ACCELERATED DISTRIBUTION DEMONSTRATION SYSTEM

REGULATORY INFORMATION DISTRIBUTION SYSTEM (RIDS)

ACCESSION NBR:9004180384 DOC.DATE: 90/04/06 NOTARIZED: NO DOCKET #
FACIL:50-315 Donald C. Cook Nuclear Power Plant, Unit 1, Indiana & 05000315
50-316 Donald C. Cook Nuclear Power Plant, Unit 2, Indiana & 05000316
AUTH.NAME AUTHOR AFFILIATION
ALEXICH,M.P. Indiana Michigan Power Co. (formerly Indiana & Michigan Ele
RECIP.NAME RECIPIENT AFFILIATION
Document Control Branch (Document Control Desk)

SEE REPORTS (FINANCIAL)

SUBJECT: Forwards "1989 Annual Rept" & projected cash flow.

DISTRIBUTION CODE: M004D COPIES RECEIVED:LTR 1 ENCL 1 SIZE: 36
TITLE: 50.71(b) Annual Financial Report

NOTES:

	RECIPIENT ID CODE/NAME		COPIES LTTR	COPIES ENCL	RECIPIENT ID CODE/NAME	COPIES LTTR	COPIES ENCL
	PD3-1 PD		1	1	GIITTER,J.	1	0
INTERNAL:	AEOD/DOA		1	1	AEOD/DSP/TPAB	1	1
	REG FILE	01	1	1			
EXTERNAL:	LPDR		1	1	NRC PDR	1	1

R I D S / A D D S

R I D S / A D D S

A+A 4

NOTE TO ALL "RIDS" RECIPIENTS:

PLEASE HELP US TO REDUCE WASTE! CONTACT THE DOCUMENT CONTROL DESK, ROOM P1-37 (EXT. 20079) TO ELIMINATE YOUR NAME FROM DISTRIBUTION LISTS FOR DOCUMENTS YOU DON'T NEED!

TOTAL NUMBER OF COPIES REQUIRED: LTTR 7 ENCL 6

Indiana Michigan
Power Company
P.O. Box 16631
Columbus, OH 43216

INDIANA
MICHIGAN
POWER

AEP:NRC:0909F
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 6, 1990

Dear Dr. Murley:

Enclosure 1 contains the Indiana Michigan Power Company's (I&M) annual report for 1989. Enclosure 2 contains a copy of I&M's projected cash flow for 1990. 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

ldp
Enclosures

cc: D. H. Williams, Jr.
A. A. Blind - Bridgman
R. C. Callen
G. Charnoff
A. B. Davis - Region III
NRC Resident Inspector - Bridgman
NFEM Section Chief

M004
1/1

1989 Annual Report

INDIANA MICHIGAN POWER

Indiana Michigan Power Company

INDIANA MICHIGAN POWER COMPANY
One Summit Square, Box 60, Fort Wayne, Indiana 46801

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. Blackhawk Coal Company currently leases or subleases portions of its coal rights, land and related mining equipment to unaffiliated companies.

The Company serves approximately 475,000 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, rubber and plastic products, and electrical and electronic machinery. 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

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

Officers

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

W. A. Black (b)
President and Chief Operating Officer

Richard C. Menge (a)
President and Chief Operating Officer

Milton P. Alexich
Vice President

Mark A. Bailey (e)
Vice President

Richard E. Disbrow
Vice President

William N. D'Onofrio
Vice President

A. Joseph Dowd
Vice President

Richard F. Hering
Vice President

William J. Lhota (a)
Vice President

Gerald P. Maloney
Vice President

Joseph H. Vipperman (b)
Vice President

David H. Williams, Jr.
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

Leonard V. Assante
Assistant Treasurer

Bruce M. Barber
Assistant Treasurer

Gerald R. Knorr
Assistant Treasurer

As of January 1, 1990 the principal occupation of the current directors and officers of Indiana Michigan Power Company, with eight exceptions, is as an employee of American Electric Power Service Corporation. The exceptions are Messrs. Bafile, Bailey, D'Onofrio, Harrell, Menge, Moos, Prater, and Walters, whose principal occupations are as officers or employees of Indiana Michigan Power Company.

(a) Elected October 1, 1989
(b) Resigned October 1, 1989
(c) Resigned April 25, 1989
(d) Elected April 25, 1989
(e) Elected September 1, 1989

Selected Consolidated Financial Data

	Year Ended December 31,				
	1989	1988	1987	1986	1985
			(in thousands)		
INCOME STATEMENTS DATA:					
Operating Revenues — Electric	**$1,005,638**	$983,066	$1,017,268	$1,091,295	$1,078,793
Operating Expenses	**795,242**	767,623	794,222	900,151	886,904
Operating Income	**210,396**	215,443	223,046	191,144	191,889
Nonoperating Income	**32,930**	43,454	56,828	66,905	76,879
Income Before Interest Charges	**243,326**	258,897	279,874	258,049	268,768
Interest Charges	**106,181**	107,092	113,508	105,568	122,667
Net Income	**137,145**	151,805	166,366	152,481	146,101
Preferred Stock Dividend Requirements	**18,048**	18,848	20,955	26,256	27,056
Earnings Applicable to Common Stock	**$ 119,097**	$132,957	$ 145,411	$ 126,225	$ 119,045

	December 31,				
	1989	1988	1987	1986	1985
			(in thousands)		
BALANCE SHEETS DATA:					
Electric Utility Plant	**$3,918,616**	$4,411,271	$4,153,281	$3,979,822	$4,107,526
Accumulated Provisions for Depreciation and Amortization	**1,292,430**	1,218,060	1,118,254	1,018,455	962,670
Net Electric Utility Plant	**2,626,186**	3,193,211	3,035,027	2,961,367	3,144,856
Total Assets	**4,259,826**	3,993,046	3,956,563	3,849,208	3,763,595
Common Stock and Paid-in Capital	**774,193**	838,347	828,347	828,347	828,347
Retained Earnings	**157,825**	161,443	145,302	113,123	100,130
Total Common Shareowner's Equity	**932,018**	999,790	973,649	941,470	928,477
Cumulative Preferred Stock:					
Not Subject to Mandatory Redemption	**197,000**	197,000	197,000	197,000	197,000
Subject to Mandatory Redemption (a)	**18,030**	25,030	32,030	79,030	86,030
Long-term Debt (a)	**1,522,736**	1,575,220	1,591,768	1,421,523	1,442,070

(a) Including portion due within one year.

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

Results of Operations

Net Income Declines

Net income decreased to $137 million in 1989 from $152 million in 1988. Although operating revenues increased, the decline in net income was predominantly due to higher operating expenses and a decline in nonoperating income. In 1988 net income decreased $15 million from 1987 primarily from lower operating income and a decrease in nonoperating income partly offset by reduced interest charges.

Outlook

While management believes that the Company as part of the AEP System is well positioned for the 1990's, the outlook is dependent upon the favorable resolution of some uncertainties that could adversely affect management's ability to meet its financial obligations and requirements. These involve the ability to obtain favorable and timely rate-making treatment to recover the Company's cost of service requirements including:

- The cost of new generating capacity recently placed in service.
- The cost that could result from new clean air legislation.

Operating Revenues and Energy Sales Climb

Operating revenues rose $23 million in 1989 after a $34 million decrease in 1988. A substantial increase in sales to unaffiliated utilities accounted for the 2% increase in 1989 revenues. In 1988, revenues decreased 3% primarily from a decrease in wholesale sales partially offset by increased kilowatthour (kwh) sales to retail customers.

The components of change in revenues are as follows:

	Increase (Decrease) From Previous Year	
	1989	1988
	(in millions)	
Retail:		
Price variance	$(18.5)	$(23.2)
Volume variance	10.0	34.6
	(8.5)	11.4
Wholesale:		
Price variance	(48.1)	(4.0)
Volume variance	74.7	(41.1)
	26.6	(45.1)
Other Operating Revenues	4.5	(0.5)
Total	$ 22.6	$(34.2)

The modest increase in 1989 retail sales volume reflects growth in the number of customers and increased commercial development. The negative effect of mild weather on residential sales throughout most of 1989 was offset by unseasonably cold weather in December. As electric heating and cooling load grows, results of operations become increasingly sensitive to weather. Growth of industrial sales volume, which had been steady for the past several years slowed in 1989, reflecting slower economic growth. Higher retail kwh sales in 1988 were attributable to improvement in the economy of the Company's service area coupled with hot summer weather. The effect on revenues of the higher kwh sales volume was largely offset by a reduction in rates as lower average fuel costs and savings in Federal income taxes were passed on to customers.

The substantial increase in 1989 wholesale sales volume was predominantly due to a significant increase in short-term sales to unaffiliated utilities as a result of growth in their demand, lower availability of their generating capacity and extremely cold December weather partially offset by a reduction during the year in long-term contract sales to a major wholesale customer. The positive effect of increased wholesale sales volume on 1989 revenues was partly offset by a lower average price per kwh sold reflecting price competition in the sales for resale market. In 1988, wholesale revenues decreased mostly due to the expiration of a long-term contract with a major wholesale customer. The level of future wholesale sales can fluctuate with the availability of affiliated and unaffiliated generating units, the effects of weather and the economy on wholesale customers and the competitive nature of the sales for resale market.

Operating Expenses Rise Reflecting Increased Sales

Operating expenses increased 4% in 1989 after a 3% decrease in 1988. Changes in the components of operating expenses were:

	Increase (Decrease) From Previous Year	
	(in millions)	
	1989	1988
Operating Expenses:		
Fuel for Electric Generation	$ 16.9	$ 24.0
Purchased and Interchange Power (net)	(22.1)	(55.1)
Other Operation	9.3	5.2
Maintenance	14.7	(2.2)
Depreciation and Amortization	4.6	3.2
Amortization of Rockport Plant Unit 1 Phase-In Costs	(1.1)	22.6
Taxes Other Than Federal Income Taxes	0.1	9.5
Federal Income Taxes	5.2	(33.8)
Total	$ 27.6	$(26.6)

The increases in fuel expense in both years reflected higher net generation. The Company was able to significantly decrease purchased and interchange power expense in 1989 and 1988 due to the increased availability of coal-fired generation. The 1989 changes also reflected the return to service of both units at the Company's Cook Nuclear Plant while 1988 variances included lower net costs per kwh of purchased and interchange power and a slight decrease in the Company's total load requirements.

Other operation expense increased in both years primarily due to the outage of Unit 2 at the Cook Plant from April 1988 to March 1989 to refuel, replace its steam generators and conduct a 10-year anniversary service inspection as required by the Nuclear Regulatory Commission (NRC). Another factor contributing to the increase in other operation expense in 1989 was the accrual of lease expense on Rockport Plant Unit 2 (Rockport 2), which was sold and leased back in early December 1989. Maintenance expense increased in 1989 primarily due to maintenance performed on the reactor units at the Cook Nuclear Plant.

The large increase during 1988 in amortization of Rockport Plant Unit 1 (Rockport 1) phase-in costs was due to the discontinuance of deferring depreciation on the unit and the commencement of amortization over a 10-year period of the deferred depreciation and deferred return. The Company discontinued deferring depreciation and recording a deferred return on its investment in Rockport 1 under a phase-in plan in the latter part of 1987 as a result of rate orders that included the last component of the Company's Rockport 1 investment in rate base, thereby replacing a deferred non-cash return with an actual cash return.

The increase in Federal income tax expense in 1989 was primarily due to changes in certain book/tax timing differences accounted for on a flow-through basis. The 1988 decrease in Federal income tax expense was primarily due to a decrease in pre-tax operating income. The reduction in the statutory Federal income tax rate to 34% as a result of the Tax Reform Act of 1986 (TRA) had a minimal effect on earnings since the Company was granted reductions in its annual base rate levels to reflect the reduction. Changes in tax depreciation and repeal of the investment tax credit by TRA resulted in reduced internal cash flow, but net earnings were not materially impacted due to the Company's utilization of deferred tax accounting for these items.

Nonoperating Income Declines

Nonoperating income declined in both 1989 and 1988. The 1989 decrease was the result of a one-time credit to income in the fourth quarter of 1988 which recorded interest earned on nuclear decommissioning trust funds from their inception. In 1988 the decrease was due to the cessation of recording the deferred return on Rockport 1 in 1987 and the effect of a nonrecurring charge relating to wholesale power transactions recorded in 1987.

Allowance For Funds Used During Construction Increases

Allowance for funds used during construction (AFUDC) increased in 1989 and 1988 resulting primarily from additional accumulated Rockport 2 construction expenditures. AFUDC will be substantially lower in 1990 since accruals on Rockport 2 ceased effective with the unit's commercial operation on December 1, 1989.

Liquidity and Capital Resources

Construction Spending Decreases

Expenditures for additions to plant and property amounted to $206 million in 1989, a 36% decrease from 1988 as construction on Rockport 2 tapered off and the unit commenced test operation in October 1989. Construction expenditures for the three-year period 1990-1992 are estimated at $443 million exclusive of what would be substantial additional capital expenditures if currently proposed acid rain legislation is enacted.

Debt and Preferred Stock Financing

The Company funds its substantial annual capital requirements for construction of new facilities and improvement of existing facilities through a combination of internally generated funds, short- and long-term borrowings and investments in its common equity by its parent 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 and preferred stock securities and investments in its common equity by AEP.

Issuance of senior securities is expected to be modest in the next few years since the Company's projected construction expenditures for 1990-1992 are expected to be financed through internally generated funds excluding the impact of any new acid rain legislation. If any additional amounts are needed they will have to be raised externally through the proceeds of sales of securities and investments in the Company's common equity by AEP. At December 31, 1989, the Company had unused short-term lines of credit of approximately $233 million shared with other AEP System companies. Regulatory provisions limit short-term debt borrowings to $200 million; however, the Company may request that this limit be raised.

In December 1989 the Company and its affiliate, AEP Generating Company (AEGCo), sold their 50% interests in Rockport 2 and leased back the unit. Net proceeds to the Company from the sale were $661 million after taxes which the Company used to repay short-term debt, return capital contributions to its parent, repurchase receivables and subsequent to year end repay long-term borrowings, including the redemption of certain publicly-held first mortgage bonds and preferred stocks. The net gain on the sale did not affect 1989 earnings since it was deferred and is being amortized over the 33-year lease term. The leases have been accounted for as operating leases.

In order to issue additional long-term debt for purposes other than refunding, the Company must have pre-tax earnings equal to at least twice its annual interest charges after giving effect to the issuance of the new debt. To issue additional preferred stock, the Company must have after-tax gross income at least equal to one and one-half times its annual interest and preferred dividend requirements after giving effect to the issuance of the new preferred stock. As a result, the future earnings performance of the Company will impact its ability to finance required construction. As of December 31, 1989, the Company's long-term debt and preferred stock coverage ratios were 2.85 and 2.02, respectively.

Potential New Environmental Costs

Congress is considering several acid rain proposals that would require substantial reductions in emissions at certain AEP System coal-fired generating plants including those of the Company. Should this proposed legislation become law, substantial capital and operating costs would be incurred which, if not recovered through the rate-making process, would adversely affect the Company's results of operations and financial condition.

Regulatory Concerns

The electric utility industry operates in a regulatory environment that makes it difficult to predict whether the cost of major new generating and transmission capacity additions will be fully recovered in rates. This is of concern to the Company since it and AEGCo recently completed construction of Rockport 2, which was placed in service in December 1989.

In July 1989 the Company filed a request with the Indiana Utility Regulatory Commission (IURC) for a $60 million annual rate increase to recover, among other things, the Company's Indiana jurisdictional share of the cost of 385 megawatts (MW) of Rockport 2 capacity, based on the assumption that 720 MW would be sold to unaffiliated utilities. An order is not expected until mid-1990.

In January 1990 the Company began supplying an unaffiliated utility with 250 MW of Rockport 2 capacity under a 20-year unit power agreement subject to final approval by the Federal Energy Regulatory Commission (FERC). Earlier efforts to sell 470 MW of additional capacity under long-term unit power agreements were unsuccessful. Based on recent load growth forecasts and uncertainties over acid rain legislation, the Company no longer plans to sell this capacity on a long-term basis. AEP System Power Pool member companies will

share the cost of the 470 MW of unsold capacity through the Pool. The recovery of the cost of Rockport 2 in all jurisdictions is subject to regulatory filings and proceedings. If the Company is unable to recover its share of the costs through the rate-making process or from its share of increased short-term AEP System Pool sales to unaffiliated utilities, it would have an adverse effect on the Company's earnings and possibly its financial condition.

In February 1990 the Supreme Court of Indiana overruled an appeals court and reversed an IURC order that had assigned a major industrial customer to the Company's service territory. The Company has petitioned the Supreme Court for rehearing; however, if the petition were rejected, the Company could lose approximately $7 million of revenues annually.

FERC has proposed various forms of competition in the electric utility industry including proposed rules to create a new class of power producers exempt from most forms of rate regulation. These "independent power producers" could enter or leave the market as their interests and financial conditions dictate. They would be under no legal obligation to serve beyond the limits of a specific contract while electric utilities are obligated to provide their customers with all of their current and future power needs. If utilities become agents that do not manage their power supply, reliability could be impaired. Since reliability of electric service is of paramount importance under an obligation to serve, the Company has opposed the proposed rules. The long-term effect on the financial condition of the Company cannot be determined if these or other rules promoting competition are adopted.

Cook Nuclear Plant

The Cook Nuclear units have exhibited 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. 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 NRC. The unit returned to service at a 100% operating level in March 1989. The Company is seeking recovery in its rate base of the steam generator replacement expenditures in the aforementioned $60 million rate case filed in July 1989 and will seek similar recovery in other jurisdictions in its next rate filing. 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.

The Company has filed an application with the NRC to extend the operating licenses of the Cook Plant units to 2014 for Unit 1 and 2017 for Unit 2.

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 effects of inflation are not recovered on a timely basis from customers. 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's (FASB) new accounting standard on income taxes will require the Company to adopt the liability method of accounting for income taxes in 1992 and will result in a significant increase in total assets and liabilities due to its requirement that deferred income taxes be recorded on existing temporary differences previously accounted for on a flow-through basis with substantially offsetting regulatory assets and liabilities. Whether the new standard will be implemented on a restated or current basis has not yet been determined.

FASB has issued an Exposure Draft proposing a new accounting standard that would require a change in accounting for post-retirement benefits other than pensions from an expense-as-paid to an accrual method. This proposal would require the accrual of prior service costs over 17 years with a proposed effective date of 1992. If issued by FASB in its current form, the significantly greater annual expense that would result is not expected to materially impact the Company's financial condition since it is anticipated that it should be either recovered currently through the rate-making process or offset by regulatory assets.

Consolidated Statements of Income

	Year Ended December 31, 1989	1988	1987
		(in thousands)	
OPERATING REVENUES — ELECTRIC	$1,005,638	$983,066	$1,017,268
OPERATING EXPENSES:			
Fuel for Electric Generation	249,886	232,946	208,931
Purchased and Interchange Power (net)	25,376	47;503	102,644
Other Operation	170,855	161,532	156,310
Maintenance	104,223	89,545	91,807
Depreciation and Amortization	124,809	120,145	116,915
Amortization (Deferral) of Rockport Plant Unit 1 Phase-in Costs	16,961	18,089	(4,488)
Taxes Other Than Federal Income Taxes	56,377	56,271	46,730
Federal Income Taxes	46,755	41,592	75,373
Total Operating Expenses	795,242	767,623	794,222
OPERATING INCOME	210,396	215,443	223,046
NONOPERATING INCOME:			
Allowance for Equity Funds Used During Construction	27,972	27,023	26,055
Deferred Return — Rockport Plant Unit 1	—	—	31,442
Other	4,958	16,431	(669)
Total Nonoperating Income	32,930	43,454	56,828
INCOME BEFORE INTEREST CHARGES	243,326	258,897	279,874
INTEREST CHARGES:			
Long-term Debt	131,009	130,649	131,093
Short-term Debt and Other	7,279	6,635	5,712
Allowance for Borrowed Funds Used During Construction	(32,107)	(30,192)	(23,297)
Net Interest Charges	106,181	107,092	113,508
NET INCOME	137,145	151,805	166,366
PREFERRED STOCK DIVIDEND REQUIREMENTS	18,048	18,848	20,955
EARNINGS APPLICABLE TO COMMON STOCK	$ 119,097	$132,957	$ 145,411

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

	December 31, 1989	December 31, 1988
	(in thousands)	
ASSETS		
ELECTRIC UTILITY PLANT:		
Production	$2,465,133	$2,331,581
Transmission	777,782	737,919
Distribution	452,780	423,729
General (includes nuclear fuel)	170,349	206,068
Construction Work in Progress	52,572	711,974
Total Electric Utility Plant	3,918,616	4,411,271
Accumulated Provisions for Depreciation and Amortization	1,292,430	1,218,060
Net Electric Utility Plant	2,626,186	3,193,211
OTHER PROPERTY AND INVESTMENTS	321,215	301,931
CURRENT ASSETS:		
Cash and Cash Equivalents	595,487	8,425
Special Deposits — Restricted Funds	—	2,168
Accounts Receivable:		
Customers	114,350	39,847
Associated Companies	10,669	9,087
Miscellaneous	23,441	19,648
Allowance for Uncollectible Accounts	(606)	(483)
Fuel — at average cost	40,057	51,289
Materials and Supplies — at average cost	32,479	25,929
Accrued Utility Revenues	35,885	27,512
Other	6,920	8,649
Total Current Assets	858,682	192,071
DEFERRED DEBITS:		
Deferred Income Taxes	173,362	26,769
Deferred Depreciation and Return — Rockport Plant Unit 1	131,879	148,840
Deferred Nuclear Fuel Disposal Costs	47,822	51,026
Other	100,680	79,198
Total Deferred Debits	453,743	305,833
Total	$4,259,826	$3,993,046

See Notes to Consolidated Financial Statements.

	December 31, 1989	December 31, 1988
	(in thousands)	
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Common Stock — No Par Value:		
Authorized — 2,500,000 Shares		
Outstanding — 1,400,000 Shares	$ 56,584	$ 56,584
Paid-in Capital	717,609	781,763
Retained Earnings	157,825	161,443
Total Common Shareowner's Equity	932,018	999,790
Cumulative Preferred Stock:		
Not Subject to Mandatory Redemption	197,000	197,000
Subject to Mandatory Redemption	—	25,030
Long-term Debt	1,021,566	1,563,720
Total Capitalization	2,150,584	2,785,540
OTHER NONCURRENT LIABILITIES	190,962	207,637
CURRENT LIABILITIES:		
Cumulative Preferred Stock Due Within One Year	18,030	—
Long-term Debt Due Within One Year	501,170	11,500
Notes Payable	—	7,950
Commercial Paper	—	27,900
Accounts Payable:		
General	52,602	55,210
Associated Companies	35,811	14,836
Taxes Accrued	200,787	4,285
Interest Accrued	36,101	36,353
Obligations Under Capital Leases	33,247	43,037
Other	76,878	47,866
Total Current Liabilities	954,626	248,937
DEFERRED CREDITS:		
Deferred Income Taxes	485,444	535,829
Deferred Investment Tax Credits	221,666	194,726
Deferred Gain on Sale and Leaseback — Rockport Plant Unit 2	241,255	—
Other	15,289	20,377
Total Deferred Credits	963,654	750,932
COMMITMENTS AND CONTINGENCIES (Note 10)		
Total	$4,259,826	$3,993,046

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	1989	1988	1987
		(in thousands)	
Cash Flows from Operating Activities:			
Net Income	**$137,145**	$151,805	$166,366
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	**133,551**	128,191	124,798
Amortization (Deferral) of Rockport Plant Unit 1 Phase-in Costs	**16,961**	18,089	(4,488)
Deferred Income Taxes	**(196,977)**	3,161	13,597
Deferred State Taxes — Rockport Plant Unit 2 Sale and Leaseback Transaction	**(39,943)**	—	—
Deferred Investment Tax Credits	**27,445**	23,672	(7,700)
Allowance for Equity Funds Used During Construction	**(27,972)**	(27,023)	(26,055)
Changes in Certain Current Assets and Liabilities:			
Accounts Receivable (net)	**(79,755)**	25,530	10,952
Fuel, Materials and Supplies	**4,682**	16,485	(14,293)
Accrued Utility Revenues	**(8,373)**	24,064	(2,576)
Accounts Payable	**18,367**	11,019	(402)
Taxes Accrued	**196,502**	(41,913)	(7,274)
Amortization of Deferred Nuclear Fuel Disposal Costs	**3,204**	5,408	12,207
Deferred Return — Rockport Plant Unit 1	**—**	—	(31,442)
Other (net)	**26,258**	25,945	31,603
Net Cash Provided by Operating Activities	**211,095**	364,433	265,293
Cash Flows from Investing Activities:			
Plant and Property Additions	**(196,824)**	(276,545)	(206,941)
Allowance for Equity Funds Used During Construction	**27,972**	27,023	26,055
Cash Used for Plant and Property Additions	**(168,852)**	(249,522)	(180,886)
Proceeds from Sale and Leaseback — Rockport Plant Unit 2	**850,000**	—	—
Proceeds from Sales of Other Property	**1,381**	1,117	1,816
Net Cash Provided (Used) by Investing Activities	**682,529**	(248,405)	(179,070)
Cash Flows from Financing Activities:			
Capital Contributions from (returned to) Parent	**(63,000)**	10,000	—
Issuance of Long-term Debt	**—**	50,000	376,811
Change in Short-term Debt (net)	**(35,850)**	35,850	(49,925)
Retirement of Cumulative Preferred Stocks	**(7,000)**	(7,000)	(50,917)
Retirement of Long-term Debt	**(62,512)**	(74,050)	(222,005)
Dividends Paid on Common Stock	**(119,952)**	(116,816)	(113,232)
Dividends Paid on Cumulative Preferred Stock	**(18,248)**	(19,048)	(22,607)
Net Cash Used by Financing Activities	**(306,562)**	(121,064)	(81,875)
Net Increase (Decrease) in Cash and Cash Equivalents	**587,062**	(5,036)	4,348
Cash and Cash Equivalents at Beginning of Year	**8,425**	13,461	9,113
Cash and Cash Equivalents at End of Year	**$595,487**	$ 8,425	$ 13,461
Supplemental Disclosure:			
Cash Paid During the Year For:			
Interest (net of Allowance for Borrowed Funds Used During Construction)	**$107,124**	$106,283	$107,389
Income Taxes	**64,843**	67,019	70,655
Noncash Investing Activities:			
Plant Acquired Under Capital Leases	**9,035**	46,791	41,046

See Notes to Consolidated Financial Statements.

Consolidated Statements of Retained Earnings

	Year Ended December 31,		
	1989	1988	1987
		(in thousands)	
Balance at Beginning of Year	**$161,443**	$145,302	$113,123
Net Income	**137,145**	151,805	166,366
Total	**298,588**	297,107	279,489
Cash Dividends Declared:			
Common Stock	**119,952**	116,816	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	**838**	1,198	1,558
$2.15 Series	**3,440**	3,440	3,440
$2.25 Series	**3,600**	3,600	3,600
$2.75 Series	**1,793**	2,233	2,673
$3.63 Series	**—**	—	1,307
Total Dividends	**138,000**	135,664	134,187
Net Premium on Reacquisition of Preferred Stock	**2,763**	—	—
Total Deductions	**140,763**	135,664	134,187
Balance at End of Year	**$157,825**	$161,443	$145,302

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 are 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 commissions and 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, which is stated at original cost, generally 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 10.5% in 1989, 10.25% in 1988 and 11.5% in 1987.

The Company provides for depreciation on a straight-line basis over the estimated useful lives of the property and determines depreciation provisions largely through 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 Company's properties. Property accounts are charged with the costs of major additions, replacements and betterments, 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

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. Generally, temporary cash investments include highly liquid investments purchased with a maturity of three months or less.

Income Taxes

Deferred income taxes are provided except where not permitted by the state commissions and the FERC. The Company is deferring over the life of its plant the effect of tax reductions resulting from investment tax credits utilized in connection with current Federal income tax accruals consistent with ratemaking policies.

Operating Revenues

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

Fuel Costs

The Company bills its fuel costs under fuel recovery mechanisms designed to reflect in rates changes in costs of fuel as ordered by various regulatory commissions. Accordingly, the Company accrues revenues 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. In December 1989 the Company repurchased the undivided interests and terminated the agreement. Until termination, the Company sold undivided interests in new designated pools as collections reduced previously sold undivided interests. At December 31, 1988 approximately $50,000,000 remained 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 premium and debt issuance 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 unit power agreements with affiliates to purchase from AEP Generating Company (AEGCo), an affiliate company, 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. Rockport Plant:

Unit 1 Phase-in

The Company phased in the recovery of its Rockport Plant Unit 1 (Rockport 1) investment in its Indiana and FERC jurisdictions under formal phase-in plans. Rockport 1 is a 1,300-megawatt (MW) generating unit that began commercial operation in December 1984 and is jointly and equally owned by the Company and AEGCo. At December 31, 1989 and 1988, the Company had unamortized deferred returns of $102,206,000 and $115,351,000, respectively, and unamortized deferred depreciation of $29,673,000 and $33,489,000, respectively. The amounts deferred from 1984 to 1987 are being amortized and recovered in rates on a straight-line basis through 1997 from the Company's Indiana customers and from all but two FERC customers with whom the Company is engaged in a rate proceeding. With respect to the two FERC customers, recovery is being made subject to refund, pursuant to an interim FERC order. In the opinion of management, the ultimate resolution of this proceeding should not have a significant effect on results of operations.

Unit 2 Sale and Leaseback and Rate Matters

The Company and AEGCo constructed a second 1,300 MW unit at the Rockport Plant (Rockport 2) at a cost of $1.3 billion. The unit began commercial operation on December 1, 1989. On December 7, 1989, the Company and AEGCo sold their respective 50% interests in the unit for $1.7 billion, the estimated fair market value, and leased back 50% interests in Rockport 2 for an initial term of 33 years. The gain from the sale was deferred and is being amortized, including related taxes, over the initial lease term. The leases have been accounted for as operating leases.

The Company will receive 1,105 MW of Rockport 2 capacity, comprised of 650 MW, its 50% share, and 455 MW it is obligated to purchase from AEGCo under the terms of a long-term unit power agreement. In July 1989, the Company filed a request with the Indiana Utility Regulatory Commission for an increase in rates of approximately $60,000,000 annually to recover, among other things, the Company's Indiana jurisdictional share of the cost of 385 MW of Rockport 2 capacity purchased from AEGCo. The rate request did not seek recovery of the cost of the remaining 720 MW of Rockport 2 capacity since it was based on the assumption that the 720 MW would be sold to unaffiliated utilities. An order is expected by mid-1990.

The Company has entered into a long-term unit power agreement with Carolina Power & Light, an unaffiliated utility, to supply 250 MW of Rockport 2 capacity for a 20 year period that began in January 1990. The FERC has allowed the agreement to become effective subject to refund pending a hearing and resultant final order. Earlier efforts to sell on a long-term basis the remaining 470 MW of additional capacity from Rockport 2 were unsuccessful. As a result, AEP System Power Pool member companies will share the cost of such unsold capacity through the Pool. The recovery of the Company's share of the cost of Rockport 2 in all of its jurisdictions is subject to regulatory filings and proceedings. If the Company is unable to recover its cost of Rockport 2 capacity through the rate-making process or from short-term sales to unaffiliated utilities, it would have an adverse effect on the Company's earnings and possibly its financial condition.

3. Federal Income Taxes:

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

	Year Ended December 31,		
	1989	1988	1987
		(in thousands)	
Charged (Credited) to Operating Expenses (net):			
Current	$215,793	$11,865	$63,543
Deferred	(196,503)	5,563	19,533
Deferred Investment Tax Credits	27,465	24,164	(7,703)
Total	46,755	41,592	75,373
Charged (Credited) to Nonoperating Income (net):			
Current	1,234	1,186	2,760
Deferred	(474)	(2,402)	(5,936)
Deferred Investment Tax Credits	(20)	(492)	3
Total	740	(1,708)	(3,173)
Total Federal Income Taxes as Reported	$ 47,495	$39,884	$72,200

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,		
	1989	1988	1987
		(in thousands)	
Net Income	$137,145	$151,805	$166,366
Federal Income Taxes	47,495	39,884	72,200
Pre-tax Book Income	$184,640	$191,689	$238,566
Federal Income Taxes on Pre-Tax Book Income at Statutory Rate (34% in 1989 and 1988 and 40% in 1987)	$ 62,778	$ 65,174	$ 95,426
Increase (Decrease) in Federal Income Taxes Resulting From the Following Items on Which Deferred Taxes Are Not Provided:			
Excess of Book Over Tax Depreciation	3,017	3,129	5,104
Allowance for Funds Used During Construction and Miscellaneous Items Capitalized on the Books but Deducted for Tax Purposes	(12,664)	(12,079)	(13,965)
Deferred Return — Rockport Plant Unit 1	1,606	2,112	(5,447)
Tax Exempt Income — Nuclear Decommissioning Trust Funds	(383)	(4,066)	—
Other	(464)	(7,429)	(1,603)
Amortization of Deferred Investment Tax Credits	(6,395)	(6,957)	(7,315)
Total Federal Income Taxes as Reported	$ 47,495	$ 39,884	$ 72,200
Effective Federal Income Tax Rate	25.7%	20.8%	30.3%

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

	Year Ended December 31, 1989	1988	1987
		(in thousands)	
Current:			
Federal Income Taxes	$250,867	$43,680	$65,918
Investment Tax Credits	(33,840)	(30,629) (b)	385
Total Current Federal Income Taxes	217,027 (a)	13,051	66,303
Deferred:			
Depreciation	2,254	4,737	15,328
Allowance for Borrowed Funds Used During Construction and Miscellaneous Items Capitalized	7,109	5,186	3,931
Unrecovered and Levelized Fuel	(5,453)	(8,278)	(9,327)
Nuclear Decommissioning Costs	(514)	16,432 (c)	(4,235)
Unbilled Revenue	(3,713)	(4,202)	(2,839)
Deferred Return — Rockport Plant Unit 1	(2,864)	(3,538)	5,315
Sale of Rockport Plant Unit 2	(56,863)	—	—
Deferred Net Gain — Sale of Rockport Plant Unit 2	(128,194)	—	—
Other	(8,739)	(7,176)	5,424
Total Deferred Federal Income Taxes	(196,977)	3,161	13,597
Total Deferred Investment Tax Credits	27,445 (a)	23,672 (b)	(7,700)
Total Federal Income Taxes as Reported	$ 47,495	$39,884	$72,200

(a) The significant increase in current Federal income taxes resulted from the gain on the sale of Rockport 2. The placing of Rockport 2 in service in December 1989 enabled the Company to utilize significant investment tax credits generated by the sale and leaseback to reduce its taxes payable. The tax effect of both the gain and the credits utilized were deferred.

(b) 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.

(c) 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 current 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 (1935 Act). These rules permit the allocation of the benefit of current tax losses and investment tax credits utilized to the System companies giving rise to them 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.

At December 31, 1989, the cumulative net amount of income tax timing differences on which deferred taxes have not been provided totaled $471,000,000.

The consolidated Federal income tax returns for the years 1983 and 1984 are being audited by the Internal Revenue Service. Audits of the returns for the years prior to 1983 are settled. In the opinion of management, the final settlement of open years should 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 by January 1992 on a restated basis or as a cumulative effect of an accounting change in the year of adoption. 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 previously flowed-through to earnings. 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. Whether the new standard will be implemented on a restated or current basis has not yet been determined.

4. Related-party Transactions:

Operating revenues-electric shown in the Consolidated Statements of Income include sales of energy to Michigan Power Company, an affiliated utility that is not a member of the AEP System Power Pool, of approximately $32,000,000, $34,000,000 and $35,000,000 for the years ended December 31, 1989, 1988 and 1987, respectively.

The Company purchases power and engages in interchange power transactions with affiliated and unaffiliated utilities as follows:

	Year Ended December 31,		
	1989	1988	1987
		(in thousands)	
Purchased and Interchange Power (net):			
Purchased Power:			
AEP Generating Company	$13,023	$ 3,313	$ 2,797
Ohio Valley Electric Corporation	5,623	13,580	31,076
Unaffiliated Companies	21,486	7,478	8,266
Interchange Power (net):			
AEP System Electric Utilities:			
Capacity Charge	4,558	14,332	28,240
Energy Charge	(17,858)	9,858	34,751
Unaffiliated Companies	(1,456)	(1,058)	(2,486)
Total	$25,376	$47,503	$102,644

The Company is a member of the AEP System Power Pool which provides for the Company to share the costs and benefits associated with the System's generating plants. Under the terms of the System Interchange Agreement, capacity charges and credits are designed to allocate the cost of the System's generating reserves among the Pool members in proportion to their relative peak demands. Energy charges and credits are intended to compensate each company for the out-of-pocket cost of receipts and deliveries of energy among the Pool members. In addition the Company participates through the Pool in short-term wholesale sales to unaffiliated utilities made by the AEP System, with the Company's share being credited to operating revenues. These credits to revenues were $126,065,000, $74,181,000 and $58,792,000 in 1989, 1988 and 1987, respectively.

The Company participates with other AEP system companies in a transmission equalization agreement. This agreement combines certain AEP System companies' investments in transmission facilities and shares the costs of ownership in proportion to the System companies' respective peak demands. Pursuant to the terms of the agreement, the Company recorded in other operation expenses credits of $37,346,000, $36,996,000 and $26,025,000 for transmission services in 1989, 1988 and 1987, respectively.

American Electric Power Service Corporation provides certain professional services to the Company and its affiliated companies in the AEP System. The costs of the services are determined by the service corporation on a direct-charge basis to the extent practicable and on reasonable bases of proration for indirect costs. The charges for services are made at cost and include no compensation for the use of equity capital, all of which is furnished to the service corporation by AEP. The Company expenses or capitalizes billings from the service corporation depending on the nature of the professional service rendered. The service corporation is subject to the regulation of the SEC under the 1935 Act.

5. Common Shareowner's Equity:

In December 1989 the Company returned $63,000,000 of cash capital contributions to its parent from paid-in capital. The Company received $10,000,000 of capital contributions in 1988. In 1989, the Company recorded charges of $1,154,000 to paid-in capital and $2,763,000 to retained earnings representing the write-off of premiums paid in connection with the reacquisition of its $3.63 Series Cumulative Preferred Stock. There were no other transactions affecting the common stock or paid-in capital accounts in 1989, 1988 or 1987.

Covenants in mortgage indentures, debenture and bank loan agreements, charter provisions and orders of regulatory authorities place various restrictions on the use of retained earnings of the Company for cash dividends on its common stocks and other purposes. At December 31, 1989, approximately $45,900,000 of retained earnings was restricted.

6. Cumulative Preferred Stock:

At December 31, 1989, 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	Call Price December 31, 1989	Par Value	Shares Outstanding December 31, 1989	Amount December 31, 1989	Amount December 31, 1988
				(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	Call Price December 31, 1989	Par Value	Number of Shares Redeemed Year Ended December 31, 1989	1988	1987	Shares Outstanding December 31, 1989	Amount December 31, 1989	Amount December 31, 1988
							(in thousands)	
12% (a)	$106	$100	30,000	30,000	30,000	47,325	$ 4,733	$ 7,733
$2.75 (a)	26.38	25	160,000	160,000	160,000	531,900	13,297	17,297
							$18,030	$25,030

(a) Redeemed February 1, 1990.

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

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

	December 31, 1989	1988
	(in thousands)	
First Mortgage Bonds	$1,007,744	$1,019,036
Sinking Fund Debentures	6,492	7,648
Notes Payable to Banks	80,000	130,000
Installment Purchase Contracts	307,953	307,732
Other Long-term Debt (a)	120,547	110,804
	1,522,736	1,575,220
Less Portion Due Within One Year	501,170	11,500
Total	$1,021,566	$1,563,720

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

First mortgage bonds outstanding were as follows:

% Rate	Due	December 31, 1989	1988
		(in thousands)	
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)	185,000	196,500
8⅜	2003 — December 1	40,000	40,000
9½	2008 — March 1 (b)	100,000	100,000
13¾	2013 — August 1 (c)	58,704	58,704
9⅝	2015 — October 1 (c)	100,000	100,000
9¾	2016 — July 1 (c)	100,000	100,000
8¾	2017 — February 1	100,000	100,000
10⅛	2017 — May 1 (c)	75,000	75,000
Unamortized Discount (net)		(3,862)	(4,070)
		1,007,744	1,019,036
Less Portion Due Within One Year		411,170	11,500
Total		$ 596,574	$1,007,536

(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.
(b) Redeemed $65,966,000 February 1, 1990.
(c) Redeemed February 1, 1990.

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, 1989 and 1988, the principal amounts of debentures reacquired in anticipation of sinking fund requirements were $3,408,000 and $2,552,000, 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, 1989	1988
	(in thousands)	
9.02% due 1990 (a)	$ —	$ 25,000
9.10% due 1990 (a)	—	25,000
9.12% due 1990 (b)	20,000	20,000
9.18% due 1990 (b)	20,000	20,000
9.28% due 1991	40,000	40,000
Total	$80,000	$130,000

(a) Redeemed November 30, 1989.
(b) Redeemed February 1, 1990.

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, 1989	1988
		(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		(4,047)	(4,268)
Total		$307,953	$307,732

(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 7.0% for 1989 and 5.9% for 1988.

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 Company's share of construction of pollution control facilities at certain generating plants of the Company. On certain series the principal is 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 were deposited with trustees and were 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, 1989 is due as follows:

	Principal Amount (in thousands)
1990	$ 501,170
1991	51,500
1992	13,500
1993	56,402
1994	13,500
Later Years	894,573
Total	$1,530,645

The amount of short-term debt the Company may borrow is limited by the provisions of the 1935 Act to $200,000,000. The Company had unused short-term bank lines of credit of approximately $233,000,000 and $259,000,000 at December 31, 1989 and 1988, respectively, under which notes could be issued with no maturity more than 270 days. The lines of credit are subject to withdrawal at the banks' option and are shared with other AEP System companies. In accordance with informal agreements with the banks, compensating balances of up to 10% or equivalent fees are required to maintain the lines of credit. Substantially all bank balances maintained by the Company compensate the banks for services and for the Company's share of both used and available lines of credit.

8. 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 Company and its subsidiaries to pay 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 included in the Company's balance sheet:

	December 31, 1989	1988
	(in thousands)	
Electric Utility Plant:		
Production	$ 8,835	$ 8,358
Distribution	14,603	14,603
General:		
Nuclear Fuel (net of amortization)	88,328	131,970
Other	34,777	35,541
Total Electric Utility Plant	146,543	190,472
Accumulated Provisions for Amortization	23,783	23,355
Net Electric Utility Plant	122,760	167,117
Other Property	16,746	17,134
Accumulated Provisions for Amortization	16,529	16,331
Net Other Property	217	803
Net Properties under Capital Leases	$122,977	$167,920
Obligations under Capital Leases (a)	$122,977	$167,920

(a) Includes an estimated $33,247,000 and $43,037,000 at December 31, 1989 and 1988, respectively, due within one year.

Payments made under capital leases include $52,815,000, $49,014,000 and $55,557,000 of amortization expense for the years ended December 31, 1989, 1988 and 1987, respectively.

Properties and related obligations under operating leases are not included in the Company's balance sheet.

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, 1989:

	Capital Leases (a)	Operating Leases (b)
	(in thousands)	
1990	$ 6,979	$ 101,784
1991	5,696	100,913
1992	4,909	90,688
1993	4,338	90,381
1994	3,944	90,010
Later Years	36,801	2,228,788
Total Future Minimum Lease Payments	62,667	$2,702,564
Less Estimated Interest Element Included Therein	28,018	
Estimated Present Value of Future Minimum Lease Payments	$34,649	

(a) Capital lease minimum payments do not include leases of nuclear fuel. Nuclear fuel rentals comprise the unamortized balance of the lessor's cost (approximately $88,328,000) 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 $59,212,000, $52,568,000 and $58,670,000 were charged to fuel for electric generation in 1989, 1988 and 1987, respectively.

(b) Operating lease minimum payments include payments for Rockport 2 lease, which began in December 1989.

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 affiliated companies in the AEP System based on their usage of the leased property. The Company and its subsidiaries cannot predict the extent to which the affiliated 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,		
	1989	1988	1987
		(in thousands)	
Operating Expenses	$11,000	$11,000	$11,000
Clearing and Miscellaneous Accounts (charged to Income or capitalized)	6,000	6,000	5,000
Total	$17,000	$17,000	$16,000

9. 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. Effective January 1, 1989 plan benefits are determined by a formula which considers each participant's highest average earnings, years of accredited service up to a 45-year limit and social security covered compensation. Previously, plan benefits were determined by a formula which considered 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's trust fund equal to the net periodic pension cost to the extent deductible for Federal income tax purposes, but not less than the minimum required contribution.

Net pension cost of the defined benefit plan for the years ended December 31, 1989, 1988 and 1987 was $1,271,000, $397,000 and $161,000, respectively.

In addition to providing pension benefits, the Company and its subsidiaries provide certain health care benefits for retired employees. If they have 10 years of health care plan participation at retirement, substantially all employees of the Company and its subsidiaries may become eligible for these benefits. The cost of retiree health care benefits is recognized as expense when paid. In 1989, 1988 and 1987, the cost of current retiree health care benefits totaled $2,121,000, $2,048,000 and $1,661,000, respectively.

10. Commitments and Contingencies:

Construction

The construction budget of the Company and its subsidiaries for the years 1990-1992 is estimated at $443,000,000, and, in connection therewith, commitments have been made.

Litigation

In February 1990 the Supreme Court of Indiana overruled an appeals court and reversed an IURC order that had assigned a major industrial customer to the Company's service territory. The Company has petitioned the Supreme Court for rehearing; however, if the petition were rejected, the Company could lose approximately $7 million of revenues annually.

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 rain. If any of these proposals 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 existing Clean Air Act seeking substantial 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 reductions in sulfur dioxide emissions from the Company's coal-fired generating plants.

Failure to obtain favorable rate-making treatment of resultant costs could adversely impact results of operations and financial condition.

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 $7,741,100,000 based on 114 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 $2 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 ($560,000,000) and Nuclear Electric Insurance Limited (NEIL). NEIL's excess property insurance program provides $975,000,000 in coverage. The maximum assessment under this program could be $8,100,000 (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 $1,575,000 per week for the second year, and $775,000 per week for the third 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 $6,868,000 (five times the 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. In June 1983, the Company entered into a contract with the U.S. Department of Energy (DOE) for the disposal of spent nuclear fuel. Under terms of the contract, 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. For the disposal of nuclear fuel consumed prior to April 7, 1983, 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. 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 ($9,000,000 collected in 1989). Because of the current uncertainties of DOE's program for permanent disposal of spent nuclear fuel, the Company has not yet commenced paying this fee.

The Company has received regulatory approval from all of its jurisdictions for the recovery of nuclear decommissioning costs associated with the Cook Plant which amounted to $9,000,000 before income taxes in 1989. An independent consulting firm employed by the Company has estimated that the cost of decommissioning the Cook Plant could range from $330,000,000 to $369,000,000 in 1989 dollars. 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.

11. Supplementary Income Statement Information:

Taxes other than Federal income taxes include the following items:

	Year Ended December 31, 1989	1988	1987
		(in thousands)	
Real and Personal Property Taxes	$31,897	$32,339	$28,002
State Gross Receipts, Excise and Franchise Taxes and Miscellaneous State and Local Taxes	29,282	12,361	9,383
State Income Taxes	28,057	4,913	3,306
Social Security Taxes	7,084	6,658	6,039
Deferred Taxes — Rockport 2 Sale and Leaseback Transaction	(39,943)	—	—
Total	$56,377	$56,271	$46,730

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)	
1989			
March 31	$257,688	$51,568	$36,352
June 30	244,738	46,239	28,028
September 30	249,761	56,242	40,357
December 31	253,451	56,347	32,408
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

Independent Auditors' Report

Deloitte & Touche

155 East Broad Street
Columbus, Ohio 43215-3650
Telephone: (614) 221-1000
Facsimile: (614) 229-4647

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, 1989 and 1988, and the related consolidated statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 1989. 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 as of December 31, 1989 and 1988, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1989 in conformity with generally accepted accounting principles.

Deloitte & Touche

February 20, 1990

Operating Statistics

	1989	1988	1987	1986	1985
ELECTRIC OPERATING REVENUES (in thousands):					
From Kilowatt-hour Sales:					
Retail:					
Residential:					
Without Electric Heating	$ 182,786	$189,845	$ 186,418	$ 174,550	$ 175,534
With Electric Heating	93,291	96,145	90,261	90,881	90,949
Total Residential	276,077	285,990	276,679	265,431	266,483
Commercial	196,404	194,982	191,352	184,276	181,240
Industrial	233,990	233,855	235,470	219,344	213,161
Miscellaneous	11,475	11,645	11,533	11,171	11,234
Total Retail	717,946	726,472	715,034	680,222	672,118
Wholesale (sales for resale)	274,916	248,283	293,379	400,779	396,980
Total from Kilowatt-hour Sales	992,862	974,755	1,008,413	1,081,001	1,069,098
Provision for Revenue Refunds	—	(1,800)	—	541	(105)
Total Net of Provision for Revenue Refunds	992,862	972,955	1,008,413	1,081,542	1,068,993
Other Operating Revenues	12,776	10,111	8,855	9,753	9,800
Total Electric Operating Revenues	$1,005,638	$983,066	$1,017,268	$1,091,295	$1,078,793

	1989	1988	1987	1986	1985
SOURCES AND SALES OF ENERGY (in millions of kilowatt-hours):					
Sources:					
Net Generated — Steam:					
Fossil Fuel	10,634	8,707	6,662	8,187	7,933
Nuclear Fuel	12,094	9,791	10,060	10,986	7,800
Net Generated — Hydroelectric	97	70	62	79	74
Subtotal	22,825	18,568	16,784	19,252	15,807
Purchased	2,229	1,700	2,558	4,941	3,248
Net Interchange	(1,942)	737	1,947	542	4,948
Total Sources	23,112	21,005	21,289	24,735	24,003
Less: Losses, Company Use, Etc.	1,606	1,630	1,456	1,645	1,542
Net Sources	21,506	19,375	19,833	23,090	22,461
Sales:					
Retail:					
Residential:					
Without Electric Heating	2,792	2,825	2,719	2,536	2,557
With Electric Heating	1,585	1,571	1,445	1,442	1,481
Total Residential	4,377	4,396	4,164	3,978	4,038
Commercial	3,375	3,290	3,142	3,007	2,968
Industrial	5,168	5,036	4,834	4,371	4,282
Miscellaneous	228	228	221	212	216
Total Retail	13,148	12,950	12,361	11,568	11,504
Wholesale (sales for resale)	8,358	6,425	7,472	11,522	10,957
Total Sales	21,506	19,375	19,833	23,090	22,461

OPERATING STATISTICS (Concluded)

	1989	1988	1987	1986	1985
AVERAGE COST OF FUEL CONSUMED (in cents):					
Per Million Btu:					
Coal	**164**	182	190	185	194
Nuclear	**61**	70	75	74	80
Overall	**106**	120	117	118	136
Per Kilowatt-hour Generated:					
Coal	**1.62**	1.81	1.87	1.82	1.97
Nuclear	**.67**	.77	.84	.83	.86
Overall	**1.11**	1.26	1.25	1.25	1.42
RESIDENTIAL SERVICE — AVERAGES:					
Annual Kwh Use per Customer:					
Total	**10,434**	10,596	10,146	9,813	10,050
With Electric Heating	**18,447**	18,551	17,341	17,716	18,486
Annual Electric Bill:					
Total	**$ 658.08**	$ 689.33	$ 674.13	$ 654.88	$ 663.18
With Electric Heating	**$1,085.56**	$1,135.46	$1,083.10	$1,116.86	$1,135.42
Price per Kwh (in cents):					
Total	**6.31**	6.51	6.64	6.67	6.60
With Electric Heating	**5.88**	6.12	6.25	6.30	6.14
NUMBER OF ELECTRIC CUSTOMERS:					
Year-End:					
Retail:					
Residential:					
Without Electric Heating	**335,625**	332,488	328,937	325,623	322,922
With Electric Heating	**87,016**	85,635	84,442	82,324	80,734
Total Residential	**422,641**	418,123	413,379	407,947	403,656
Commercial	**46,176**	45,249	44,207	43,689	43,017
Industrial	**4,485**	4,479	4,345	3,882	3,701
Miscellaneous	**2,026**	1,984	1,946	1,846	1,852
Total Retail	**475,328**	469,835	463,877	457,364	452,226
Wholesale (sales for resale)	**50**	108	105	106	104
Total Electric Customers	**475,378**	469,943	463,982	457,470	452,330

Dividends and Price Ranges of Cumulative Preferred Stock

By Quarters (1989 and 1988)

	1989 — Quarters				1988 — 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	—	—	—	—	—	—	—	—
— Low	—	—	—	—	—	—	—	—
4.56% Series								
Dividends Paid Per Share	$1.14	$1.14	$1.14	$1.14	$1.14	$1.14	$1.14	$1.14
Market Price — $ Per Share								
(OTC)								
Ask (high/low)	—	—	—	—	—	—	—	—
Bid (high/low)	—	—	—	—	—	—	—	—
4.12% Series								
Dividends Paid Per Share	$1.03	$1.03	$1.03	$1.03	$1.03	$1.03	$1.03	$1.03
Market Price — $ Per Share								
(OTC)								
Ask (high/low)	—	—	—	—	—	—	—	—
Bid (high/low)	—	—	—	—	—	—	—	—
7.08% Series								
Dividends Paid Per Share	$1.77	$1.77	$1.77	$1.77	$1.77	$1.77	$1.77	$1.77
Market Price — $ Per Share								
(NYSE) — High	71	76	77	77⅝	77⅝	70¾	70¼	71¾
— Low	66½	68	73⅜	75	68⅝	68⅛	67½	67¼
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	77⅝	85¼	85¼	84⅜	81⅝	77⅝	77¼	78⅝
— Low	74	74½	80	80⅞	75	74¼	73¾	73
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	84½	88½	92	92	91⅜	86½	85¼	87½
— Low	81½	81½	86	89	82½	82½	80½	81
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	103½	106½	106	108	107	107½	106	108½
— Low	101	102½	103	104	101¼	103½	102½	103
($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	22⅞	23	24⅜	24	25	25	23½	22⅞
— Low	21	20¾	22	22½	22	23⅛	21¼	21½
$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	23⅛	24	24⅝	25⅛	24⅜	24¼	24	23¾
— Low	21½	21⅝	23¼	23⅜	22	22½	22¼	21⅞
$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	26½	27½	27½	27	27½	27⅜	27	27½
— Low	26	25½	26	26¼	26½	26¾	26¼	26½

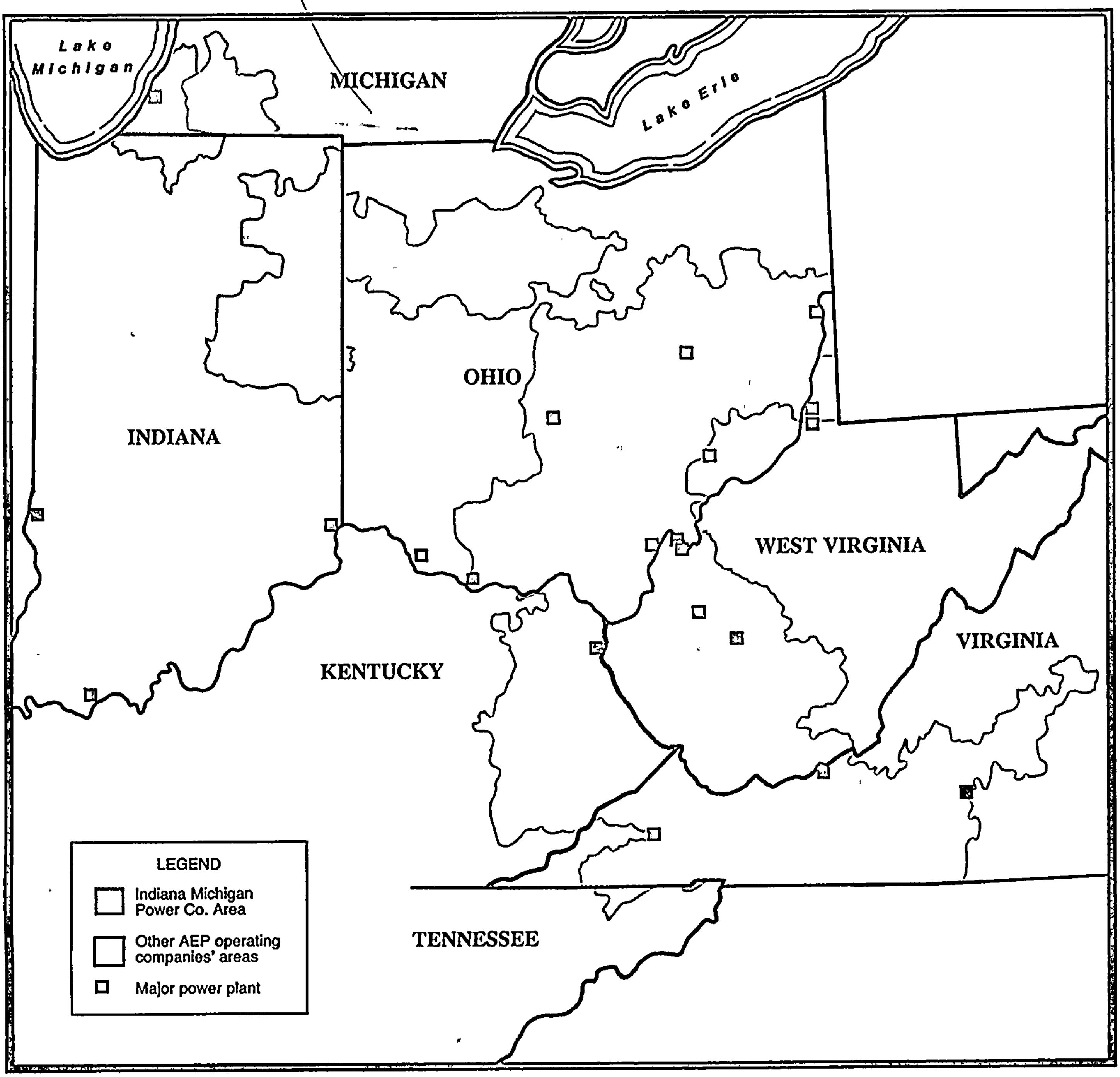
MSE — Midwest Stock Exchange
OTC — Over-the-Counter
NYSE — New York Stock Exchange

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

Market quotations provided by National Quotation Bureau, Inc.

Dash indicates quotation not available.

Indiana Michigan Power Service Area and the American Electric Power System



The Company's Annual Report
(Form 10-K) to the Securities and
Exchange Commission will be available
in April 1990 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

First Chicago Trust Company of New York

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

ENCLOSURE 2 TO AEP:NRC:0909F

INDIANA MICHIGAN POWER COMPANY'S

PROJECTED CASH FLOW

1990 Internal Cash Flow Projection
for Donald C. Cook Nuclear Plant
($ Millions)

	Actual 1989	Projected 1990
Net income after taxes	137.1	136
Less dividends paid	138.2	129
Retained earnings	(1.1)	7
Adjustments:		
Depreciation and amortization	150.5	152
Deferred Federal income taxes and investment tax credits	26.9	(21)
AFUDC	(60.1)	(3)
Total adjustments	117.3	128
Internal cash flow	116.2	135
Average quarterly cash flow	29.0	34
Average cash balances and short-term investments	58.7	20
Total	87.7	54

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

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

[illegible]

[illegible]