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ALEXICH,M.P. Indiana Michigan Power Co. (formerly Indiana & Michigan Ele
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Indiana Michigan
Power Company
P.O. Box 16631
Columbus, OH 43216

INDIANA
MICHIGAN
POWER

AEP:NRC:0909E
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
POWER COMPANY

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

Attn: T. E. Murley

April 10, 1989

Dear Dr. Murley:

Enclosure 1 contains the Indiana Michigan Power Company's (I&M) annual report for 1988. Enclosure 2 contains a copy of I&M's projected cash flow for 1989. 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 that incorporate a reasonable set of controls to ensure its accuracy and completeness prior to signature by the undersigned.

Sincerely,

M. P. Alexich
Vice President

KJT/eh

Enclosures

cc: D. H. Williams, Jr.
W. G. Smith, Jr. - Bridgman
R. C. Callen
G. Charnoff
G. Bruchmann
NRC Resident Inspector - Bridgman
A. B. Davis - Region III

M004
1/1

ENCLOSURE 1 TO AEP:NRC:0909E

INDIANA MICHIGAN POWER COMPANY'S

1988 ANNUAL REPORT

ENCLOSURE 2 TO AEP:NRC:0909E

1989 Internal Cash Flow Projection for Donald C. Cook Nuclear Plant

($ Millions)

Projected 1989	Actual 1988	
Net income after taxes	151.8	134
Less dividends paid	135.9	138
Retained earnings	15.9	(4)
Adjustments:		
Depreciation and amortization	146.3	152
Deferred income taxes and investment tax credits	26.8	(13)
AFUDC	(57.2)	(55)
Total adjustments	115.9	84
Internal cash flow	131.8	80
Average quarterly cash flow	32.6	20
Average cash balances and short-term investments	10.5	15
Total	43.1	35

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

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

1988 Annual Report

AEP
INDIANA MICHIGAN POWER

Indiana Michigan Power Company

M004
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Contents

Background of the Company

INDIANA MICHIGAN POWER 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 470,000 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 Southern Power Company, Kentucky Power Company, Kingsport Power Company, Michigan Power Company, Ohio Power Company and Wheeling Power 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, Public Service Company of Indiana, Inc. and Richmond Power & Light Company.

Directors

J. M. Allison (a)
W. A. Black
Richard E. Disbrow
John E. Dolan (b)
William N. D'Onofrio
A. R. Glassburn
M. R. Harrell (a)
Gerald P. Maloney
Richard C. Menge
R. E. Prater (c)
Joseph H. Vipperman
W. E. Walters (c)
W. S. White, Jr.
David H. Williams, Jr. (d)

Officers

W. S. White, Jr.
Chairman of the Board and Chief Executive Officer

W. A. Black
President and Chief Operating Officer

Richard C. Menge (e)
Senior Vice President

Milton P. Alexich
Vice President

Richard E. Disbrow
Vice President

John E. Dolan (b)
Vice President

William N. D'Onofrio
Vice President

A. Joseph Dowd
Vice President

Richard F. Hering
Vice President

Gerald P. Maloney
Vice President

Joseph H. Vipperman
Vice President

David H. Williams, Jr. (d)
Vice President

Peter J. DeMaria
Treasurer

John F. DiLorenzo, Jr.
Secretary

Elio Bafile
Assistant Secretary and Assistant Treasurer

Jeffrey D. Cross
Assistant Secretary

Carl J. Moos
Assistant Secretary

John B. Shinnock
Assistant Secretary

Joan St. James (f)
Assistant Secretary

Leonard V. Assante
Assistant Treasurer

Bruce M. Barber
Assistant Treasurer

James D. Huebner (g)
Assistant Treasurer

Gerald R. Knorr
Assistant Treasurer

The principal occupation of each of the above directors and officers of Indiana Michigan Power Company, with ten exceptions, is as an employee of American Electric Power Service Corporation. The exceptions are Messrs. Allison, Bafile, Black, D'Onofrio, Glassburn, Harrell, Menge, Moos, Prater, and Walters whose principal occupations during 1988 were as officers or employees of Indiana Michigan Power Company.

(a) Resigned April 26, 1988
(b) Resigned February 1, 1988
(c) Elected April 26, 1988
(d) Elected February 1, 1988
(e) Elected March 1, 1988
(f) Resigned January 1, 1989
(g) Resigned February 1, 1989

Selected Consolidated Financial Data

	Year Ended December 31,				
	1988	1987	1986	1985	1984
			(in thousands)		
INCOME STATEMENTS DATA:					
Operating Revenues — Electric	$983,066	$1,017,268	$1,091,295	$1,078,793	$979,551
Total Operating Expenses	767,623	794,222	900,151	886,904	799,393
Operating Income	215,443	223,046	191,144	191,889	180,158
Total Other Income and Deductions	43,454	56,828	66,905	76,879	53,044
Income Before Interest Charges	258,897	279,874	258,049	268,768	233,202
Net Interest Charges	107,092	113,508	105,568	122,667	91,017
Net Income	151,805	166,366	152,481	146,101	142,185
Preferred Stock Dividend Requirements	18,848	20,955	26,256	27,056	27,705
Earnings Applicable to Common Stock	$132,957	$ 145,411	$ 126,225	$ 119,045	$114,480

	December 31,				
	1988	1987	1986	1985	1984
			(in thousands)		
BALANCE SHEETS DATA:					
Electric Utility Plant	$4,411,271	$4,153,281	$3,979,822	$4,107,526	$3,941,006
Accumulated Provisions for Depreciation and Amortization	1,218,060	1,118,254	1,018,455	962,670	868,192
Net Electric Utility Plant	3,193,211	3,035,027	2,961,367	3,144,856	3,072,814
Total Assets	3,993,046	3,956,563	3,849,208	3,763,595	3,658,647
Common Stock and Other Paid-in Capital	838,347	828,347	828,347	828,347	828,344
Retained Earnings	161,443	145,302	113,123	100,130	94,317
Total Common Shareowner's Equity	999,790	973,649	941,470	928,477	922,661
Cumulative Preferred Stock:					
Not Subject to Mandatory Redemption	197,000	197,000	197,000	197,000	197,000
Subject to Mandatory Redemption (a)	25,030	32,030	79,030	86,030	93,197
Long-term Debt (a)	1,575,220	1,591,768	1,421,523	1,442,070	1,347,623

(a) Including portion due within one year.

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

Results of Operations

Net Income

Net income decreased by 9% in 1988 following a 9% increase in 1987. The decrease in 1988 resulted primarily from the negative effect of the loss in 1987 of a major wholesale customer. This was partially offset by the tax effect of costs associated with nuclear decommissioning trust funds, a nonrecurring charge in 1987 relating to wholesale power transactions, which is reflected in other income and deductions, and an increase in total allowance for funds used during construction. The 1987 increase resulted mostly from an increase in operating income which was partially offset by a decrease in other income and deductions and an increase in total interest charges.

Outlook

Wholesale Customers

The Company lost one major wholesale customer in 1987 and received notice from another to terminate service. In the first instance the Company had a long-term contract that expired on December 31, 1987 to provide 400,000 kilowatts of energy (200,000 kilowatts after February 1, 1987) to an unaffiliated utility. This contract contributed approximately 7% and 12% of the Company's total operating revenues and 19% and 37% of the Company's earnings applicable to common stock before any pro forma adjustment for AEP System intercompany transactions in 1987 and 1986, respectively.

In the second situation a wholesale customer notified the Company in 1987 that it planned to terminate purchasing energy from the Company and requested transmission wheeling arrangements with the Company effective August 1, 1988. However, the existing contract was extended for one year and the Company entered into an agreement for transmission wheeling service and partial load requirements for this wholesale customer effective August 1, 1989. Service by the Company to this customer was at an average level of 180,000 kilowatts in 1988, 170,000 kilowatts in 1987 and 162,000 kilowatts in 1986 and contributed approximately 5%, 4% and 3% of the Company's total operating revenues and 16%, 12% and 11% of the Company's earnings applicable to common stock before any pro forma adjustment for AEP System intercompany transactions in 1988, 1987 and 1986, 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 more receipts, due to operation of the AEP System Pool. After pro forma adjustment for AEP System intercompany transactions, the aggregate contribution of this contract would have been approximately 11%, 8% and 8% of the Company's earnings applicable to common stock in 1988, 1987 and 1986, respectively.

Regulatory Environment

The electric utility industry operates in a regulatory environment that makes it difficult to predict whether new plant additions will be fully included in rate base upon their dedication to public service. This is of concern to the Company since it has under construction Rockport Plant Unit 2 (Rockport 2) which is expected to be completed in late 1989. See "Rockport Plant Unit 2" in Note 2 of the Notes to Consolidated Financial Statements.

Economy

The economy of the Company's service territory has recovered from the recession of 1982. Industrial production is up reflecting a new competitiveness not only within the United States but also in the global marketplace. Economic growth is expected to continue for a period of time. However, the long-term economic well-being of the region is subject to the effects of recession, inflation, foreign currency fluctuations and other influences, which could adversely impact the future results of operations of the Company.

Acid Rain Legislation

The Company consumed over 4 million tons of coal in 1988 to generate nearly 9 billion kilowatthours of electricity. Proposals are being considered by Congress that would place severe environmental restrictions on emissions from coal burned to produce electricity. These "acid rain" proposals could require the Company to make substantial capital investments and to incur substantial increased operating costs in order to comply. The impact on the Company's financial condition is dependent upon passage of final legislation and future rate-making treatment.

Deregulation

In 1988, the Federal Energy Regulatory Commission proposed rules that would effectively deregulate the generation of electricity for certain power producers. These proposals if adopted as issued would radically alter the electric utility industry. The proposed rules would create a new class of power producers exempt from most forms of rate regulation that could enter or leave the market as their interests and financial conditions dictate. The Company like all electric utilities is obligated to provide its customers with all of their power needs. If utilities become agents that cannot manage their power supply then, in the Company's view, reliability would be impaired. Since reliability of electric service is of paramount importance under an obligation to serve, the Company has opposed the proposed rules. If these or other rules concerning deregulation are adopted, the long-term effect on the financial condition of the Company is indeterminable.

Operating Revenues and Energy Sales

Operating revenues decreased 3% in 1988 compared to a 7% decrease in 1987. The decrease in 1988 revenues resulted primarily from a decrease in wholesale sales partially offset by the record level of kwh sales to retail customers. The 1987 decrease came mostly because of a 14% decrease in overall sales of electric energy. The elements that gave rise to changes in operating revenues are summarized below.

Revenues from wholesale customers decreased 15% during 1988 on a 14% decrease in kwh sales, following a 27% decrease in revenues in 1987 on a 35% decrease in kwh sales. The decreases in kwh sales in both years were mostly caused by the expiration of a long-term contract with a wholesale customer (discussed previously). In 1987, however the impact of lower kwh sales was offset partially by an increase in the average wholesale realization as the Company pursued sales with higher profit margins. The 1987 decline in energy sales was also caused by an increase in available energy supply from unaffiliated generating capacity that had been out of service for an extended time and the addition of new generating units by unaffiliated utilities.

Revenues from retail customers (residential, commercial and industrial) increased 2% in 1988 after a 5% increase in 1987. The higher revenues in 1988 were attributable to the record level of kwh sales (13 billion kwh). The continued economic improvement in the Company's service area coupled with hot summer weather led to the record level of kwh sales to all retail customer classes. The effect on revenues of the higher kwh sales level was largely offset by a reduction in rates as lower Federal income taxes and average fuel costs were passed on to customers. The increase in 1987 revenues reflected a 7% increase in kwh sales and improvement in revenues from each customer class.

Operating Expenses

Total operating expenses decreased 3% after a 12% decrease in 1987. The components of operating expenses that caused the changes are discussed below.

Fuel expense, the single largest expense of the Company, increased 11% in 1988 after a 10% decline in 1987. The 1988 increase resulted mainly from increased net generation while the 1987 decrease was due mainly to reduced levels of generation. Changes in fuel costs generally are recovered in revenues through fuel-clause adjustment mechanisms and therefore do not have a significant effect on net income.

Purchased and interchange power expense decreased by 54% in 1988 and 43% in 1987. In 1988, the change was caused mostly from increased availability of the Company's internal generation as well as lower net cost per kwh of purchased and interchange power and a slight decrease in the Company's total load requirements. The 1987 change was primarily due to the assignment of certain rights to purchase power from AEP Generating Company (AEGCo), an affiliated company, to an unaffiliated company. This decrease was partially offset by increased interchange power transactions, primarily with affiliated companies, in order to replace internal generation lost because of outages.

Maintenance expense increased 15% in 1987. Factors contributing to the comparatively higher levels of expense in 1987 were additional maintenance activities for nuclear plant and other maintenance activities.

Federal income taxes declined 45% in 1988 following a 21% decrease in 1987. The 1988 decrease in Federal income tax expense was primarily due to the decrease in pre-tax book operating income, while the 1987 decrease came mostly from the decrease in the statutory Federal income tax rate as a result of the Tax Reform Act of 1986.

The Company was granted reductions in its annual base rate levels to reflect a reduction in the Federal income tax rate to 34% and other cost-of-service items. Therefore, the reductions in tax rates had a minimal effect on earnings. Other provisions in the Tax Reform Act of 1986, such as those relating to depreciation and repeal of investment tax credit, will result in reduced internal cash flow. However, these other provisions are not anticipated to have a material impact on net earnings.

Allowance For Funds Used During Construction

The total allowance for funds used during construction (AFUDC) increased in 1988 and the proportion of AFUDC included in net income increased to 38% (32% net of income taxes) in 1988 from 30% (25% net of income taxes) in 1987. The increase in the proportion of AFUDC included in net income resulted from additional construction expenditures on Rockport 2 being subject to the allowance.

Liquidity and Capital Resources

Construction Program

The Company's plant and property additions for 1988 amounted to $323 million, a 30% increase over 1987. Construction expenditures for the three-year period 1989-1991 are estimated at $457 million. This includes the completion of construction of the second 1,300-megawatt generating unit at the Rockport Plant, Rockport 2. In addition, the Company could be required to make substantial additional capital expenditures if acid rain legislation similar to that currently proposed is enacted into law.

Debt and Preferred Stock Financing

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 from sales of long-term debt and preferred stock securities and with investments in its common equity by AEP.

Issuance of senior securities is expected to be modest in the next few years since all of the Company's projected construction expenditures for 1989-1991 are expected to be financed with internally generated funds and proceeds from the sale and leaseback of Rockport 2 discussed below. If any additional amounts are needed in excess of internally generated funds, they will have to be raised externally, as in the past, through sales of securities, short-term borrowings and investments in the Company's common equity by AEP.

At December 31, 1988, the Company had unused short-term lines of credit of approximately $292 million which were shared with other System companies.

Cook Nuclear Plant

The Cook Nuclear units have been exhibiting indications of intergranular corrosion (IGC) in the steam generator tubing, a condition which has developed in other pressurized water reactors. This led to a decision to operate Unit 2 at 80% power and Unit 1 at 90% power as a steam-generator life conservation measure. The IGC problem in the Unit 1 steam generators has been occurring at a slower rate than in Unit 2, but it is possible that the Unit 1 steam generators may have to be replaced eventually. However, there are no present plans for such replacement. In April 1988, Unit 2 was taken out of service to replace the unit's steam generators, refuel the unit and perform the 10-year anniversary service inspection as required by the Nuclear Regulatory Commission. The unit is expected to return to service in March 1989. The Company will seek recovery in its rate base of the steam generator replacement expenditures in the next general rate case which is expected to be filed in 1989.

Rockport Plant Unit 2

The Company and AEGCo, an affiliate, which jointly own the Rockport Plant have signed a commitment letter agreement to sell and leaseback their interests in Rockport 2. At December 31, 1988, the Company and AEGCo had expended $1.1 billion on Rockport 2. The Company and AEGCo expect to use the net proceeds from the sale, estimated to be $1.4 billion after taxes, to reduce their capitalization, including the redemption by the Company of certain publicly held first mortgage bonds and preferred stock. The sale will not have an effect on 1989 net income since the net gain will be deferred and amortized over the lease term. The leases are expected to be recorded as operating leases.

The Company and AEGCo expect to sell a substantial portion of the unit's capacity to unaffiliated utilities under long-term unit power agreements. One such agreement to supply 250 megawatts for a 20 year period to an unaffiliated utility has been signed. Recovery of the costs of capacity not sold to unaffiliated utilities and the timing of such recovery are subject to future regulatory proceedings.

See "Rockport Plant Unit 2" in Note 2 of the Notes to Consolidated Financial Statements for additional information.

Effects of Inflation

Inflation continues to affect the Company, even though the inflation rate has been relatively low in recent years. Since the rate-making process limits the Company to recovery of the historical cost of assets, economic losses are experienced when the inflated value of the assets is not recovered. However, such losses are offset partly by the economic gains that result from the repayment of long-term debt with inflated dollars.

New Accounting Standards

The Financial Accounting Standards Board (FASB) has issued a new accounting standard regarding income taxes that the Company will be required to adopt in the future which is discussed in Note 3 of the Notes to Consolidated Financial Statements.

The FASB has proposed a new accounting standard that would require a change in accounting for post-retirement benefits other than pensions from an expense as paid method to an accrual method. This proposal would require the amortization of prior service costs over a minimum of 15 years and has a tentative effective date of 1992. The impact on the Company's financial position is dependent upon issuance of a final standard and future rate-making treatment.

Consolidated Statements of Income

	Year Ended December 31,		
	1988	1987	1986
		(in thousands)	
OPERATING REVENUES — ELECTRIC	$983,066	$1,017,268	$1,091,295
OPERATING EXPENSES:			
Operation:			
Fuel for Electric Generation	232,946	208,931	233,241
Purchased and Interchange Power (net)	47,503	102,644	180,620
Other	161,532	156,310	157,500
Maintenance	89,545	91,807	80,171
Depreciation and Amortization	120,145	116,915	112,188
Amortization (Deferral) of Rockport Phase-in Costs	18,089	(4,488)	(10,732)
Taxes Other Than Federal Income Taxes	56,271	46,730	51,291
Federal Income Taxes	41,592	75,373	95,872
Total Operating Expenses	767,623	794,222	900,151
OPERATING INCOME	215,443	223,046	191,144
OTHER INCOME AND DEDUCTIONS:			
Allowance for Equity Funds Used During Construction	27,023	26,055	25,397
Deferred Return — Rockport Plant	—	31,442	43,438
Other	16,431	(669)	(1,930)
Total Other Income and Deductions	43,454	56,828	66,905
INCOME BEFORE INTEREST CHARGES	258,897	279,874	258,049
INTEREST CHARGES:			
Long-term Debt	130,649	131,093	124,333
Short-term Debt and Other	6,635	5,712	7,843
Allowance for Borrowed Funds Used During Construction	(30,192)	(23,297)	(26,608)
Net Interest Charges	107,092	113,508	105,568
NET INCOME	151,805	166,366	152,481
PREFERRED STOCK DIVIDEND REQUIREMENTS	18,848	20,955	26,256
EARNINGS APPLICABLE TO COMMON STOCK	$132,957	$ 145,411	$ 126,225

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

	December 31, 1988	December 31, 1987
	(in thousands)	
ASSETS		
ELECTRIC UTILITY PLANT:		
Production	$2,331,581	$2,269,325
Transmission	737,919	725,047
Distribution	423,729	397,214
General (includes nuclear fuel)	206,068	207,722
Construction Work in Progress	711,974	553,973
Total Electric Utility Plant	4,411,271	4,153,281
Accumulated Provisions for Depreciation and Amortization	1,218,060	1,118,254
NET ELECTRIC UTILITY PLANT	3,193,211	3,035,027
OTHER PROPERTY AND INVESTMENTS	301,931	283,313
CURRENT ASSETS:		
Cash and Cash Equivalents	8,425	13,461
Special Deposits — Restricted Funds	2,168	17,928
Accounts Receivable:		
Customers	39,847	71,730
Associated Companies	9,087	7,058
Miscellaneous	19,648	15,475
Allowance for Uncollectible Accounts	(483)	(634)
Fuel — at average cost	51,289	70,728
Materials and Supplies — at average cost	25,929	22,975
Accrued Utility Revenues	27,512	51,576
Other	8,649	7,942
Total Current Assets	192,071	278,239
DEFERRED DEBITS:		
Deferred Depreciation and Return — Rockport Plant	148,840	170,413
Deferred Nuclear Fuel Disposal Costs	51,026	56,434
Other	105,967	133,137
Total Deferred Debits	305,833	359,984
Total	$3,993,046	$3,956,563

See Notes to Consolidated Financial Statements.

CAPITALIZATION AND LIABILITIES

	December 31, 1988	December 31, 1987
	(in thousands)	
CAPITALIZATION:		
Common Stock — No Par Value:		
Authorized — 2,500,000 Shares		
Outstanding — 1,400,000 Shares	$ 56,584	$ 56,584
Other Paid-in Capital	781,763	771,763
Retained Earnings	161,443	145,302
Total Common Shareowner's Equity	999,790	973,649
Cumulative Preferred Stock:		
Not Subject to Mandatory Redemption	197,000	197,000
Subject to Mandatory Redemption	25,030	32,030
Long-term Debt	1,563,720	1,539,737
Total Capitalization	2,785,540	2,742,416
OTHER NONCURRENT LIABILITIES	207,637	193,692
CURRENT LIABILITIES:		
Long-term Debt Due Within One Year	11,500	52,031
Notes Payable	7,950	—
Commercial Paper	27,900	—
Accounts Payable:		
General	55,210	41,451
Associated Companies	14,836	17,576
Taxes Accrued	4,285	46,198
Interest Accrued	36,353	37,112
Obligations Under Capital Leases	43,037	43,856
Other	47,866	48,928
Total Current Liabilities	248,937	287,152
DEFERRED CREDITS:		
Deferred Income Taxes	535,829	542,298
Deferred Investment Tax Credits	194,726	171,559
Other	20,377	19,446
Total Deferred Credits	750,932	733,303
COMMITMENTS AND CONTINGENCIES (Note 11)		
Total	$3,993,046	$3,956,563

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	1988	1987	1986
		(in thousands)	
Cash Flows from Operating Activities:			
Net Income	$ 151,805	$ 166,366	$ 152,481
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	146,280	120,310	107,915
Deferred Income Taxes	3,161	13,597	24,219
Deferred Investment Tax Credits	23,672	(7,700)	25,328
Allowance for Equity Funds Used During Construction	(27,023)	(26,055)	(25,397)
Changes in Certain Current Assets and Liabilities:			
Accounts Receivable (net)	25,530	10,952	(3,636)
Fuel, Materials and Supplies	16,485	(14,293)	(9,361)
Accrued Utility Revenues	24,064	(2,576)	22,615
Accounts Payable	11,019	(402)	(10,571)
Amortization of Deferred Nuclear Fuel Disposal Costs	5,408	12,207	13,247
Deferred Return — Rockport Plant	—	(31,442)	(43,438)
Other (net)	(15,968)	24,329	8,836
Net Cash Provided by Operating Activities	364,433	265,293	262,238
Cash Flows from Investing Activities:			
Plant and Property Additions	(276,545)	(206,941)	(175,776)
Allowance for Equity Funds Used During Construction	27,023	26,055	25,397
Cash Used for Plant and Property Additions	(249,522)	(180,886)	(150,379)
Proceeds from Sales of Property	1,117	1,816	9,547
Net Cash Used by Investing Activities	(248,405)	(179,070)	(140,832)
Cash Flows from Financing Activities:			
Capital Contributions from Parent	10,000	—	—
Issuance of Long-term Debt	50,000	376,811	197,681
Change in Short-term Debt (net)	35,850	(49,925)	49,925
Retirement of Cumulative Preferred Stocks	(7,000)	(50,917)	(7,000)
Retirement of Long-term Debt	(74,050)	(222,005)	(228,432)
Dividends Paid on Common Stock	(116,816)	(113,232)	(113,232)
Dividends Paid on Preferred Stocks	(19,048)	(22,607)	(26,456)
Net Cash Used by Financing Activities	(121,064)	(81,875)	(127,514)
Net Increase (Decrease) in Cash and Cash Equivalents	(5,036)	4,348	(6,108)
Cash and Cash Equivalents at Beginning of Year	13,461	9,113	15,221
Cash and Cash Equivalents at End of Year	$ 8,425	$ 13,461	$ 9,113
Supplemental Disclosure:			
Cash Paid During the Year For:			
Interest (net of Allowance for Borrowed Funds Used During Construction)	$106,283	$107,389	$107,972
Income Taxes	67,019	70,655	22,614
Noncash Investing Activities:			
Plant Acquired Under Capital Leases	46,791	41,046	33,099

See Notes to Consolidated Financial Statements.

Consolidated Statements of Retained Earnings

	Year Ended December 31,		
	1988	1987	1986
		(in thousands)	
Balance at Beginning of Year	$145,302	$113,123	$100,130
Net Income	151,805	166,366	152,481
Total	297,107	279,489	252,611
Cash Dividends Declared:			
Common Stock	116,816	113,232	113,232
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	1,198	1,558	1,918
$2.15 Series	3,440	3,440	3,440
$2.25 Series	3,600	3,600	3,600
$2.75 Series	2,233	2,673	3,113
$3.63 Series	—	1,307	5,808
Total Dividends	135,664	134,187	139,488
Balance at End of Year	$161,443	$145,302	$113,123

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Significant Accounting Policies:

Principles of Consolidation

The consolidated financial statements include the accounts of Indiana Michigan Power Company (the Company) and its wholly owned subsidiaries. Significant intercompany transactions have been eliminated in consolidation.

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

System of Accounts

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 have been prepared on the basis of the uniform system of accounts prescribed by the FERC.

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 equity funds when so used. The composite rates used by the Company after compounding on a semi-annual basis were 10.25% in 1988 and 11.5% in 1987 and 1986.

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 composite rates by functional class of property.

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.

Cash and Cash Equivalents

In 1988, the Company and its subsidiaries implemented Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows" (SFAS 95) using the indirect method of presentation for cash flows from operating activities. For purposes of the consolidated statements of cash flows, the Company and its subsidiaries consider cash, special deposits, working funds, and temporary cash investments as defined by the FERC to be cash and cash equivalents. Temporary cash investments include highly liquid investments purchased with a maturity of three months or less. The 1987 and 1986 consolidated statements of funds have been restated to conform to the current-period cash flows presentation.

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 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.

Operating Revenues

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

Operating revenues derived from a certain wholesale customer represented approximately 7% of total operating revenues for 1987 and 12% for 1986. The contract with this customer expired on December 31, 1987.

Fuel Costs

The Company bills its fuel costs under a fuel recovery mechanism designed to reflect in rates changes in costs of fuel as ordered by various regulatory bodies. Accordingly, the Company accrues revenue relating to unrecovered fuel.

Sale of Receivables

In December 1988 the Company entered into an agreement to sell undivided interests in designated pools of customer accounts receivable and accrued utility revenues, with limited recourse, up to a maximum of $50,000,000 at any one time. Undivided interests in new pools may be sold as collections reduce previously sold interests. The agreement expires in December 1993 and may be terminated at any time prior thereto. The Company received proceeds of $79,000,000 during the year. At December 31, 1988 approximately $50,000,000 remains to be collected.

Other

In accordance with regulatory approvals, the Company recognizes the gain or loss on reacquired debt in income in the year of reacquisition unless such debt is refinanced in which case the gain or loss is deferred and amortized over the term of the replacement debt.

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

The Company is committed under a unit power agreement with AEP Generating Company (AEGCo), also an AEP subsidiary, to purchase 70% of AEGCo's Rockport Plant capacity unless it is sold to unaffiliated utilities.

Certain prior-period amounts have been reclassified to conform to current-period presentation.

2. Rate Matters:

Rockport Plant Unit 1

The Company has phase-in plans in both its Indiana and FERC jurisdictions for Unit 1 of the Rockport Plant (Rockport 1). Rockport 1 is a 1,300-megawatt generating unit that began commercial operation in December 1984 and is jointly owned by the Company and AEGCo. At December 31, 1988 and 1987, the Company had unamortized deferred returns of $115,351,000 and $131,970,000, respectively, and unamortized deferred depreciation of $33,489,000 and $38,443,000, respectively which are being amortized on a straight-line basis through 1997.

The Company has been engaged in state and Federal rate proceedings to modify its phase-in plans to comply with SFAS 92 "Regulated Enterprises — Accounting for Phase-in Plans." SFAS 92 allows the deferral of costs for future recovery under phase-in plans only if the phase-in plan has been approved by the regulator and provides for recovery of all costs deferred pursuant to the plan within 10 years of the initial deferrals. The commencement of the 10-year recovery period is delayed for plans in effect prior to 1988, if certain conditions are met.

In 1987, the Indiana Utility Regulatory Commission approved an amended phase-in plan to comply with SFAS 92.

In 1988, the FERC approved settlement agreements between the Company and certain wholesale customers. The settlement agreements provide for, among other things, compliance with the 10-year recovery period as required by SFAS 92, the effect of the Tax Reform Act of 1986 and other cost of service issues, a net rate reduction of $2,800,000 annually effective prospectively and a one time refund.

The Company has a rate proceeding with the remaining wholesale customers that includes, among other things, compliance with the 10-year recovery period. A final order is pending. In the opinion of management, the ultimate resolution will not have a significant effect on results of operations.

Rockport Plant Unit 2

In January 1989, the Company and AEGCo signed a commitment letter agreement to sell and leaseback their respective 50% interests in a 1,300-megawatt unit they are constructing at the Rockport Plant (Rockport 2). The Company and AEGCo have expended $1.1 billion on Rockport 2 through December 1988. This agreement calls for the Company and AEGCo to sell their interests in Rockport 2 in late 1989, just prior to commercial operation, and simultaneously for each company to lease a 50% interest in the unit for an initial term of 33 years. The sales price will be the fair market value of Rockport 2, estimated to be $1.7 billion and the total cost of the unit at the date of the sale is estimated to be $1.3 billion. The net gain from the sale will be deferred and amortized over the initial lease term. The leases are expected to be recorded as operating leases.

In December 1988, the Company signed a unit power agreement with an unaffiliated utility to supply 250 megawatts from Rockport 2 for a 20 year period expected to begin in January 1990. It is expected that an additional 500 megawatts of Rockport 2 capacity will be sold by the Company and AEGCo to unaffiliated utilities under long-term unit power agreements. Recovery of the costs of capacity not sold to unaffiliated utilities and the timing of such recovery are subject to future regulatory proceedings.

The above transactions are subject to regulatory approval and other conditions.

3. Federal Income Taxes:

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

	Year Ended December 31,		
	1988	1987	1986
		(in thousands)	
Charged (Credited) to Operating Expenses (net):			
Current	$11,865	$63,543	$44,340
Deferred	5,563	19,533	26,208
Deferred Investment Tax Credits	24,164	(7,703)	25,324
Total	41,592	75,373	95,872
Charged (Credited) to Other Income and Deductions (net):			
Current	1,186	2,760	(7,414)
Deferred	(2,402)	(5,936)	(1,989)
Deferred Investment Tax Credits	(492)	3	4
Total	(1,708)	(3,173)	(9,399)
Total Federal Income Taxes as Reported	$39,884	$72,200	$86,473

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,		
	1988	1987	1986
		(in thousands)	
Net Income	$151,805	$166,366	$152,481
Federal Income Taxes	39,884	72,200	86,473
Pre-tax Book Income	$191,689	$238,566	$238,954
Federal Income Taxes on Pre-Tax Book Income at Statutory Rate (34% in 1988, 40% in 1987 and 46% in 1986)	$ 65,174	$ 95,426	$109,919
Increase (Decrease) in Federal Income Taxes Resulting From the Following Items on Which Deferred Taxes Are Not Provided:			
Excess of Book Over Tax Depreciation	3,129	5,104	6,242
Allowance for Funds Used During Construction and Miscellaneous Items Capitalized on the Books but Deducted for Tax Purposes	(12,079)	(13,965)	(15,529)
Deferred Return — Rockport Plant	2,112	(5,447)	(9,228)
Tax Exempt Income — Nuclear Decommissioning Trust Funds	(4,066)	—	—
Other	(7,429)	(1,603)	(1,152)
Investment Tax Credits (net)	(6,957)	(7,315)	(3,779)
Total Federal Income Taxes as Reported	$ 39,884	$ 72,200	$ 86,473
Effective Federal Income Tax Rate	20.8%	30.3%	36.2%

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

	Year Ended December 31, 1988	1987	1986
		(in thousands)	
Current:			
Federal Income Taxes	$ 43,680	$65,918	$ 68,308
Investment Tax Credits	(30,629) (a)	385	(31,382)
Total Current Federal Income Taxes	13,051	66,303	36,926
Deferred:			
Depreciation (liberalized, ADR and ACRS)	4,737	15,328	26,272
Allowance for Borrowed Funds Used During Construction and Miscellaneous Items Capitalized	5,186	3,931	9,448
Unrecovered and Levelized Fuel	(8,278)	(9,327)	(2,466)
Nuclear Decommissioning Costs	16,432 (b)	(4,235)	(4,820)
Spent Nuclear Fuel Fee	(1,737)	251	(7,845)
Unbilled Revenue	(4,202)	(2,839)	(4,247)
Deferred Return — Rockport Plant	(3,538)	5,315	9,818
Other	(5,439)	5,173	(1,941)
Total Deferred Federal Income Taxes	3,161	13,597	24,219
Total Deferred Investment Tax Credits	23,672 (a)	(7,700)	25,328
Total Federal Income Taxes as Reported	$ 39,884	$72,200	$ 86,473

(a) Based on Internal Revenue Service regulations issued in 1988, the Company elected to claim investment tax credits on qualified progress expenditures on the 1987 tax return and amended tax returns for 1975 through 1986. The current and deferred tax effects recorded during 1988 represent the cumulative effect of this election as well as 1988 current year accruals.

(b) Based on a ruling the Company received from the Internal Revenue Service in 1988, the Company elected to deduct nuclear decommissioning costs on the 1987 tax return and on amended tax returns for the years 1984 through 1986. The current and deferred tax effects recorded during 1988 represent the cumulative effect of this election as well as 1988 current year accruals.

The Company and its subsidiaries join in the filing of a consolidated Federal income tax return with their affiliated companies in the AEP System. The allocation of the AEP System's consolidated Federal income tax to the System companies is in accordance with Securities and Exchange Commission (SEC) rules under the Public Utility Holding Company Act of 1935. These rules permit the allocation of the benefit of current tax losses to the System companies giving rise to such losses in determining taxes currently payable. The tax loss of the System parent company, AEP, 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, 1988, the cumulative net amount of income tax timing differences on which deferred taxes have not been provided totaled $487,000,000.

The System reached settlements with the Internal Revenue Service (IRS) for all issues from the audits of the consolidated Federal income tax returns for the years prior to 1983. Returns for the years 1983 and 1984 are being audited by the IRS. In the opinion of management, the final settlement of open years will not have a material effect on the earnings of the Company.

In December 1987, the Financial Accounting Standards Board issued SFAS 96 "Accounting for Income Taxes" which requires that companies adopt the liability method of accounting for income taxes. SFAS 96 must be adopted by the Company no later than January 1990 on a restated basis or as a cumulative effect of an accounting change in the year of adoption. The Company has not yet determined if it will adopt SFAS 96 on a restated or prospective basis.

When the new standard is adopted, total assets and liabilities will increase significantly to reflect previously unrecorded deferred tax assets and liabilities on temporary differences and related regulatory assets and liabilities. In addition, existing deferred taxes will be adjusted to the level required at the currently existing statutory tax rate. While the computations are not yet completed, it is expected that a significant portion of the required deferred income tax adjustments will be offset by regulatory assets and liabilities. The effect of implementing the new standard on the Company's financial condition has not yet been determined.

4. 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 $34,000,000, $35,000,000, and $33,000,000 for the years ended December 31, 1988, 1987 and 1986, respectively.

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

	Year Ended December 31,		
	1988	1987	1986
		(in thousands)	
Purchased and Interchange Power (net):			
Purchased Power (a)	$24,371	$ 42,139	$170,047
Interchange Power (net):			
AEP System Electric Utilities	24,190	62,991	10,720
Other Companies	(1,058)	(2,486)	(147)
Total	$47,503	$102,644	$180,620
Taxes Other Than Federal Income Taxes:			
Real and Personal Property Taxes	$32,339	$28,002	$27,795
State Gross Receipts, Excise and Franchise Taxes and Miscellaneous State and Local Taxes	12,361	9,383	13,832
State Income Taxes	4,913	3,306	4,121
Social Security Taxes	6,658	6,039	5,543
Total	$56,271	$46,730	$51,291

(a) Includes power purchased from Ohio Valley Electric Corporation of approximately $13,580,000 in 1988, $31,076,000 in 1987 and $39,378,000 in 1986. Also includes power purchased from AEGCo of approximately $3,313,000 in 1988, $2,797,000 in 1987 and $122,023,000 in 1986.

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.

5. Common Stock and Other Paid-in Capital:

The Company received a $10,000,000 cash capital contribution from its parent in 1988. There were no other changes in either of the aforementioned accounts in 1988, 1987 or 1986.

6. Retained Earnings:

Various restrictions on the use of the Company's 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, 1988, was restricted.

7. Cumulative Preferred Stock:

At December 31, 1988, 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.

In 1987, the Company redeemed and cancelled the entire $3.63 Series consisting of 1,600,000 shares.

A. Cumulative Preferred Stock Not Subject To Mandatory Redemption:

Series	Year-end Call Price	Par Value	Shares Outstanding December 31, 1988	Amount December 31, 1988	Amount December 31, 1987
				(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%	102.91	100	300,000	30,000	30,000
7.76%	103.44	100	350,000	35,000	35,000
8.68%	103.10	100	300,000	30,000	30,000
$2.15	26.08	25	1,600,000	40,000	40,000
$2.25	26.13	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, 1988	1987	1986	Shares Outstanding December 31, 1988	Amount December 31, 1988	Amount December 31, 1987
							(in thousands)	
12% (b)	$106	$100	30,000	30,000	30,000	77,325	$ 7,733	$10,733
$2.75 (c)	27.07	25	160,000	160,000	160,000	691,900	17,297	21,297
							$25,030	$32,030

(a) The sinking fund provisions of the series subject to mandatory redemption aggregate $232,500 in 1990, $2,797,500 in 1991, $3,500,000 in 1992 and 1993. 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, 1988, 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, 1988, the Company had acquired 188,100 shares in anticipation of future sinking fund requirements.

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

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

	December 31, 1988	December 31, 1987
	(in thousands)	
First Mortgage Bonds	$1,019,036	$1,092,684
Sinking Fund Debentures	7,648	7,813
Notes Payable to Banks	130,000	80,000
Installment Purchase Contracts	307,732	307,511
Other Long-term Debt (a)	110,804	103,760
	1,575,220	1,591,768
Less Portion Due Within One Year	11,500	52,031
Total	$1,563,720	$1,539,737

(a) Nuclear Fuel Disposal Costs. See Note 11.

First mortgage bonds outstanding were as follows:

% Rate	Due	December 31, 1988	December 31, 1987
		(in thousands)	
3⅞	1988 — February 1	$ —	$ 22,974
4¾	1988 — November 1	—	17,557
11⅞	1990 — June 1	—	16,000
4⅜	1993 — August 1	42,902	42,902
7⅞	1997 — February 1	50,000	50,000
9⅛	1997 — July 1	75,000	75,000
7	1998 — May 1	35,000	35,000
8⅞	2000 — April 1	50,000	50,000
9½	2003 — June 1 (a)	196,500	208,000
8⅜	2003 — December 1	40,000	40,000
9½	2008 — March 1	100,000	100,000
13¾	2013 — August 1	58,704	64,578
9⅝	2015 — October 1	100,000	100,000
9¾	2016 — July 1	100,000	100,000
8¾	2017 — February 1	100,000	100,000
10⅛	2017 — May 1	75,000	75,000
Unamortized Discount (net)		(4,070)	(4,327)
		1,019,036	1,092,684
Less Portion Due Within One Year		11,500	52,031
Total		$1,007,536	$1,040,653

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

The indentures relating to the first mortgage bonds contain improvement, maintenance and replacement provisions requiring the deposit of cash or bonds with the trustee, or in lieu thereof, certification of unfunded property additions.

The sinking fund debentures are due May 1, 1998 at an interest rate of 7¼%. At December 31, 1988 and 1987, the principal amounts of debentures reacquired in anticipation of sinking fund requirements were $2,552,000 and $2,687,000, respectively. In addition to the sinking fund requirements the Company may call additional debentures of up to $300,000 annually.

Unsecured promissory notes payable to banks have been entered into by the Company as follows:

	December 31, 1988	December 31, 1987
	(in thousands)	
9.02% due 1990 (a)	$ 25,000	$ —
9.10% due 1990 (a)	25,000	—
9.12% due 1990	20,000	20,000
9.18% due 1990	20,000	20,000
9.28% due 1991	40,000	40,000
Total	$130,000	$80,000

(a) Interest rate is subject to adjustment on November 30, 1989.

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, 1988	December 31, 1987
		(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		(4,268)	(4,489)
Total		$307,732	$307,511

(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 5.9% for 1988 and 5.5% for 1987.

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 bondholders 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. These funds are shown on the balance sheets as special deposits — restricted funds.

Long-term debt, excluding premium or discount, outstanding at December 31, 1988 is due as follows:

	Principal Amount (in thousands)
1989	$ 11,500
1990	101,500
1991	51,500
1992	13,500
1993	56,402
Later Years	1,349,156
Total	$1,583,558

The Company had unused short-term bank lines of credit of approximately $292,000,000 and $285,000,000 at December 31, 1988 and 1987, respectively, under which notes could be issued with no maturity more than 270 days. Available lines of credit are subject to withdrawal at the banks' options and 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. 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. Leases:

The Company and its subsidiaries, as part of their operations, lease property, plant and equipment for periods up to 35 years. Most of the leases require the payment of related property taxes, maintenance costs and other costs of operation. The Company and its subsidiaries expect that, in the normal course of business, leases generally will be renewed or replaced by other leases. The majority of the leases have purchase options or renewal options for substantially all of the economic lives of the properties.

The following is an analysis of properties under capital leases and related obligations:

	December 31, 1988	December 31, 1987
	(in thousands)	
Electric Utility Plant:		
Production	$ 8,358	$ 8,406
Distribution	14,603	14,603
General:		
Nuclear Fuel (net of amortization)	131,970	133,321
Other	35,541	34,051
Total Electric Utility Plant	190,472	190,381
Accumulated Provisions for Amortization	23,355	21,848
Net Electric Utility Plant	167,117	168,533
Other Property	17,134	19,362
Accumulated Provisions for Amortization	16,331	17,065
Net Other Property	803	2,297
Net Properties under Capital Leases	$167,920	$170,830
Obligations under Capital Leases (a)	$167,920	$170,830

(a) Including an estimated $43,037,000 and $43,856,000 at December 31, 1988 and 1987, respectively, due within one year.

Payments made under capital leases include $49,014,000, $55,557,000 and $61,409,000 of amortization expense for the years ended December 31, 1988, 1987 and 1986, respectively.

Future minimum lease payments, by year and in the aggregate, for capital leases and noncancelable operating leases of the Company and its subsidiaries consisted of the following at December 31, 1988:

	Capital Leases (a)	Operating Leases
	(in thousands)	
1989	$ 8,000	$ 20,000
1990	6,000	20,000
1991	5,000	19,000
1992	4,000	16,000
1993	4,000	15,000
Later Years	39,000	170,000
Total Future Minimum Lease Payments	66,000	$260,000
Less Estimated Interest Element Included Therein	30,000	
Estimated Present Value of Future Minimum Lease Payments	$36,000	

(a) Minimum payments do not include leases of nuclear fuel. Nuclear fuel rentals comprise the unamortized balance of the lessor's cost (approximately $131,970,000) 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. Nuclear fuel rentals of $52,568,000, $58,670,000 and $65,301,000 were charged to fuel for electric generation in 1988, 1987 and 1986, respectively.

Included in the above analysis of future minimum lease payments and of properties under capital leases and related

obligations are certain leases in 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 Company and its subsidiaries cannot predict the extent to which or proportion in which the associated companies will utilize the properties under such leases in the future.

Rentals for all operating leases are classified approximately as follows:

	Year Ended December 31,		
	1988	1987	1986
	(in thousands)		
Operating Expenses	$11,000	$11,000	$10,000
Clearing and Miscellaneous Accounts (portions of which are charged to income)	6,000	5,000	7,000
Total	$17,000	$16,000	$17,000

In January 1989, the Company signed a commitment letter agreement to sell and leaseback Rockport 2 as discussed in Note 2.

10. Pension Plan:

The Company and its subsidiaries participate with other companies in the AEP System in a trusteed, noncontributory defined benefit plan to provide pensions, subject to certain eligibility requirements, for all their employees. Plan benefits are determined by a formula which considers each participant's highest average earnings, years of accredited service and social security benefits. Pension costs for the plan are allocated to each System company on the basis of each company's share of the total System projected benefit obligation. The Company and its subsidiaries' funding policy is to make annual contributions to the plan equal to the amounts deductible for Federal income tax purposes.

Net pension cost of the defined benefit plan for the years ended December 31, 1988 and 1987 was approximately $397,000 and $161,000, respectively. In 1986 the Company and its subsidiaries recorded no pension cost.

In addition to providing pension benefits, the Company and its subsidiaries provide certain health care benefits for retired employees. Substantially all of the Company and its subsidiaries' 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 1988, 1987 and 1986, the cost of current retiree health care benefits totaled $1,758,000, $1,327,000 and $1,061,000, respectively.

11. Commitments and Contingencies:

Construction

The construction budget of the Company and its subsidiaries for the years 1989-1991 is estimated at $457,000,000, and, in connection therewith, commitments have been made.

Litigation

The Company and AEPSC have been involved in litigation with Terre Haute Industries, Inc. (THI) over a contract for construction of an electrostatic precipitator at the Breed Plant. In July 1988, the Supreme Court of Indiana denied a petition for an appeal of a decision by the Court of Appeals of Indiana regarding an award for damages. The Court of Appeals of Indiana had reversed part of a lower court decision by reducing a $4,934,000 award for compensatory damages and dropping a $12,000,000 award for punitive damages. The Company recorded a liability in 1983, including interest, for the compensatory damages. The Company intended to satisfy the reduced judgement for compensatory damages by making payment to THI; however, THI has refused to accept payment and requested a rehearing with the Indiana Supreme Court. The matter is pending. In the opinion of management the ultimate resolution of this matter should not have a significant effect on the earnings of the Company.

Environmental Matters

The Company and its subsidiaries 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 Company and its subsidiaries 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 U.S. Congress that expressly seek to control acid deposition. If any of these bills become law, significant reductions in the emission of sulfur dioxide and nitrogen oxide from various existing Company generating plants could 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 pending in the courts proceedings under the Clean Air Act seeking reductions in the emission of sulfur dioxide in certain midwestern states.

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

Transmission Equalization Agreement

The Company participates with other AEP System companies in a transmission equalization agreement. This agreement pools certain AEP System companies' investments in transmission facilities and shares among the parties the costs of ownership in proportion to the parties' respective demand ratios. The FERC had permitted the agreement to be implemented, effective January 1985, subject to refund. The agreement as filed provided for the companies to pool their investments in extra-high voltage facilities (345 kv and above) and to phase in the equalization of costs over the period 1985-1989.

In December 1988, the FERC issued a final order approving the agreement with certain modifications that require, among other things, the companies to pool their investments in all high voltage transmission facilities (138 kv and above) and to eliminate the phase-in feature. Both of these changes became effective prospectively in August 1988.

Pursuant to the terms of the agreement, the Company recorded credits of $36,996,000, $26,025,000 and $10,672,000 for transmission services in other operation expense for the years ended December 31, 1988, 1987 and 1986, respectively.

Nuclear Insurance

The Company is subject to the Price-Anderson Act which limits the public liability of a licensee of a nuclear plant for a single nuclear incident to the amount of primary liability insurance available from private sources and an industry retrospective deferred premium assessment plan. The Company maintains the maximum private insurance available of $200,000,000 for its two-unit Donald C. Cook Nuclear Plant (Cook Plant). Amendments to the Price-Anderson Act, effective August 1988, increased the limits of public liability to $7,608,800,000 based on 112 reactors currently being subject to the Act. The maximum standard deferred premium that the Company may be assessed, in the event of a nuclear incident at any licensed nuclear power plant in the United States, is $63,000,000 per reactor, but an assessment may not exceed $10,000,000 in any one year. If public liability claims and authorized legal costs exceed the amount of liability insurance and deferred premiums, a licensee must pay a surcharge of up to 5 percent of the standard deferred premium for such claims and costs. Thus, if damages in excess of private insurance result from a nuclear incident, the Company could be assessed its pro rata share of the liability up to a maximum of $126,000,000 for its two reactors, in annual installments of $20,000,000, plus $6,300,000 for excess claims and costs. There is no limit on the number of incidents for which the Company could be assessed these sums.

The Company also has property insurance for damage to the Cook Plant facilities in the amount of $1.7 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 ($400,000,000) and Nuclear Electric Insurance Limited (NEIL). NEIL's excess property insurance program provides $825,000,000 in coverage. The maximum assessment under this program could be $9,200,000 (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 $2,350,000 per week (starting 21 weeks after the outage) for one year and $1,175,000 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 $8,154,000 (five times annual premium) if NEIL's losses exceeded its accumulated funds.

Some potential losses or liabilities may not be insurable or the amount of insurance carried may not be sufficient to meet potential losses and liabilities, including liabilities relating to damage to the Cook Plant and costs of replacement power in the event of a nuclear incident at the Cook Plant. Future losses or liabilities which are not completely insured, unless allowed to be recovered through rates, could have a material adverse effect on the financial condition of the Company.

Disposal of Spent Nuclear Fuel and Nuclear Decommissioning

The Nuclear Waste Policy Act 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 Cook 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 over a period of 10 years 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 and has received regulatory approval for the recovery of this amount and is amortizing the amount deferred as it is being recovered.

An independent consulting firm employed by the Company has estimated that the cost of decommissioning the Cook Plant could range from $284,000,000 to $321,000,000 in 1986 dollars. The Company has received regulatory approval in each of its jurisdictions for the recovery of nuclear decommissioning costs associated with the Cook Plant. The Company intends to reevaluate periodically amounts collected for such costs and to seek regulatory approval to revise such amounts as necessary.

Funds recovered through the rate-making process for disposal of spent nuclear fuel consumed prior to April 7, 1983 and for nuclear decommissioning have been deposited in external funds for the future payment of such costs.

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)	
1988			
March 31	$243,617	$66,340	$46,498
June 30	224,026	48,167	28,871
September 30	266,690	58,860	39,848
December 31	248,733	42,076	36,588

Quarterly Periods Ended	Operating Revenues	Operating Income	Net Income
		(in thousands)	
1987			
March 31	$253,638	$59,738	$47,390
June 30	241,653	48,999	37,989
September 30	283,944	52,881	38,914
December 31	238,033	61,428	42,073

Independent Auditors' Report

Deloitte
Haskins+Sells

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

INDEPENDENT AUDITORS' REPORT

To the Shareowners and Board of
Directors of Indiana Michigan Power
Company:

We have audited the accompanying consolidated balance sheets of Indiana Michigan Power Company and its subsidiaries as of December 31, 1988 and 1987 and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Indiana Michigan Power Company and its subsidiaries at December 31, 1988 and 1987 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988 in conformity with generally accepted accounting principles.

Deloitte Haskins + Sells

February 21, 1989

Operating Statistics

	1988	1987	1986	1985	1984
Electric Operating Revenues (in thousands):					
From Kilowatt-hour Sales:					
Retail:					
Residential:					
Without Electric Heating	**$189,845**	$ 186,418	$ 174,550	$ 175,534	$150,334
With Electric Heating	**96,145**	90,261	90,881	90,949	82,739
Total Residential	**285,990**	276,679	265,431	266,483	233,073
Commercial	**194,982**	191,352	184,276	181,240	150,733
Industrial	**233,855**	235,470	219,344	213,161	173,986
Miscellaneous	**11,645**	11,533	11,171	11,234	9,666
Total Retail	**726,472**	715,034	680,222	672,118	567,458
Wholesale (sales for resale)	**248,283**	293,379	400,779	396,980	414,390
Total from Kilowatt-hour Sales	**974,755**	1,008,413	1,081,001	1,069,098	981,848
Provision for Revenue Refunds	**(1,800)**	—	541	(105)	(12,494)
Total Net of Provision for Revenue Refunds	**972,955**	1,008,413	1,081,542	1,068,993	969,354
Other Operating Revenues	**10,111**	8,855	9,753	9,800	10,197
Total Electric Operating Revenues	**$983,066**	$1,017,268	$1,091,295	$1,078,793	$979,551

	1988	1987	1986	1985	1984
Sources and Sales of Energy (in millions of kilowatt-hours):					
Sources:					
Net Generated — Steam:					
Fossil Fuel	**8,707**	6,662	8,187	7,933	7,071
Nuclear Fuel	**9,791**	10,060	10,986	7,800	12,913
Net Generated — Hydroelectric	**70**	62	79	74	68
Subtotal	**18,568**	16,784	19,252	15,807	20,052
Purchased	**1,700**	2,558	4,941	3,248	4,913
Net Interchange	**737**	1,947	542	4,948	1,353
Total Sources	**21,005**	21,289	24,735	24,003	26,318
Less: Losses, Company Use, Etc.	**1,630**	1,456	1,645	1,542	1,508
Net Sources	**19,375**	19,833	23,090	22,461	24,810
Sales:					
Retail:					
Residential:					
Without Electric Heating	**2,825**	2,719	2,536	2,557	2,534
With Electric Heating	**1,571**	1,445	1,442	1,481	1,561
Total Residential	**4,396**	4,164	3,978	4,038	4,095
Commercial	**3,290**	3,142	3,007	2,968	2,870
Industrial	**5,036**	4,834	4,371	4,282	4,201
Miscellaneous	**228**	221	212	216	209
Total Retail	**12,950**	12,361	11,568	11,504	11,375
Wholesale (sales for resale)	**6,425**	7,472	11,522	10,957	13,435
Total Sales	**19,375**	19,833	23,090	22,461	24,810

OPERATING STATISTICS (Concluded)

	1988	1987	1986	1985	1984
AVERAGE COST OF FUEL CONSUMED (in cents):					
Per Million Btu:					
Coal	**182**	190	185	194	189
Nuclear	**70**	75	74	80	65
Overall	**120**	117	118	136	103
Per Kilowatt-hour Generated:					
Coal	**1.81**	1.87	1.82	1.97	1.83
Nuclear	**.77**	.84	.83	.86	.70
Overall	**1.26**	1.25	1.25	1.42	1.08
RESIDENTIAL SERVICE — AVERAGES:					
Annual Kwh Use per Customer:					
Total	**10,596**	10,146	9,813	10,050	10,249
With Electric Heating	**18,551**	17,341	17,716	18,486	19,771
Annual Electric Bill:					
Total	**$689.33**	$674.13	$654.88	$663.18	$583.35
With Electric Heating	**$1,135.46**	$1,083.10	$1,116.86	$1,135.42	$1,048.27
Price per Kwh (in cents):					
Total	**6.51**	6.64	6.67	6.60	5.69
With Electric Heating	**6.12**	6.25	6.30	6.14	5.30
NUMBER OF ELECTRIC CUSTOMERS:					
Year-End:					
Retail:					
Residential:					
Without Electric Heating	**332,488**	328,937	325,623	322,922	321,286
With Electric Heating	**85,635**	84,442	82,324	80,734	79,823
Total Residential	**418,123**	413,379	407,947	403,656	401,109
Commercial	**45,249**	44,207	43,689	43,017	42,912
Industrial	**4,479**	4,345	3,882	3,701	3,415
Miscellaneous	**1,984**	1,946	1,846	1,852	1,584
Total Retail	**469,835**	463,877	457,364	452,226	449,020
Wholesale (sales for resale)	**108**	105	106	104	105
Total Electric Customers	**469,943**	463,982	457,470	452,330	449,125

Dividends and Price Ranges of Cumulative Preferred Stock

By Quarters (1988 and 1987)

	1988 — Quarters				1987 — 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	—	—	—	—	43⅞	43	—	—
— Low	—	—	—	—	41⅞	41½	—	—
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	77⅝	70¾	70¼	71¾	88	84¼	75¾	71
— Low	68⅝	68⅛	67½	67¼	79	70⅞	67⅜	61⅝
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	81⅝	77⅝	77¼	78⅝	96½	93½	82½	76
— Low	75	74¼	73¾	73	85⅛	80	72¾	65
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	91⅜	86½	85¼	87½	104⅝	102	90⅝	85½
— Low	82½	82½	80½	81	99¼	90½	87	79⅝
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	107	107½	106	108½	105½	108	107½	107⅜
— Low	101¼	103½	102½	103	103	104	103	101¼
($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	25	25	23½	22⅞	26⅛	25¾	23¼	22⅝
— Low	22	23⅛	21¼	21½	24	21½	19⅞	18½
$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	24⅜	24¼	24	23¾	27	26⅞	26	24
— Low	22	22½	22¼	21⅞	24¾	23½	20½	20
$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	27½	27⅜	27	27½	27¼	26¼	26½	27
— Low	26½	26¾	26¼	26½	26¾	26	25⅜	25
$3.63 Series (a)								
Dividends Paid Per Share					$0.9075			
Market Price — $ Per Share								
(NYSE) — High					31			
— Low					27¼			

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.

(a) Redeemed April 1987.

The Company's Annual Report
(Form 10-K) to the Securities and
Exchange Commission will be available
on or about March 31, 1989 to shareowners
upon written request and at no cost.
Please address such requests to:

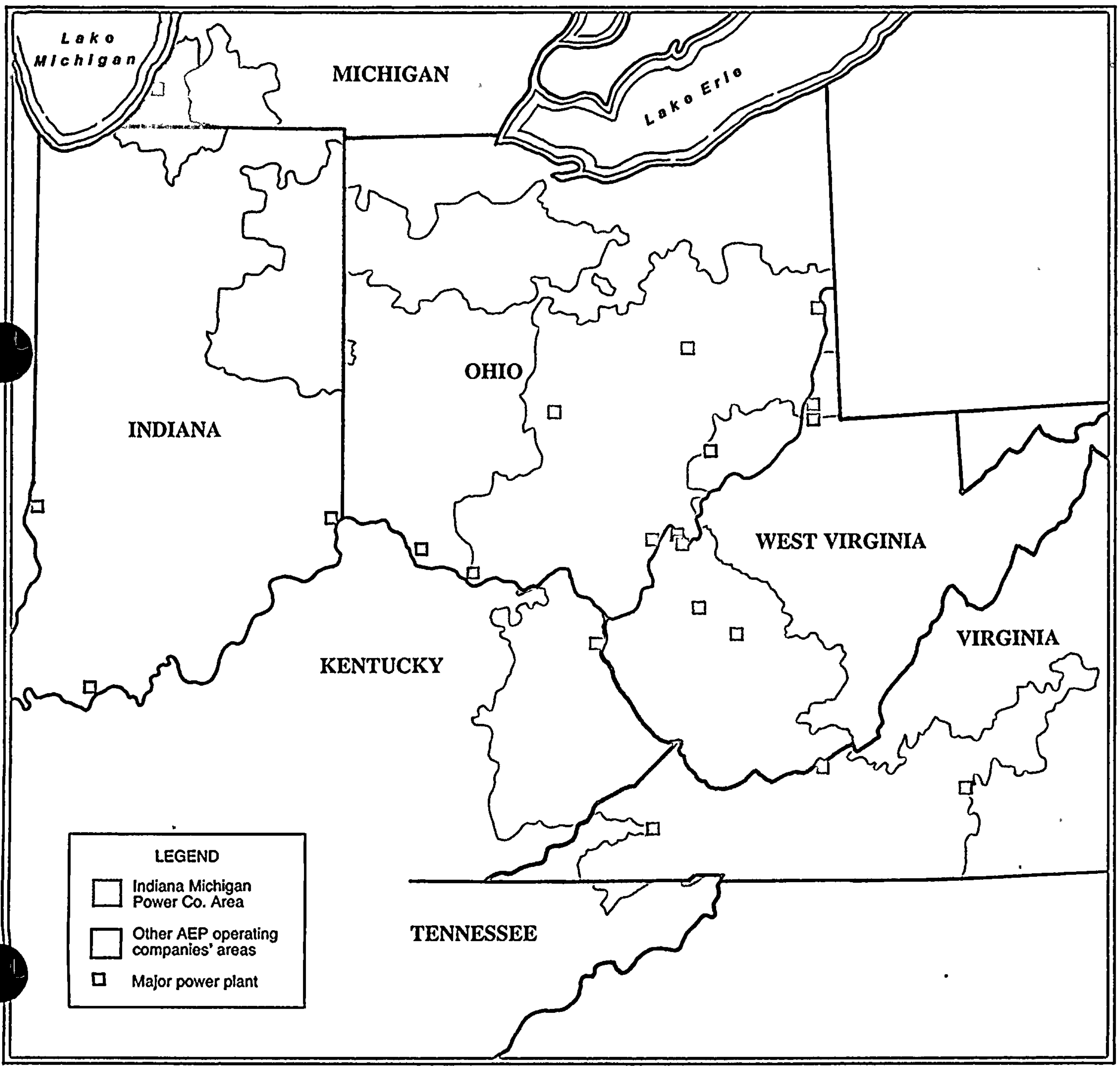
Mr. G. C. Dean
American Electric Power
Service Corporation
1 Riverside Plaza
Columbus, Ohio 43215

ansfer Agent and Registrar of Cumulative Preferred Stock

Morgan Shareholder Services Trust Company

30 West Broadway, New York, N.Y. 10007-2192

Indiana Michigan Power Service Area and the American Electric Power System



ENCLOSURE 2 TO AEP:NRC:0909E

1989 Internal Cash Flow Projection for Donald C. Cook Nuclear Plant
($ Millions)

Projected 1989	Actual 1988	
Net income after taxes	151.8	134
Less dividends paid	135.9	138
Retained earnings	15.9	(4)
Adjustments:		
Depreciation and amortization	146.3	152
Deferred income taxes and investment tax credits	26.8	(13)
AFUDC	(57.2)	(55)
Total adjustments	115.9	84
Internal cash flow	131.8	80
Average quarterly cash flow	32.6	20
Average cash balances and short-term investments	10.5	15
Total	43.1	35

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

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