

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)	
INDIANA MICHIGAN POWER COMPANY)	
for a power supply cost recovery reconciliation)	Case No. U-14273-R
proceeding for the 12-month period ended)	
December 31, 2005.)	
_____)	

At the August 22, 2006 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. J. Peter Lark, Chairman
Hon. Laura Chappelle, Commissioner
Hon. Monica Martinez, Commissioner

ORDER APPROVING SETTLEMENT AGREEMENT

On March 31, 2006, Indiana Michigan Power Company (I&M) filed its application for a power supply cost recovery (PSCR) reconciliation proceeding for the 12-month period ended December 31, 2005 together with supporting testimony and exhibits. In its application, I&M requested to separately reconcile the power supply costs incurred and revenues recovered during 2005 for customers located in I&M's St. Joseph and Three Rivers rate areas.

Pursuant to due notice, a prehearing conference was held on May 16, 2006, before Administrative Law Judge James N. Rigas. I&M and the Commission Staff participated in the proceedings. Subsequently, the parties submitted a settlement agreement resolving all issues in this case.

In the settlement agreement, attached as Exhibit A, the parties agree that I&M should be authorized to apply a PSCR reconciliation credit factor of 1.67 mills per kilowatt-hour (kWh) in its St. Joseph rate area and a PSCR reconciliation surcharge factor of 4.37 mills per kWh in its Three Rivers rate area for the billing months of September through November 2006.

The Commission FINDS that:

a. Jurisdiction is pursuant to 1909 PA 106, as amended, MCL 460.551 *et seq.*; 1919 PA 419, as amended, MCL 460.51 *et seq.*; 1939 PA 3, as amended, MCL 460.1 *et seq.*; 1982 PA 304, as amended, MCL 460.6h *et seq.*; 1969 PA 306, as amended, MCL 24.201 *et seq.*; and the Commission's Rules of Practice and Procedure, as amended, 1999 AC, R 460.17101 *et seq.*

b. The settlement agreement is reasonable, in the public interest, and should be approved.

THEREFORE, IT IS ORDERED that:

A. The settlement agreement, attached as Exhibit A, is approved.

B. Indiana Michigan Power Company is authorized to apply a power supply cost recovery reconciliation credit factor of 1.67 mills per kilowatt-hour in its St. Joseph rate area and a power supply cost recovery reconciliation surcharge factor of 4.37 mills per kilowatt-hour in its Three Rivers rate area for the billing months of September through November 2006.

C. Indiana Michigan Power Company shall electronically file with the Commission, within 30 days, tariff sheets in conformity with the attachment to the settlement agreement.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ J. Peter Lark
Chairman

(S E A L)

/s/ Laura Chappelle
Commissioner

/s/ Monica Martinez
Commissioner

By its action of August 22, 2006.

/s/ Mary Jo Kunkle
Its Executive Secretary

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

Chairman

Commissioner

Commissioner

By its action of August 22, 2006.

Its Executive Secretary

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the Application of)	
INDIANA MICHIGAN POWER COMPANY)	
for a Power Supply Cost Reconciliation)	Case No. U-14273-R
proceeding for the 12-month period)	(e-file)
ended December 31, 2005)	
_____)	

SETTLEMENT AGREEMENT

For the purpose of settling the issues in the above captioned proceeding only, and subject to the acceptance and approval of the Michigan Public Service Commission (Commission) without modification, and without prejudice to the prenegotiation positions of the parties in this or any other proceeding, the parties hereto agree and stipulate as follows:

On March 31, 2006, Indiana Michigan Power Company (I&M) filed its Application for a power supply cost recovery (PSCR) reconciliation proceeding (PSCR Reconciliation) for the 12-month period ended December 31, 2005 together with supporting testimony and exhibits. By its application, I&M requested a PSCR Reconciliation to separately reconcile the costs of power supply incurred and recovered during 2005 for customers located in I&M's St. Joseph and Three Rivers rate areas.

Based upon its calculations, I&M determined that its 2005 power supply revenues for the St. Joseph rate area exceeded its 2005 power supply costs, resulting in an overrecovery. In addition, I&M determined that the 2005 power supply costs for the Three Rivers rate area exceeded the 2005 power supply revenues, resulting in an

underrecovery.

Pursuant to instructions of the Commission's Executive Secretary, I&M gave public notice to its customers by publishing a Notice of Hearing in its Michigan electric service areas, as well as by serving a copy of the Notice of Hearing upon all cities, incorporated villages, townships and counties within I&M's Michigan electric service area. I&M's Proof of Service and Affidavits of Publication were filed with the Commission on May 12, 2006.

Pursuant to the Notice of Hearing, a prehearing conference was held on May 16, 2006, at the Commission offices in Lansing, Michigan, before Administrative Law Judge James N. Rigas. The Commission Staff (Staff) was represented by counsel.

The Staff conducted an investigation of I&M's 2005 PSCR costs, which included an audit of I&M's books and records, a detailed review of I&M's filed testimony and exhibits, and discussions with I&M personnel. Settlement discussions took place among the parties during the period following the prehearing conference.

Encouraged by the Commission's Rules of Practice and Procedure (Rule 333, 1992 MR 3, R 460.17333), I&M and Staff have agreed on the issues in this proceeding as set forth in this Settlement Agreement.

It is the opinion of the parties hereto that this Settlement Agreement will promote the public interest, will aid the expeditious conclusion of this case, and will minimize the time and expense which would otherwise have to be devoted to this matter by the Commission and all of the parties. This Settlement Agreement is for the sole purpose of resolving this case, is not severable, and all provisions of the same are dependent upon all other provisions contained herein.

In addition to the foregoing, the parties stipulate and agree as follows:

1. During the calendar year 2005, I&M's total Michigan jurisdictional PSCR revenues recorded for the St. Joseph rate area were \$8,201,109 and its total Michigan jurisdictional costs of power supply for the St. Joseph rate area actually expensed were \$7,548,825 resulting in an overrecovery in the amount of \$652,284.

2. During the calendar year 2005, I&M's total Michigan jurisdictional PSCR revenues recorded for the Three Rivers rate area were \$10,043,179 and its total Michigan jurisdictional costs of power supply for the Three Rivers rate area actually expensed were \$11,145,989 resulting in an underrecovery in the amount of \$1,102,810.

3. The amounts actually expensed for power supply during 2005 in the St. Joseph and Three Rivers rate areas were incurred through reasonable and prudent actions.

4. During the calendar year 2005, no power supply costs were incurred that should be disallowed pursuant to MCL 460.6j(13).

5. I&M should be authorized to implement a credit factor of 1.67 mills/kWh effective for the St. Joseph rate area during the billing months of September through November 2006, to refund the net 2005 PSCR overrecovery of \$800,291. The monthly charge per lamp for all unmetered street lighting and outdoor lighting tariff rates will be adjusted by the credit factor times the monthly kWh usage per lamp. The credit factor was calculated as shown in Attachment A to this Settlement Agreement.

6. I&M should be authorized to implement a surcharge of 4.37 mills/kWh effective for the Three Rivers rate area during the billing months of September through November 2006, to collect the net 2005 PSCR underrecovery of \$1,150,938. The

monthly charge per lamp for all unmetered street lighting and outdoor lighting tariff rates will be adjusted by the surcharge factor times the monthly kWh usage per lamp. The surcharge was calculated as shown in Attachment B to this Settlement Agreement.

7. The surcharges calculated in Attachments A and B are based on projected kWh usage for the September through November 2006 surcharge period. If actual kWh usage for this period is greater than or less than the projection, I&M or any other party may propose an adjustment in I&M's 2006 PSCR reconciliation proceeding for an additional recovery or refund to reflect the actual usage.

8. This Settlement Agreement is intended for final disposition of this proceeding, and the parties hereto join in respectfully requesting the Commission to grant approval of the same. The Staff has reviewed this Settlement Agreement and has found it to be reasonable and in the public interest. Each party agrees not to appeal, challenge, or contest the rates approved by the Commission in this case if they are the result of an order of the Commission in this proceeding accepting and approving this Settlement Agreement without modification. If the Commission does not accept this Settlement Agreement without modification, the Settlement Agreement shall be withdrawn and shall not constitute any part of the record in this proceeding or be used for any other purposes whatsoever.

9. This Settlement Agreement has been made for the sole and express purpose of reaching a compromise among the positions of the parties to this proceeding. All offers of settlement and discussions relating hereto are and shall be privileged, and this Settlement Agreement and the Commission order approving this Agreement shall not be used as precedent or in any other manner, not be admissible, in

connection with this proceeding or any other judicial or administrative proceeding for any purpose other than enforcing the agreement.

10. The parties hereto agree to waive Section 81 of the Administrative Procedures Act of 1969 MCL 24.281.

INDIANA MICHIGAN POWER COMPANY

Dated: June 29, 2006

Richard J. Aaron (P-35605)
Honigman Miller Schwartz and Cohn, L.L.P.
Attorney for Indiana Michigan Power Company

MICHIGAN PUBLIC SERVICE COMMISSION
STAFF

Dated: June ____, 2006

Emmanuel B. Oduniami (P-66255)
Assistant Attorney General
Attorney for Michigan Public Service
Commission Staff

LANSING271456

INDIANA MICHIGAN POWER COMPANY
ST. JOSEPH RATE AREA
RECONCILIATION OF PSCR REVENUES RECORDED WITH ACTUAL ALLOWABLE PSCR COSTS
JANUARY 2005 - DECEMBER 2005

LINE NO	MONTH	TOTAL PSCR FACTOR AS BILLED (MILLS/KWH)	TOTAL PSCR ACTUAL COSTS (MILLS/KWH)	KWH SUBJECT TO FACTOR	TOTAL PSCR REVENUE (COL. 3 X 5) \$	RECOVERABLE PSCR COST (COL.4 X 5) \$	OVER/(UNDER) RECOVERY (COL. 6 - 7) \$
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	JANUARY	4.01	2.48	192,533,144	772,058	477,482	294,576
2	FEBRUARY	4.01	2.68	175,544,064	703,932	470,458	233,474
3	MARCH	4.01	4.57	179,774,136	720,894	821,568	(100,674)
4	APRIL	4.01	5.04	155,346,936	622,941	782,949	(160,008)
5	MAY	4.01	(1.46)	139,169,916	558,071	(203,188)	761,259
6	JUNE	4.01	4.31	160,834,500	644,946	693,197	(48,251)
7	JULY	4.01	5.18	185,797,567	745,048	962,431	(217,383)
8	AUGUST	4.01	6.31	192,667,324	772,596	1,215,731	(443,135)
9	SEPTEMBER	4.01	3.12	184,514,666	739,904	575,686	164,218
10	OCTOBER	4.01	2.92	154,205,037	618,362	450,279	168,083
11	NOVEMBER	4.01	3.70	145,212,666	582,303	537,287	45,016
12	DECEMBER	4.01	4.26	179,564,610	720,054	764,945	(44,891)
13	TOTAL			2,045,164,566	8,201,109	7,548,825	652,284

INDIANA MICHIGAN POWER COMPANY
ST. JOSEPH RATE AREA
INTEREST CALCULATION
JANUARY 2005 - DECEMBER 2005

<u>MONTH</u>	<u>OVER/(UNDER) RECOVERY</u>	<u>OVER/(UNDER) RECOVERY BEG. OF MO.</u>	<u>OVER/(UNDER) RECOVERY END OF MO.</u>	<u>OVER/(UNDER) RECOVERY AVERAGE</u>	<u>OVER/(UNDER) RECOVERY INTEREST RATE *</u>	<u>OVER/(UNDER) RECOVERY INTEREST</u>
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	\$	\$	\$	\$	%	\$
JANUARY	294,576		294,576	147,288	13.000%	1,596
FEBRUARY	233,474	294,576	528,050	411,313	13.000%	4,456
MARCH	(100,674)	528,050	427,376	477,713	13.000%	5,175
APRIL	(160,008)	427,376	267,368	347,372	13.000%	3,763
MAY	761,259	267,368	1,028,627	647,998	13.000%	7,020
JUNE	(48,251)	1,028,627	980,376	1,004,502	13.000%	10,882
JULY	(217,383)	980,376	762,993	871,685	13.000%	9,443
AUGUST	(443,135)	762,993	319,858	541,426	13.000%	5,865
SEPTEMBER	164,218	319,858	484,076	401,967	13.000%	4,355
OCTOBER	168,083	484,076	652,159	568,118	13.000%	6,155
NOVEMBER	45,016	652,159	697,175	674,667	13.000%	7,309
DECEMBER	(44,891)	697,175	652,284	674,730	13.000%	7,310
TOTAL	652,284					73,329

* MONTHLY INTEREST RATE IS CALCULATED BY DIVIDING COLUMN (6) BY 12

INDIANA MICHIGAN POWER COMPANY
ST. JOSEPH RATE AREA
CALCULATION OF PROPOSED OVERRECOVERY CREDIT FACTOR

<u>LINE NO.</u> (1)	<u>DESCRIPTION</u> (2)	<u>SOURCE</u> (3)	2005 PSCR <u>RECONCIL- IATION</u> (4)	<u>TOTAL</u> (5)
1	PRINCIPAL AMOUNT OF OVER(UNDER) RECOVERY	PAGE 1	652,284	652,284
2	INTEREST FOR JANUARY - DECEMBER 2005	PAGE 2	73,329	73,329
3	SUBTOTAL	LINES 1 + 2	725,613	725,613
4	INTEREST TO MIDDLE OF CREDIT PERIOD - SEPTEMBER 2006 - NOVEMBER 2006	.13000 X (9.5/12)	74,678	74,678
5	TOTAL	LINES 3 + 4	800,291	800,291
6	PROJECTED SEPTEMBER 2006 - NOVEMBER 2006 ST. JOSEPH RATE AREA KWH SALES	Exhibit IM-3		480,500,000 KWH
7	CREDIT FACTOR TO BE APPLIED TO CUSTOMER BILLS DURING THE BILLING MONTHS OF SEPTEMBER 2006 - NOVEMBER 2006	LINE 5 / LINE 6		(1.67) MILLS/KWH

INDIANA MICHIGAN POWER COMPANY
THREE RIVERS RATE AREA
RECONCILIATION OF PSCR REVENUES RECORDED WITH ACTUAL ALLOWABLE PSCR COSTS
JANUARY 2005 - DECEMBER 2005

LINE NO	MONTH	TOTAL	TOTAL	KWH SUBJECT TO FACTOR	TOTAL PSCR	RECOVERABLE	OVER/(UNDER)
		PSCR FACTOR AS BILLED (MILLS/KWH)	PSCR ACTUAL COSTS (MILLS/KWH)		REVENUE (COL. 3 X 5)	PSCR COSTS (COL. 4 X 5)	RECOVERY (COL. 6 - 7)
(1)	(2)	(3)	(4)	(5)	(6) \$	(7) \$	(8) \$
1	JANUARY	9.430	10.424	93,094,539	877,882	970,417	(92,535)
2	FEBRUARY	9.430	10.204	88,116,235	830,936	899,138	(68,202)
3	MARCH	9.430	9.631	88,812,133	837,498	855,350	(17,852)
4	APRIL	9.430	11.865	80,462,602	758,763	954,689	(195,926)
5	MAY	9.430	9.340	78,561,356	740,834	733,763	7,071
6	JUNE	9.430	11.027	87,368,772	823,887	963,415	(139,528)
7	JULY	9.430	10.640	94,250,127	888,778	1,002,821	(114,043)
8	AUGUST	9.430	10.810	100,986,906	952,306	1,091,668	(139,362)
9	SEPTEMBER	9.430	10.698	99,180,099	935,268	1,061,029	(125,761)
10	OCTOBER	9.430	9.121	86,110,989	812,026	785,418	26,608
11	NOVEMBER	9.430	10.345	79,216,353	747,010	819,493	(72,483)
12	DECEMBER	9.430	11.352	88,864,379	837,991	1,008,788	(170,797)
13	TOTAL			1,065,024,490	10,043,179	11,145,989	(1,102,810)

INDIANA MICHIGAN POWER COMPANY
THREE RIVERS RATE AREA
INTEREST CALCULATION
JANUARY 2005 - DECEMBER 2005

<u>MONTH</u>	<u>OVER/(UNDER) RECOVERY</u>	<u>OVER/(UNDER) RECOVERY BEG. OF MO.</u>	<u>OVER/(UNDER) RECOVERY END OF MO.</u>	<u>OVER/(UNDER) RECOVERY AVERAGE</u>	<u>OVER/(UNDER) RECOVERY INTEREST RATE *</u>	<u>OVER/(UNDER) RECOVERY INTEREST</u>
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	\$	\$	\$	\$	%	\$
JANUARY	(92,535)		(92,535)	(46,268)	1.932%	(74)
FEBRUARY	(68,202)	(92,535)	(160,737)	(126,636)	2.105%	(222)
MARCH	(17,852)	(160,737)	(178,589)	(169,663)	2.342%	(331)
APRIL	(195,926)	(178,589)	(374,515)	(276,552)	3.011%	(694)
MAY	7,071	(374,515)	(367,444)	(370,980)	3.150%	(974)
JUNE	(139,528)	(367,444)	(506,972)	(437,208)	3.189%	(1,162)
JULY	(114,043)	(506,972)	(621,015)	(563,994)	3.472%	(1,632)
AUGUST	(139,362)	(621,015)	(760,377)	(690,696)	3.649%	(2,100)
SEPTEMBER	(125,761)	(760,377)	(886,138)	(823,258)	3.834%	(2,630)
OCTOBER	26,608	(886,138)	(859,530)	(872,834)	3.915%	(2,848)
NOVEMBER	(72,483)	(859,530)	(932,013)	(895,772)	3.936%	(2,938)
DECEMBER	(170,797)	(932,013)	(1,102,810)	(1,017,412)	4.380%	(3,714)
TOTAL	(1,102,810)					(19,319)

* MONTHLY INTEREST RATE IS CALCULATED BY DIVIDING COLUMN (6) BY 12

INDIANA MICHIGAN POWER COMPANY
THREE RIVERS RATE AREA
CALCULATION OF PROPOSED UNDERRECOVERY SURCHARGE FACTOR

LINE NO.	DESCRIPTION	SOURCE	2005 PSCR RECONCIL- IATION	TOTAL
(1)	(2)	(3)	(4)	(5)
1	PRINCIPAL AMOUNT OF OVER(UNDER) RECOVERY	PAGE 1	(1,102,810)	(1,102,810)
2	INTEREST FOR JANUARY - DECEMBER 2005	PAGE 2	(19,319)	(19,319)
3	SUBTOTAL	LINES 1 + 2	(1,122,129)	(1,122,129)
4	INTEREST TO MIDDLE OF SURCHARGE PERIOD - SEPTEMBER 2006 - NOVEMBER 2006	.03243 X (9.5/12)	(28,809)	(28,809)
5	TOTAL	LINES 3 + 4	(1,150,938)	(1,150,938)
6	PROJECTED SEPTEMBER 2006 - NOVEMBER 2006 THREE RIVERS RATE AREA KWH SALES	Exhibit IM-6		263,200,000 KWH
7	SURCHARGE FACTOR TO BE APPLIED TO CUSTOMER BILLS DURING THE BILLING MONTHS OF SEPTEMBER 2006 - NOVEMBER 2006	LINE 5 / LINE 6		4.37 MILLS/KWH