94½	61⅞	68	68	71¾
— Low	69¼	75	76	83⅛	55⅝	59	63¾	63¾
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	93½	98¾	98½	102½	69½	75	75	80
— Low	78½	85¼	88¼	92½	63	64½	71¾	72
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	106½	107	106	106	101	106½	105½	107
— Low	101¼	99½	100½	102	97⅛	97⅝	100	100
($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	24¼	25	24¾	25½	17¾	19⅜	19⅛	20⅛
— Low	19⅜	21	22¼	23⅝	16½	16¾	17⅝	17⅝
$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	24½	25½	25¼	26⅝	18¼	19¾	20⅜	20⅞
— Low	20⅜	21⅝	23⅛	24⅜	17	17½	18½	18½
$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	29	27½	28	27⅜	25⅛	25⅜	25½	27
— Low	26	25	27	27⅜	22¼	24⅝	24¾	24¾
$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	31½	30¼	31⅝	30½	28¾	30⅛	30¼	31¼
— Low	28¾	28⅝	28⅛	27	26½	27⅝	27¾	28

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.

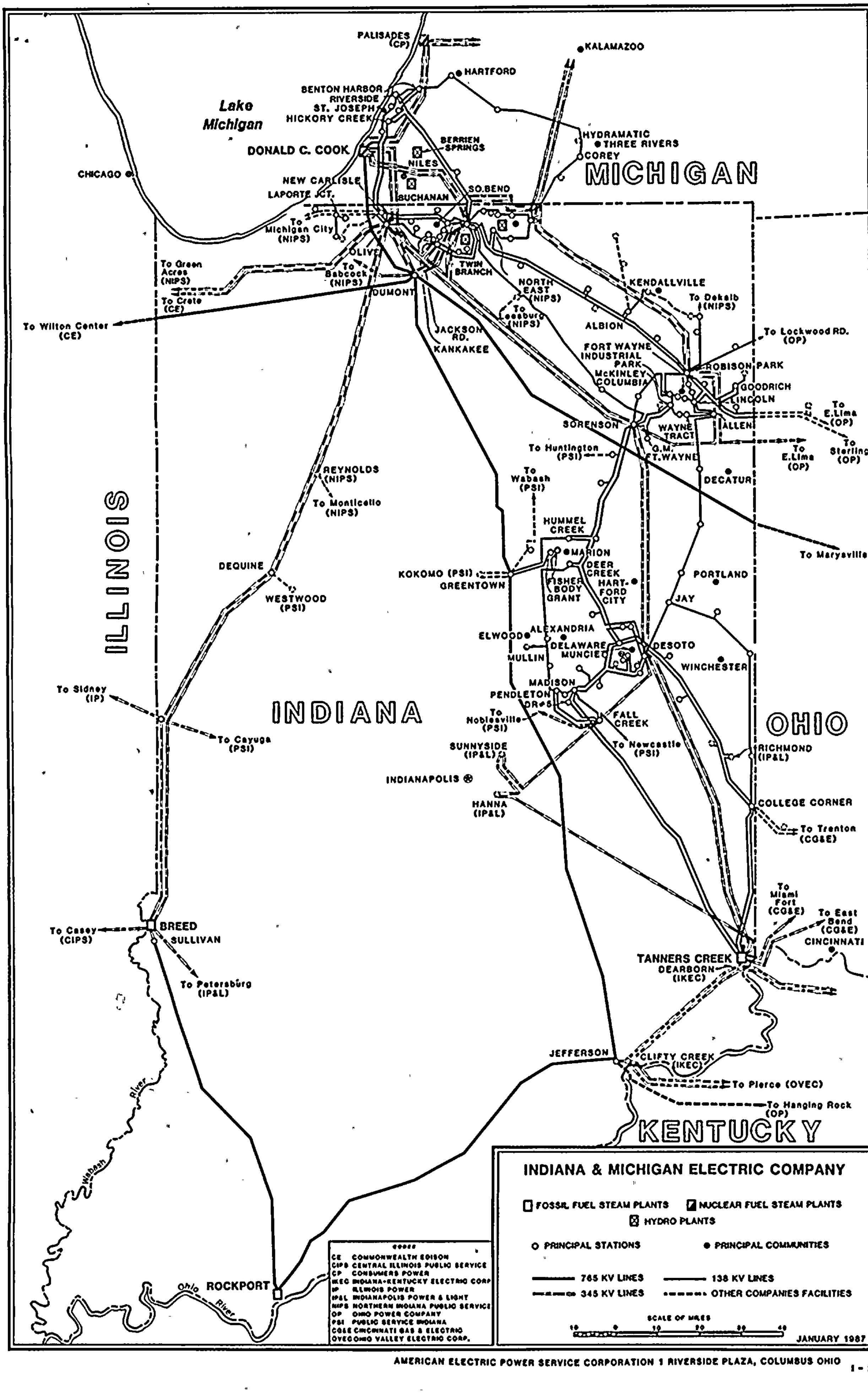
The Company's Annual Report
(Form 10-K) to the Securities and
Exchange Commission will be available
on or about March 31, 1987 to shareowners
upon written request and at no cost.
Please address such requests to:

Mr. G. C. Dean
American Electric Power
Service Corporation
1 Riverside Plaza
Columbus, Ohio 43215

Transfer Agent and Registrar of Cumulative Preferred Stock

Morgan Shareholder Services Trust Company

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


INDIANA & MICHIGAN ELECTRIC COMPANY
FOSSIL FUEL STEAM PLANTS
NUCLEAR FUEL STEAM PLANTS
HYDRO PLANTS
PRINCIPAL STATIONS
PRINCIPAL COMMUNITIES
765 KV LINES
138 KV LINES
345 KV LINES
OTHER COMPANIES FACILITIES
SCALE OF MILES
JANUARY 1987
CODES
CE COMMONWEALTH EDISON
CIPS CENTRAL ILLINOIS PUBLIC SERVICE
CP CONSUMERS POWER
IKEC INDIANA-KENTUCKY ELECTRIC CORP
IP ILLINOIS POWER
IP&L INDIANAPOLIS POWER & LIGHT
NIPS NORTHERN INDIANA PUBLIC SERVICE
OP OHIO POWER COMPANY
PSI PUBLIC SERVICE INDIANA
CG&E CINCINNATI GAS & ELECTRIC
OVEC OHIO VALLEY ELECTRIC CORP.
Lake Michigan
MICHIGAN
ILLINOIS
INDIANA
OHIO
KENTUCKY
PALISADES (CP)
KALAMAZOO
HARTFORD
BENTON HARBOR
RIVERSIDE
ST. JOSEPH
HICKORY CREEK
BERRIEN SPRINGS
HYDRAMATIC
THREE RIVERS
COREY
DONALD C. COOK
CHICAGO
NILES
NEW CARLISLE
BUCHANAN
LAPORTE JCT.
SO.BEND
To Michigan City (NIPS)
OLIVE
To Babcock (NIPS)
To Green Acres (NIPS)
To Crete (CE)
To Wilton Center (CE)
DUMONT
TWIN BRANCH
NORTH EAST (NIPS)
To Leesburg (NIPS)
KENDALLVILLE
To Dekalb (NIPS)
ALBION
JACKSON RD.
KANKAKEE
To Lockwood RD. (OP)
FORT WAYNE INDUSTRIAL PARK
ROBISON PARK
McKINLEY
COLUMBIA
GOODRICH
LINCOLN
To E.Lima (OP)
SORENSON
WAYNE TRACT
ALLEN
To Huntington (PSI)
G.M. FT.WAYNE
To E.Lima (OP)
To Sterling (OP)
To Wabash (PSI)
DECATUR
REYNOLDS (NIPS)
To Monticello (NIPS)
HUMMEL CREEK
To Marysville
MARION
DEQUINE
KOKOMO (PSI)
GREENTOWN
DEER CREEK
FISHER BODY
GRANT
HARTFORD CITY
PORTLAND
WESTWOOD (PSI)
JAY
ALEXANDRIA
ELWOOD
DELAWARE
MUNCIE
DESOTO
MULLIN
WINCHESTER
MADISON
PENDLETON
DR+6
To Sidney (IP)
To Noblesville (PSI)
FALL CREEK
To Cayuga (PSI)
To Newcastle (PSI)
RICHMOND (IP&L)
SUNNYSIDE (IP&L)
INDIANAPOLIS
HANNA (IP&L)
COLLEGE CORNER
To Trenton (CG&E)
To Miami Fort (CG&E)
To East Bend (CG&E)
To Casey (CIPS)
BREED
SULLIVAN
CINCINNATI
TANNERS CREEK
DEARBORN (IKEC)
To Petersburg (IP&L)
JEFFERSON
CLIFTY CREEK (IKEC)
To Pierce (OVEC)
To Hanging Rock (OP)
Wabash River
ROCKPORT
Ohio River