

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 and Projected Net Plant at Year-End 2009

INDIANA MICHIGAN POWER COMPANY

Line No.				Transmission Amount
1	REVENUE REQUIREMENT (w/o incentives)	(ln 137)		\$90,015,389
2	REVENUE CREDITS	(Note A) (Worksheet E)	<u>Total</u> 3,281,616	
3	REVENUE REQUIREMENT For All I&M Facilities	(ln 1 less ln 2)	<u>Allocator</u> DA 1.00000	\$ 3,281,616
				<u>\$ 86,733,773</u>
<b>MEMO: The Carrying Charge Calculations on lines 5 to 11 below is used in calculating project revenue requirements billed on PJM Schedule 12. The total non-incentive revenue requirements for these projects shown on line 4 is included in the total on line 3.</b>				
4	Revenue Requirement for PJM RTEP Regional Facilities (w/o incentives) (Worksheet J)		- DA 1.00000	\$ -
5	NET PLANT CARRYING CHARGE W/O AFFILIATED LEASE PAYMENTS & T.E.A. ADJUSTMENT ADDBACK (w/o incentives) (Note B)			
6	Annual Rate	((ln 1 - ln 106 - ln 107) / ln 48 x 100)		20.97%
7	Monthly Rate	(ln 6 / 12)		1.75%
8	NET PLANT CARRYING CHARGE ON LINE 6 , W/O DEPRECIATION (w/o incentives) (Note B)			
9	Annual Rate	((ln 1 - ln 106 - ln 107 - ln 112) / ln 48 x 100)		18.48%
10	NET PLANT CARRYING CHARGE ON LINE 8, W/O INCOME TAXES, RETURN (Note B)			
11	Annual Rate	((ln 1 - ln 106 - ln 107 - ln 112 - ln 134 - ln 135) / ln 48 x 100)		6.00%
12	ADDITIONAL REVENUE REQUIREMENT for projects w/ incentive ROE's (Note B) (Worksheet J)			-
13	<b>REVENUE REQUIREMENT FOR SCHEDULE 1A CHARGES</b>			
14	Total Load Dispatch & Scheduling (Account 561)	Line 86 Below		4,586,660
15	Less: Load Disptach - Scheduling, System Control and Dispatch Services (321.88.b)			2,680,249
16	Less: Load Disptach - Reliability, Planning & Standards Development Services (321.92.b)			463,820
17	Total 561 Internally Developed Costs	(Line 14 - Line 15 - Line 16)		<u>1,442,591</u>

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Line No.	(1)	(2)	(3)	(4)	(5)
	<u>RATE BASE CALCULATION</u>	<u>Data Sources</u> <u>(See "General Notes")</u>	<u>TO Total</u> <u>NOTE C</u>	<u>Allocator</u>	<u>Total</u> <u>Transmission</u>
18	GROSS PLANT IN SERVICE				
18	Production	(Worksheet A In 1.C)	3,510,871,880	NA 0.00000	-
19	Less: Production ARO (Enter Negative)	(Worksheet A In 2.C)	(210,555,163)	NA 0.00000	-
20	Transmission	(Worksheet A In 3.C & In 141)	1,115,559,969	DA	1,083,672,068
21	Less: Transmission ARO (Enter Negative)	(Worksheet A In 4.C)	-	TP 0.97142	-
22	Plus: Transmission Plant-in-Service Additions (Worksheet I)		59,518,406	TP 0.97142	57,817,092
23	Plus: Additional Trans Plant on Transferred Assets (Worksheet I)		-	TP 0.97142	-
24	Distribution	(Worksheet A In 5.C)	1,282,807,855	NA 0.00000	-
25	Less: Distribution ARO (Enter Negative)	(Worksheet A In 6.C)	-	NA 0.00000	-
26	General Plant	(Worksheet A In 7.C)	90,950,125	W/S 0.04000	3,638,081
27	Less: General Plant ARO (Enter Negative)	(Worksheet A In 8.C)	(191,891)	W/S 0.04000	(7,676)
28	Intangible Plant	(Worksheet A In 9.C)	150,285,508	W/S 0.04000	6,011,546
29	TOTAL GROSS PLANT	(sum Ins 18 to 28)	5,999,246,689		1,151,131,112
30	ACCUMULATED DEPRECIATION AND AMORTIZATION				
31	Production	(Worksheet A In 12.C)	2,151,153,329	NA 0.00000	-
32	Less: Production ARO (Enter Negative)	(Worksheet A In 13.C)	(63,497,976)	NA 0.00000	-
33	Transmission	(Worksheet A In 14.C & 28.C)	493,992,419	TP1= 0.96345	475,937,616
34	Less: Transmission ARO (Enter Negative)	(Worksheet A In 15.C)	-	TP1= 0.96345	-
35	Plus: Transmission Plant-in-Service Additions (Worksheet I)		169,413	DA 1.00000	169,413
36	Plus: Additional Projected Deprec on Transferred Assets (Worksheet I)		-	DA 1.00000	-
37	Plus: Additional Transmission Depreciation for 2009 (In 112)		15,550,510	TP1 0.96345	14,982,158
38	Plus: Additional General & Intangible Depreciation for 2009 (In 114 + In 115)		25,568,949	W/S 0.04000	1,022,779
39	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I)		-	DA 1.00000	-
40	Distribution	(Worksheet A In 16.C)	434,351,312	NA 0.00000	-
41	Less: Distribution ARO (Enter Negative)	(Worksheet A In 17.C)	-	NA 0.00000	-
42	General Plant	(Worksheet A In 18.C)	22,210,516	W/S 0.04000	888,439
43	Less: General Plant ARO (Enter Negative)	(Worksheet A In 19.C)	(128,038)	W/S 0.04000	(5,122)
44	Intangible Plant	(Worksheet A In 20.C)	104,775,764	W/S 0.04000	4,191,118
45	TOTAL ACCUMULATED DEPRECIATION	(sum Ins 31 to 44)	3,184,146,198		497,186,403
46	NET PLANT IN SERVICE				
47	Production	(In 18 + In 19 - In 31 - In 32)	1,212,661,364		-
48	Transmission	(In 20 + In 21 - In 33 - In 34)	621,567,550		607,734,452
49	Plus: Transmission Plant-in-Service Additions (In 22 - In 35)		59,348,993		57,647,679
50	Plus: Additional Trans Plant on Transferred Assets (In 23 - In 36)		-		-
51	Plus: Additional Transmission Depreciation for 2009 (-In 37)		(15,550,510)		(14,982,158)
52	Plus: Additional General & Intangible Depreciation for 2009 (-In 38)		(25,568,949)		(1,022,779)
53	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I) (-In 39)		-		-
54	Distribution	(In 24 + In 25 - In 40 - In 41)	848,456,543		-
55	General Plant	(In 26 + In 27 - In 42 - In 43)	68,675,756		2,747,088
56	Intangible Plant	(In 28 - In 44)	45,509,744		1,820,428
57	TOTAL NET PLANT IN SERVICE	(sum Ins 47 to 56)	2,815,100,491		653,944,709
58	DEFERRED TAX ADJUSTMENTS TO RATE BASE	(Note D)			
59	Account No. 281.1 (enter negative)	(Worksheet B, In 2 & In 5.C)	(306,737)	NA	-
60	Account No. 282.1 (enter negative)	(Worksheet B, In 7 & In 10.C)	(504,159,932)	DA	(106,924,485)
61	Account No. 283.1 (enter negative)	(Worksheet B, In 12 & In 15.C)	(474,221,784)	DA	(10,922,677)
62	Account No. 190.1	(Worksheet B, In 17 & In 20.C)	679,711,219	DA	18,138,329
63	Account No. 255 (enter negative)	(Worksheet B, In 24 & In 25.C)	-	DA	-
64	TOTAL ADJUSTMENTS	(sum Ins 59 to 63)	(298,977,234)		(99,708,833)
65	PLANT HELD FOR FUTURE USE	(Worksheet A In 29 (C) & In 30(C))	7,747,429	DA	202,362
66	CONSTRUCTION WORK IN PROGRESS	(Worksheet A In 31.C)	-	TP 0.97142	-
67	REGULATORY ASSETS	(Worksheet A In 36. (C))	-	DA	-
68	WORKING CAPITAL	(Note E)			
69	Cash Working Capital	(1/8 * In 105)	16,191,571		3,010,352
70	Transmission Materials & Supplies	(Worksheet C, In 2.(D))	662,273	TP 0.97142	643,342
71	A&G Materials & Supplies	(Worksheet C, In 3.(D))	861,996	W/S 0.04000	34,481
72	Stores Expense	(Worksheet C, In 4.(D))	-	GP(h) 0.18407	-
73	Prepayments (Account 165) - Labor Allocated	(Worksheet C, In 6.G)	63,725,603	W/S 0.04000	2,549,078
74	Prepayments (Account 165) - Gross Plant	(Worksheet C, In 6.F)	5,235,921	GP(h) 0.18407	963,766
75	Prepayments (Account 165) - Transmission Only	(Worksheet C, In 6.E)	-	DA 1.00000	-
76	Prepayments (Account 165) - Unallocable	(Worksheet C, In 6.D)	(62,701,138)	NA 0.00000	-
77	TOTAL WORKING CAPITAL	(sum Ins 69 to 76)	23,976,226		7,201,018
78	IPP CONTRIBUTIONS FOR CONSTRUCTION	(Note F) (Worksheet D, In 7.(B))	(5,636,829)	DA 1.00000	(5,636,829)
79	RATE BASE (sum Ins 57, 64, 65, 77, 78)		2,542,210,083		556,002,427

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Line No.	(1) EXPENSE, TAXES, RETURN & REVENUE REQUIREMENTS CALCULATION	(2) Data Sources (See "General Notes")	(3) TO Total	(4) Allocator	(5) Total Transmission
80	OPERATION & MAINTENANCE EXPENSE				
81	Production	321.80.b	1,418,245,089		
82	Distribution	322.156.b	70,804,747		
83	Customer Related Expense	322 & 323.164,171,178.b	24,521,968		
84	Regional Marketing Expenses	322.131.b	2,306,869		
85	Transmission	321.112.b	(12,232,846)		
86	TOTAL O&M EXPENSES	(sum Ins 80 to 84)	1,503,645,827		
87	Less: Total Account 561	(Note G) 321.84-92.b	4,586,660		
88	Less: Account 565	(Note H) 321.96.b	(36,420,079)		
89	Less: Regulatory Deferrals & Amortizations	(Note J) (Worksheet F, In 4.C)	-		
	Total O&M Allocable to Transmission	(Ins 84 - 86 - 87 - 88)	19,600,573	TP 0.97142	19,040,297
90	Administrative and General	323.197.b (Note K)	121,382,988		
91	Less: Acct. 924, Property Insurance	323.185.b	1,670,336		
92	Acct. 928, Reg. Com. Exp.	323.189.b	12,513,029		
93	Acct. 930.1, Gen. Advert. Exp.	323.191.b	778,418		
94	Acct. 930.2, Misc. Gen. Exp.	323.192.b	2,002,329		
95	Balance of A & G	(In 90 - sum In 91 to In 94)	104,418,876	W/S 0.04000	4,176,843
96	Plus: Acct. 924, Property Insurance	(In 91)	1,670,336	GP(h) 0.18407	307,455
97	Acct. 928 - Transmission Specific	Worksheet F In 16.(E) (Note L)	-	TP 0.97142	-
98	Acct. 928 - Transmission Allocated	Worksheet F In 16.(F) (Note L)	-	GP(h) 0.18407	-
99	Acct 930.1 - Only safety related ads -Direct	Worksheet F In 32.(E) (Note L)	-	DA 1.00000	-
100	Acct 930.1 - Only safety related ads - Allocated.	Worksheet F In 32.(F) (Note L)	-	GP(h) 0.18407	-
101	Acct 930.2 - Misc Gen. Exp. - Trans	Worksheet F In 38.(E) (Note L)	421,361	DA 1.00000	421,361
102	Acct 930.2 - Misc Gen. Exp. - Allocated	Worksheet F In 38.(F) (Note L)	3,052,401	W/S 0.04000	122,099
103	Less: PBOP Expense In Acct. 926 Adjustment	Worksheet F In 12.(C) (Note L)	(369,020)	W/S 0.04000	(14,761)
104	A & G Subtotal	(sum Ins 95 to 102 less In 103)	109,931,994		5,042,519
105	O & M EXPENSE SUBTOTAL	(In 89 + In 104)	129,532,567		24,082,816
106	Plus: TEA Settlement in Account 565	Company Records (Note M)	(37,398,479)	DA 1.00000	(37,398,479)
107	Plus: Transmission Lease Payments To Affiliates in Acct 565 (Company Records) (Note M)		-	DA 1.00000	-
108	TOTAL O & M EXPENSE	(In 105 + In 106 + In 107)	92,134,088		(13,315,663)
109	DEPRECIATION AND AMORTIZATION EXPENSE				
110	Production	336.2-6.f	54,173,333	NA 0.00000	-
111	Distribution	336.8.f	30,236,396	NA 0.00000	-
112	Transmission	336.7.f	15,550,510	TP 0.97142	15,106,004
113	Plus: Transmission Plant-in-Service Additions (Worksheet I) In 21		169,413	TP 0.97142	164,570
114	General	336.10.f	2,667,083	W/S 0.04000	106,686
115	Intangible	336.1.f	22,901,866	W/S 0.04000	916,094
116	TOTAL DEPRECIATION AND AMORTIZATION	(sum Ins 110 to 115)	125,698,601		16,293,354
117	TAXES OTHER THAN INCOME	(Note N)			
118	Labor Related				
119	Payroll	Worksheet H, In 19 (D)	12,438,828	W/S 0.04000	497,564
120	Plant Related				
121	Property	Worksheet H, In 19 (C)	44,419,340	DA 1.00000	10,063,430
122	Gross Receipts/Sales & Use	Worksheet H, In 19 (F)	13,598,621	NA 0.00000	-
123	Other	Worksheet H, In 19 (E)	1,556,502	GP(h) 0.18407	286,502
124	TOTAL OTHER TAXES	(sum Ins 119 to 123)	72,013,291		10,847,496
125	INCOME TAXES	(Note O)			
126	$T=1 - ((1 - SIT) * (1 - FIT)) / (1 - SIT * FIT * p)$		38.79%		
127	$EIT=(T/(1-T)) * (1-(WCLTD/WACC)) =$		45.90%		
128	where WCLTD=(In 160) and WACC = (In 163)				
129	and FIT, SIT & p are as given in Note O				
130	$GRCF=1 / (1 - T) =$ (from In 126)		1.6337		
131	Amortized Investment Tax Credit (enter negative)	(FF1 p.114, In 19.c)	(2,196,264)		
132	Income Tax Calculation	(In 127 * In 135)	110,240,850		24,110,588
133	ITC adjustment	(In 130 * In 131)	(3,588,051)	NP(h) 0.21892	(785,510)
134	TOTAL INCOME TAXES	(sum Ins 132 to 133)	106,652,799		23,325,078
135	RETURN ON RATE BASE (Rate Base*WACC)	(In 79 * In 163)	240,164,984		52,526,074
136	INTEREST ON IPP CONTRIBUTION FOR CONST. (Note E) (Worksheet D, In 2 (B))		339,051	DA 1.00000	339,051
137	TOTAL REVENUE REQUIREMENT		637,002,815		90,015,389
	(sum Ins 108, 116, 124, 134, 135, 136)				

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SUPPORTING CALCULATIONS

In No.	TRANSMISSION PLANT INCLUDED IN PJM TARIFF							
138	Total transmission plant	(In 20)						1,115,559,969
139	Less transmission plant excluded from PJM Tariff	(Note P)						-
140	Less transmission plant included in OATT Ancillary Services	(Worksheet A, In 23, Col. (C))	(Note Q)					31,887,901
141	Transmission plant included in PJM Tariff	(In 138 - In 139 - In 140)						<u>1,083,672,068</u>
142	Percent of transmission plant in PJM Tariff	(In 141 / In 138)					<b>TP=</b>	<b>0.97142</b>
143	WAGES & SALARY ALLOCATOR (W/S)	(Note R)	Payroll Billed from					
144	Production	354.20.b	Direct Payroll	AEP Service Corp.	Total			-
145	Transmission	354.21,22.b	128,190,035	12,276,564	140,466,599	NA	0.00000	-
146	Distribution	354.23.b	4,959,329	2,575,212	7,534,541	TP	0.97142	7,319,169
147	Other (Excludes A&G)	354.24,25,26.b	21,365,697	2,009,385	23,375,082	NA	0.00000	-
148	Total	(sum Ins 144 to 147)	<u>6,694,566</u>	<u>4,904,596</u>	<u>11,599,162</u>	NA	0.00000	<u>-</u>
			161,209,627	21,765,757	182,975,384			7,319,169
149	Transmission related amount						<b>W/S=</b>	<b>0.04000</b>
150	WEIGHTED AVERAGE COST OF CAPITAL (WACC)							<u>\$</u>
151	Long Term Interest	(Worksheet K)						67,267,916
152	Preferred Dividends	(Worksheet K)						339,522
153	<u>Development of Common Stock:</u>							
154	Proprietary Capital	(FF1 p 112, Ln 16.c)						1,444,357,731
155	Less Preferred Stock (In 161)	(FF1 p 112, Ln 3.c)						8,080,200
156	Less Account 216.1	(FF1 p 112, Ln 12.c)						(1,510,668)
157	Less Account 219	(FF1 p 112, Ln 15.c)						(20,233,842)
158	Common Stock	(In 154 - In 155 - In 156 - In 157)						<u>1,458,022,041</u>
159							Cost	
160	Long Term Debt (Note T)	(Worksheet K)					(Note S)	Weighted
161	Preferred Stock	(In 155)					6.02%	0.0260
162	Common Stock	(In 158)					4.20%	0.0001
163	Total	(Sum Ins 160 to 162)					12.10%	0.0683
			<u>1,117,000,000</u>	<u>43.24%</u>			<b>WACC=</b>	<b>0.0945</b>
			8,080,200	0.31%				
			<u>1,458,022,041</u>	<u>56.44%</u>				
			2,583,102,241					

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Letter

Notes

General Notes: a) References to data from Worksheets are indicated as: Worksheet X, Line#.Column.X

- A Revenue credits include:  
a) revenues for grandfathered PTP contracts included in the load divisor  
b) revenues for associated business projects provided by employees whose labor and overhead costs are in the transmission cost of service.  
c) rental revenues earned on assets included in the rate base.  
See Worksheet E for details.
- B The annual and monthly net plant carrying charges on page 1 are used to compute the revenue requirement for RTEP sponsored upgrades or those projects receiving approved incentive-ROE's.
- C Plant balances in this study are projected as of December 31, 2009. Other ratebase amounts are as of December 31, 2008.
- D The total-company balances shown for Accounts 281, 282, 283, 190 only reflect ADIT that relates to utility operations. The balance of Account 255 is reduced by prior flow throughs and is completely excluded if the utility chose to utilize amortization of tax credits against FIT expense. An exception to this is pre-1971 ITC balances, which are required to be taken as an offset to rate base. Account 281 is not allocated. In compliance with FERC Rulemaking RM02-7-000, Asset Retirement Obligation deferrals have been removed from ratebase. Transmission Allocations are shown on WS B.
- E Cash Working Capital assigned to transmission is one-eighth of O&M allocated to transmission, excluding AEP transmission equalization transfers, as shown on line 105.
- F Consistent with Paragraph 657 of Order 2003-A, the amount on line 78 is equal to the balance of IPP System Upgrade Credits owed to transmission customers that made contributions toward the construction of System upgrades, and includes accrued interest and unreturned balance of contributions. The annual interest expense is included on line 136.
- G Removes the expense booked to transmission accounts included in the development of OATT ancillary services rates, including all of Account No. 561.
- H Removes cost of transmission service provided by others. To the extent such service is incurred to provide the PJM service at issue, e.g. transmission equalization agreement, such cost is added back after cash working capital is computed from line 124.
- I Per Note H above, this line is an adjustment to addback the activity in account 565 related to the PJM service at issue in this filing. The amount identified in column is used to remove the impact of this adjustment from the FCR rate calculated on line 11.
- J Removes the impact of regulatory deferrals or their amortization applicable only for state regulatory purposes.
- K General Plant and Administrative & General expenses may be functionalized based on allocators other than the W/S allocator. Full documentation must be provided.
- L Includes Regulatory Commission expenses itemized in FERC Form-1 at page 351, column H. Worksheet F allocates these expense items. FERC Assessment Fees and Annual Charges shall not be allocated to transmission. Only safety-related and educational advertising costs in Account 930.1 are included in the TCOS.
- M Addback of activity recorded in 565 that represents inter-company sales or purchases of transmission capacity necessary to meet each AEP company's transmission load relative to their available transmission capacity.
- N Includes only FICA, unemployment, highway, property and other assessments charged in the current year. Gross receipts tax and taxes related to income are excluded.
- O The currently effective income tax rate, where FIT is the Federal income tax rate; SIT is the State income tax rate, and p = "the percentage of federal income tax deductible for state income taxes". If the utility is taxed in more than one state it must attach a work paper showing the name of each state and how the blended or composite SIT was developed. Furthermore, a utility that elected to utilize amortization of tax credits against taxable income, rather than book tax credits to Account No. 255 and reduce rate base, must reduce its income tax expense by the amount of the Amortized Investment Tax Credit (Form 1, 266.8.f) (In 131) multiplied by (1/1-T). If the applicable tax rates are zero enter 0.
- |                  |       |   |
|------------------|-------|---|
| Inputs Required: | FIT = | 35.00%  |
|                  | SIT=  | 5.83% (State Income Tax Rate or Composite SIT. Worksheet G))        |
|                  | p =   | 0.00% (percent of federal income tax deductible for state purposes) |
- P Removes plant excluded from the OATT because it does not meet the PJM's definition of Transmission Facilities or is otherwise ineligible to be recovered under the OATT
- Q Removes transmission plant (e.g. step-up transformers) included in the development of OATT ancillary service rates and not already removed for reasons indicated in Note P.
- R Includes functional wages & salaries billed by AEP Service Corporation for support of the operating company.
- S Long Term Debt cost rate = long-term interest (In 151) / long term debt (In 160). Preferred Stock cost rate = preferred dividends (In 152) / preferred outstanding (In 161). Common Stock cost rate (ROE) = 12.1%, the rate accepted by FERC in Docket No. ER08-XXX. It includes an additional 50 basis points for remaining a member of the PJM RTO
- T The Long Term Debt balance for I&M includes the accumulated balance of principle and related interest for Spent Nuclear Fuel Disposal Costs collected prior to April 7, 1983. This total balance of \$264,182,655 at 12/31/08 is not included in the balance in line 160 above. The difference from the original 2007 balance \$259,022,855 to 2008 is an additional \$5,159,800.

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Line No.					Transmission Amount
164	REVENUE REQUIREMENT (w/o incentives)	(In 300)			\$84,110,986
			Total	Allocator	
165	REVENUE CREDITS	(Note A) (Worksheet E)	3,281,616	DA 1.00000	\$ 3,281,616
166	REVENUE REQUIREMENT For All I&M Facilities	(In 164 less In 165)			\$ 80,829,370
<b>MEMO: The Carrying Charge Calculations on lines 168 to 174 below is used in calculating project revenue requirements billed on PJM Schedule 12. The total non-incentive revenue requirements for these projects shown on line 167 is included in the total on line 166.</b>					
167	Revenue Requirement for PJM RTEP Regional Facilities (w/o incentives) (Worksheet J)		-	DA 1.00000	\$ -
168	NET PLANT CARRYING CHARGE W/O AFFILIATED LEASE PAYMENTS & T.E.A. ADJUSTMENT ADDBACK (w/o incentives) (Note B)				
169	Annual Rate	( (In 164 - In 269 - In 270) / In 211 x 100)			19.99%
170	Monthly Rate	(In 169 / 12)			1.67%
171	NET PLANT CARRYING CHARGE ON LINE 169 , W/O DEPRECIATION (w/o incentives) (Note B)				
172	Annual Rate	( (In 164 - In 269 - In 270 - In 275) / In 211 x 100)			17.51%
173	NET PLANT CARRYING CHARGE ON LINE 171, W/O INCOME TAXES, RETURN (Note B)				
174	Annual Rate	( (In 164 - In 269 - In 270 - In 275 - In 297 - In 298) / In 211 x 100)			5.97%
175	ADDITIONAL REVENUE REQUIREMENT for projects w/ incentive ROE's (Note B) (Worksheet J)				-
176	<b>REVENUE REQUIREMENT FOR SCHEDULE 1A CHARGES</b>				
177	Total Load Dispatch & Scheduling (Account 561)	Line 249 Below			4,586,660
178	Less: Load Disptach - Scheduling, System Control and Dispatch Services (321.88.b)				2,680,249
179	Less: Load Disptach - Reliability, Planning & Standards Development Services (321.92.b)				463,820
180	Total 561 Internally Developed Costs	(Line 177 - Line 178 - Line 179)			1,442,591

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Line No.	(1)	(2)	(3)	(4)	(5)
	<u>RATE BASE CALCULATION</u>	<u>Data Sources</u> <u>(See "General Notes")</u>	<u>TO Total</u> <u>NOTE C</u>	<u>Allocator</u>	<u>Total</u> <u>Transmission</u>
181	GROSS PLANT IN SERVICE				
181	Production	(Worksheet A In 1.C)	3,510,871,880	NA 0.00000	-
182	Less: Production ARO (Enter Negative)	(Worksheet A In 2.C)	(210,555,163)	NA 0.00000	-
183	Transmission	(Worksheet A In 3.C & In 304)	1,115,559,969	DA	1,083,672,068
184	Less: Transmission ARO (Enter Negative)	(Worksheet A In 4.C)	-	TP 0.97142	-
185	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A	NA 0.00000	N/A
186	Plus: Additional Trans Plant on Transferred Assets (Worksheet I)		N/A	NA 0.00000	N/A
187	Distribution	(Worksheet A In 5.C)	1,282,807,855	NA 0.00000	-
188	Less: Distribution ARO (Enter Negative)	(Worksheet A In 6.C)	-	NA 0.00000	-
189	General Plant	(Worksheet A In 7.C)	90,950,125	W/S 0.04000	3,638,081
190	Less: General Plant ARO (Enter Negative)	(Worksheet A In 8.C)	(191,891)	W/S 0.04000	(7,676)
191	Intangible Plant	(Worksheet A In 9.C)	150,285,508	W/S 0.04000	6,011,546
192	TOTAL GROSS PLANT	(sum Ins 181 to 191)	5,939,728,283	GP(h)= 0.184068 GTD= 0.45184	1,093,314,020
193	ACCUMULATED DEPRECIATION AND AMORTIZATION				
194	Production	(Worksheet A In 12.C)	2,151,153,329	NA 0.00000	-
195	Less: Production ARO (Enter Negative)	(Worksheet A In 13.C)	(63,497,976)	NA 0.00000	-
196	Transmission	(Worksheet A In 14.C & 28.C)	493,992,419	TP1= 0.96345	475,937,616
197	Less: Transmission ARO (Enter Negative)	(Worksheet A In 15.C)	-	TP1= 0.96345	-
198	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A	DA 1.00000	N/A
199	Plus: Additional Projected Deprec on Transferred Assets (Worksheet I)		N/A	DA 1.00000	N/A
200	Plus: Additional Transmission Depreciation for 2009 (In 275)		N/A	TP1 0.96345	N/A
201	Plus: Additional General & Intangible Depreciation for 2009 (In 274 + In 275)		N/A	W/S 0.04000	N/A
202	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I)		N/A	DA 1.00000	N/A
203	Distribution	(Worksheet A In 16.C)	434,351,312	NA 0.00000	-
204	Less: Distribution ARO (Enter Negative)	(Worksheet A In 17.C)	-	NA 0.00000	-
205	General Plant	(Worksheet A In 18.C)	22,210,516	W/S 0.04000	888,439
206	Less: General Plant ARO (Enter Negative)	(Worksheet A In 19.C)	(128,038)	W/S 0.04000	(5,122)
207	Intangible Plant	(Worksheet A In 20.C)	104,775,764	W/S 0.04000	4,191,118
208	TOTAL ACCUMULATED DEPRECIATION	(sum Ins 194 to 207)	3,142,857,326		481,012,052
209	NET PLANT IN SERVICE				
210	Production	(In 181 + In 182 - In 194 - In 195)	1,212,661,364		-
211	Transmission	(In 183 + In 184 - In 196 - In 197)	621,567,550		607,734,452
212	Plus: Transmission Plant-in-Service Additions (In 185 - In 198)		N/A		N/A
213	Plus: Additional Trans Plant on Transferred Assets (In 186 - In 199)		N/A		N/A
214	Plus: Additional Transmission Depreciation for 2009 (-In 200)		N/A		N/A
215	Plus: Additional General & Intangible Depreciation for 2009 (-In 201)		N/A		N/A
216	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I) (-In 202)		N/A		N/A
217	Distribution	(In 187 + In 188 - In 203 - In 204)	848,456,543		-
218	General Plant	(In 189 + In 190 - In 205 - In 206)	68,675,756		2,747,088
219	Intangible Plant	(In 191 - In 207)	45,509,744		1,820,428
220	TOTAL NET PLANT IN SERVICE	(sum Ins 210 to 219)	2,796,870,957	NP(h)= 0.218924	612,301,968
221	DEFERRED TAX ADJUSTMENTS TO RATE BASE	(Note D)			
222	Account No. 281.1 (enter negative)	(Worksheet B, In 2 & In 5.C)	(306,737)	NA	-
223	Account No. 282.1 (enter negative)	(Worksheet B, In 7 & In 10.C)	(504,159,932)	DA	(106,924,485)
224	Account No. 283.1 (enter negative)	(Worksheet B, In 12 & In 15.C)	(474,221,784)	DA	(10,922,677)
225	Account No. 190.1	(Worksheet B, In 17 & In 20.C)	679,711,219	DA	18,138,329
226	Account No. 255 (enter negative)	(Worksheet B, In 24 & In 25.C)	-	DA	-
227	TOTAL ADJUSTMENTS	(sum Ins 222 to 226)	(298,977,234)		(99,708,833)
228	PLANT HELD FOR FUTURE USE	(Worksheet A In 29.C & In 30.C)	7,747,429	DA	202,362
229	CONSTRUCTION WORK IN PROGRESS	(Worksheet A In 31.C)	-	TP 0.97142	-
230	REGULATORY ASSETS	(Worksheet A In 36. (C))	-	DA	-
231	WORKING CAPITAL	(Note E)			
232	Cash Working Capital	(1/8 * In 268)	16,191,571		3,010,352
233	Transmission Materials & Supplies	(Worksheet C, In 2. (D))	662,273	TP 0.97142	643,342
234	A&G Materials & Supplies	(Worksheet C, In 3. (D))	861,996	W/S 0.04000	34,481
235	Stores Expense	(Worksheet C, In 4. (D))	-	GP(h) 0.18407	-
236	Prepayments (Account 165) - Labor Allocated	(Worksheet C, In 6.G)	63,725,603	W/S 0.04000	2,549,078
237	Prepayments (Account 165) - Gross Plant	(Worksheet C, In 6.F)	5,235,921	GP(h) 0.18407	963,766
238	Prepayments (Account 165) - Transmission Only	(Worksheet C, In 6.E)	-	DA 1.00000	-
239	Prepayments (Account 165) - Unallocable	(Worksheet C, In 6.D)	(62,701,138)	NA 0.00000	-
240	TOTAL WORKING CAPITAL	(sum Ins 232 to 239)	23,976,226		7,201,018
241	IPP CONTRIBUTIONS FOR CONSTRUCTION	(Note F) (Worksheet D, In 7. (B))	(5,636,829)	DA 1.00000	(5,636,829)
242	RATE BASE (sum Ins 220, 227, 228, 240, 241)		2,523,980,549		514,359,686

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Line No.	(1) EXPENSE, TAXES, RETURN & REVENUE REQUIREMENTS CALCULATION	(2) Data Sources (See "General Notes")	(3) TO Total	(4) Allocator	(5) Total Transmission
243	OPERATION & MAINTENANCE EXPENSE				
243	Production	321.80.b	1,418,245,089		
244	Distribution	322.156.b	70,804,747		
245	Customer Related Expense	322 & 323.164,171,178.b	24,521,968		
246	Regional Marketing Expenses	322.131.b	2,306,869		
247	Transmission	321.112.b	(12,232,846)		
248	TOTAL O&M EXPENSES	(sum Ins 243 to 247)	1,503,645,827		
249	Less: Total Account 561	(Note G) 321.84-92.b	4,586,660		
250	Less: Account 565	(Note H) 321.96.b	(36,420,079)		
251	Less: Regulatory Deferrals & Amortizations	(Note J) (Worksheet F, In 4.C)	-		
252	Total O&M Allocable to Transmission	(Ins 247 - 249 - 250 - 251)	19,600,573	TP 0.97142	19,040,297
253	Administrative and General	323.197.b (Note K)	121,382,988		
254	Less: Acct. 924, Property Insurance	323.185.b	1,670,336		
255	Acct. 928, Reg. Com. Exp.	323.189.b	12,513,029		
256	Acct. 930.1, Gen. Advert. Exp.	323.191.b	778,418		
257	Acct. 930.2, Misc. Gen. Exp.	323.192.b	2,002,329		
258	Balance of A & G	(In 253 - sum In 254 to In 257)	104,418,876	W/S 0.04000	4,176,843
259	Plus: Acct. 924, Property Insurance	(In 254)	1,670,336	GP(h) 0.18407	307,455
260	Acct. 928 - Transmission Specific	Worksheet F In 16.(E) (Note L)	-	TP 0.97142	-
261	Acct. 928 - Transmission Allocated	Worksheet F In 16.(F) (Note L)	-	GP(h) 0.18407	-
262	Acct 930.1 - Only safety related ads -Direct	Worksheet F In 32.(E) (Note L)	-	DA 1.00000	-
263	Acct 930.1 - Only safety related ads - Allocated	Worksheet F In 32.(F) (Note L)	-	GP(h) 0.18407	-
264	Acct 930.2 - Misc Gen. Exp. - Trans	Worksheet F In 38.(E) (Note L)	421,361	DA 1.00000	421,361
265	Acct 930.2 - Misc Gen. Exp. - Allocated	Worksheet F In 38.(F) (Note L)	3,052,401	W/S 0.04000	122,099
266	Less: PBOP Expense In Acct. 926 Adjustment	Worksheet F In 12.(C) (Note L)	(369,020)	W/S 0.04000	(14,761)
267	A & G Subtotal	(sum Ins 258 to 265 less In 266)	109,931,994		5,042,519
268	O & M EXPENSE SUBTOTAL	(In 252 + In 267)	129,532,567		24,082,816
269	Plus: TEA Settlement in Account 565	Company Records (Note M)	(37,398,479)	DA 1.00000	(37,398,479)
270	Plus: Transmission Lease Payments To Affiliates in Acct 565 (Company Records) (Note M)			DA 1.00000	-
271	TOTAL O & M EXPENSE	(In 268 + In 269 + In 270)	92,134,088		(13,315,663)
272	DEPRECIATION AND AMORTIZATION EXPENSE				
273	Production	336.2-6.f	54,173,333	NA 0.00000	-
274	Distribution	336.8.f	30,236,396	NA 0.00000	-
275	Transmission	336.7.f	15,550,510	TP 0.97142	15,106,004
276	Plus: Transmission Plant-in-Service Additions (Worksheet I) In 21		N/A		N/A
277	General	336.10.f	2,667,083	W/S 0.04000	106,686
278	Intangible	336.1.f	22,901,866	W/S 0.04000	916,094
279	TOTAL DEPRECIATION AND AMORTIZATION	(sum Ins 273 to 278)	125,529,188		16,128,783
280	TAXES OTHER THAN INCOME	(Note N)			
281	Labor Related				
282	Payroll	Worksheet H In 19 (D)	12,438,828	W/S 0.04000	497,564
283	Plant Related				
284	Property	Worksheet H In 19 (C)	44,419,340	DA	10,063,430
285	Gross Receipts/Sales & Use	Worksheet H In 19 (E)	13,598,621	NA 0.00000	-
286	Other	Worksheet H In 19 (F)	1,556,502	GP(h) 0.18407	286,502
287	TOTAL OTHER TAXES	(sum Ins 282 to 286)	72,013,291		10,847,496
288	INCOME TAXES	(Note O)			
289	$T=1 - \{[(1 - \text{SIT}) * (1 - \text{FIT})] / (1 - \text{SIT} * \text{FIT} * p)\}$		38.79%		
290	$\text{EIT}=(T/(1-T)) * (1-(\text{WCLTD}/\text{WACC})) =$		45.90%		
291	where WCLTD=(In 323) and WACC = (In 326)				
292	and FIT, SIT & p are as given in Note O.				
293	$\text{GRCF}=1 / (1 - T) =$ (from In 289)		1.6337		
294	Amortized Investment Tax Credit (enter negative)	(FF1 p.114, In 19.c)	(2,196,264)		
295	Income Tax Calculation	(In 290 * In 298)	109,450,341		22,304,785
296	ITC adjustment	(In 293 * In 294)	(3,588,051)	NP(h) 0.21892	(785,510)
297	TOTAL INCOME TAXES	(sum Ins 295 to 296)	105,862,290		21,519,275
298	RETURN ON RATE BASE (Rate Base*WACC)	(In 242 * In 326)	238,442,823		48,592,045
299	INTEREST ON IPP CONTRIBUTION FOR CONST. (Note E) (Worksheet D, In 2.B)		339,051	DA 1.00000	339,051
300	TOTAL REVENUE REQUIREMENT		634,320,732		84,110,986
	(sum Ins 271, 279, 287, 297, 298, 299)				

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SUPPORTING CALCULATIONS

In No.									
	TRANSMISSION PLANT INCLUDED IN PJM TARIFF								
301	Total transmission plant	(In 183)							1,115,559,969
302	Less transmission plant excluded from PJM Tariff	(Note P)							-
303	Less transmission plant included in OATT Ancillary Services	(Worksheet A, In 23, Col. (C))	(Note Q)						31,887,901
304	Transmission plant included in PJM Tariff	(In 301 - In 302 - In 303)							1,083,672,068
305	Percent of transmission plant in PJM Tariff	(In 304 / In 301)						<b>TP=</b>	<b>0.97142</b>
	WAGES & SALARY ALLOCATOR (W/S)								
306		(Note R)		Payroll Billed from					
				Direct Payroll	AEP Service Corp.	Total			
307	Production	354.20.b		128,190,035	12,276,564	140,466,599	NA	0.00000	-
308	Transmission	354.21,22.b		4,959,329	2,575,212	7,534,541	TP	0.97142	7,319,169
309	Distribution	354.23.b		21,365,697	2,009,385	23,375,082	NA	0.00000	-
310	Other (Excludes A&G)	354.24,25,26.b		6,694,566	4,904,596	11,599,162	NA	0.00000	-
311	Total	(sum Ins 307 to 310)		161,209,627	21,765,757	182,975,384			7,319,169
312	Transmission related amount							<b>W/S=</b>	<b>0.04000</b>
	WEIGHTED AVERAGE COST OF CAPITAL (WACC)								
313									\$
314	Long Term Interest	(Worksheet K)							67,267,916
315	Preferred Dividends	(Worksheet K)							339,522
316	<u>Development of Common Stock:</u>								
317	Proprietary Capital	(FF1 p 112, Ln 16.c)							1,444,357,731
318	Less Preferred Stock (In 324)	(FF1 p 112, Ln 3.c)							8,080,200
319	Less Account 216.1	(FF1 p 112, Ln 12.c)							(1,510,668)
320	Less Account 219	(FF1 p 112, Ln 15.c)							(20,233,842)
321	Common Stock	(In 317 - In 318 - In 319 - In 320)							1,458,022,041
322				\$	%		Cost	Weighted	
323	Long Term Debt (Note T)	(Worksheet K)		1,117,000,000	43.24%		6.02%	0.0260	
324	Preferred Stock	(In 318)		8,080,200	0.31%		4.20%	0.0001	
325	Common Stock	(In 321)		1,458,022,041	56.44%		12.10%	0.0683	
326	Total	(Sum Ins 323 to 325)		2,583,102,241				<b>WACC=</b>	<b>0.0945</b>

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**Letter**

**Notes**

General Notes: a) References to data from Worksheets are indicated as: Worksheet X, Line#.Column.X

- A Revenue credits include:  
a) revenues for grandfathered PTP contracts included in the load divisor  
b) revenues for associated business projects provided by employees whose labor and overhead costs are in the transmission cost of service.  
c) rental revenues earned on assets included in the rate base.  
See Worksheet E for details.
- B The annual and monthly net plant carrying charges on page 1 are used to compute the revenue requirement for RTEP sponsored upgrades or those projects receiving approved incentive-ROE's.
- C Plant balances in this study are as of December 31, 2008.
- D The total-company balances shown for Accounts 281, 282, 283, 190 only reflect ADIT that relates to utility operations. The balance of Account 255 is reduced by prior flow throughs and is completely excluded if the utility chose to utilize amortization of tax credits against FIT expense. An exception to this is pre-1971 ITC balances, which are required to be taken as an offset to rate base. Account 281 is not allocated. In compliance with FERC Rulemaking RM02-7-000, Asset Retirement Obligation deferrals have been removed from ratebase. Transmission Allocations are shown on WS B.
- E Cash Working Capital assigned to transmission is one-eighth of O&M allocated to transmission, excluding AEP transmission equalization transfers, as shown on line 268.
- F Consistent with Paragraph 657 of Order 2003-A, the amount on line 241 is equal to the balance of IPP System Upgrade Credits owed to transmission customers that made contributions toward the construction of System upgrades, and includes accrued interest and unreturned balance of contributions. The annual interest expense is included on line 299.
- G Removes the expense booked to transmission accounts included in the development of OATT ancillary services rates, including all of Account No. 561.
- H Removes cost of transmission service provided by others. To the extent such service is incurred to provide the PJM service at issue, e.g. transmission equalization agreement, such cost is added back after cash working capital is computed from line 287.
- I Per Note H above, this line is an adjustment to addback the activity in account 565 related to the PJM service at issue in this filing. The amount identified in column is used to remove the impact of this adjustment from the FCR rate calculated on line 174.
- J Removes the impact of regulatory deferrals or their amortization applicable only for state regulatory purposes.
- K General Plant and Administrative & General expenses may be functionalized based on allocators other than the W/S allocator. Full documentation must be provided.
- L Includes Regulatory Commission expenses itemized in FERC Form-1 at page 351, column H. Worksheet F allocates these expense items. FERC Assessment Fees and Annual Charges shall not be allocated to transmission. Only safety-related and educational advertising costs in Account 930.1 are included in the TCOS.
- M Addback of activity recorded in 565 that represents inter-company sales or purchases of transmission capacity necessary to meet each AEP company's transmission load relative to their available transmission capacity.
- N Includes only FICA, unemployment, highway, property and other assessments charged in the current year. Gross receipts tax and taxes related to income are excluded.
- O The currently effective income tax rate, where FIT is the Federal income tax rate; SIT is the State income tax rate, and p = "the percentage of federal income tax deductible for state income taxes". If the utility is taxed in more than one state it must attach a work paper showing the name of each state and how the blended or composite SIT was developed. Furthermore, a utility that elected to utilize amortization of tax credits against taxable income, rather than book tax credits to Account No. 255 and reduce rate base, must reduce its income tax expense by the amount of the Amortized Investment Tax Credit (Form 1, 266.8.f) (In 294) multiplied by (1/1-T). If the applicable tax rates are zero enter 0.
- |                  |       |        |   |
|------------------|-------|--------|---|
| Inputs Required: | FIT = | 35.00% |   |
|                  | SIT=  | 5.83%  | (State Income Tax Rate or Composite SIT. Worksheet G)         |
|                  | p =   | 0.00%  | (percent of federal income tax deductible for state purposes) |
- P Removes plant excluded from the OATT because it does not meet the PJM's definition of Transmission Facilities or is otherwise ineligible to be recovered under the OATT
- Q Removes transmission plant (e.g. step-up transformers) included in the development of OATT ancillary service rates and not already removed for reasons indicated in Note P.
- R Includes functional wages & salaries billed by AEP Service Corporation for support of the operating company.
- S Long Term Debt cost rate = long-term interest (In 314) / long term debt (In 323). Preferred Stock cost rate = preferred dividends (In 315) / preferred outstanding (In 324). Common Stock cost rate (ROE) = 12.1%, the rate accepted by FERC in Docket No. ER08-XXX. It includes an additional 50 basis points for remaining a member of the PJM RTO
- T The Long Term Debt balance for I&M includes the accumulated balance of principle and related interest for Spent Nuclear Fuel Disposal Costs collected prior to April 7, 1983. This total balance of \$264,182,655 at 12/31/08 is not included in the balance in line 323 above. The difference from the original 2007 balance \$259,022,855 to 2008 is an additional \$5,159,800.

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Line No.					Transmission Amount
1	REVENUE REQUIREMENT (w/o incentives)	(In 137)			\$0
			Total		
2	REVENUE CREDITS	(Note A) (Worksheet E)	-	DA	1.00000
3	REVENUE REQUIREMENT For All I&M Facilities	(In 1 less In 2)			\$ -
<b>MEMO: The Carrying Charge Calculations on lines 5 to 11 below is used in calculating project revenue requirements billed on PJM Schedule 12. The total non-incentive revenue requirements for these projects shown on line 4 is included in the total on line 3.</b>					
4	Revenue Requirement for PJM RTEP Regional Facilities (w/o incentives) (Worksheet J)		-	DA	1.00000
5	NET PLANT CARRYING CHARGE W/O AFFILIATED LEASE PAYMENTS & T.E.A. ADJUSTMENT ADDBACK (w/o incentives) (Note B)				
6	Annual Rate	( (In 1 - In 106 - In 107) / In 48 x 100)			0.00%
7	Monthly Rate	(In 6 / 12)			0.00%
8	NET PLANT CARRYING CHARGE ON LINE 6 , W/O DEPRECIATION (w/o incentives) (Note B)				
9	Annual Rate	( (In 1 - In 106 - In 107 - In 112) / In 48 x 100)			0.00%
10	NET PLANT CARRYING CHARGE ON LINE 8, W/O INCOME TAXES, RETURN (Note B)				
11	Annual Rate	( (In 1 - In 106 - In 107 - In 112 - In 134 - In 135) / In 48 x 100)			0.00%
12	ADDITIONAL REVENUE REQUIREMENT for projects w/ incentive ROE's (Note B) (Worksheet J)				-
13	<b>REVENUE REQUIREMENT FOR SCHEDULE 1A CHARGES</b>				
14	Total Load Dispatch & Scheduling (Account 561)	Line 86 Below			-
15	Less: Load Disptach - Scheduling, System Control and Dispatch Services (321.88.b)				
16	Less: Load Disptach - Reliability, Planning & Standards Development Services (321.92.b)				
17	Total 561 Internally Developed Costs	(Line 14 - Line 15 - Line 16)			-

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Line No.	(1)	(2)	(3)	(4)	(5)
	<u>RATE BASE CALCULATION</u>	<u>Data Sources</u> <u>(See "General Notes")</u>	<u>TO Total</u> <u>NOTE C</u>	<u>Allocator</u>	<u>Total</u> <u>Transmission</u>
	<b>GROSS PLANT IN SERVICE</b>				
18	Production	(Worksheet A In 1.C)	-	NA	0.00000
19	Less: Production ARO (Enter Negative)	(Worksheet A In 2.C)	-	NA	0.00000
20	Transmission	(Worksheet A In 3.C & In 141)	-	DA	-
21	Less: Transmission ARO (Enter Negative)	(Worksheet A In 4.C)	-	TP	0.00000
22	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A	NA	0.00000
23	Plus: Additional Trans Plant on Transferred Assets (Worksheet I)		N/A	NA	0.00000
24	Distribution	(Worksheet A In 5.C)	-	NA	0.00000
25	Less: Distribution ARO (Enter Negative)	(Worksheet A In 6.C)	-	NA	0.00000
26	General Plant	(Worksheet A In 7.C)	-	W/S	0.00000
27	Less: General Plant ARO (Enter Negative)	(Worksheet A In 8.C)	-	W/S	0.00000
28	Intangible Plant	(Worksheet A In 9.C)	-	W/S	0.00000
29	<b>TOTAL GROSS PLANT</b>	<b>(sum Ins 18 to 28)</b>	<b>-</b>	<b>GP(h)=</b>	<b>0.00000</b>
				<b>GTD=</b>	<b>0.00000</b>
	<b>ACCUMULATED DEPRECIATION AND AMORTIZATION</b>				
31	Production	(Worksheet A In 12.C)	-	NA	0.00000
32	Less: Production ARO (Enter Negative)	(Worksheet A In 13.C)	-	NA	0.00000
33	Transmission	(Worksheet A In 14.C & 28.C)	-	TP1=	0.00000
34	Less: Transmission ARO (Enter Negative)	(Worksheet A In 15.C)	-	TP1=	0.00000
35	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A	DA	1.00000
36	Plus: Additional Projected Deprec on Transferred Assets (Worksheet I)		N/A	DA	1.00000
37	Plus: Additional Transmission Depreciation for 2009 (In 112)		N/A	TP1	0.00000
38	Plus: Additional General & Intangible Depreciation for 2009 (In 111 + In 112)		N/A	W/S	0.00000
39	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I)		N/A	DA	1.00000
40	Distribution	(Worksheet A In 16.C)	-	NA	0.00000
41	Less: Distribution ARO (Enter Negative)	(Worksheet A In 17.C)	-	NA	0.00000
42	General Plant	(Worksheet A In 18.C)	-	W/S	0.00000
43	Less: General Plant ARO (Enter Negative)	(Worksheet A In 19.C)	-	W/S	0.00000
44	Intangible Plant	(Worksheet A In 20.C)	-	W/S	0.00000
45	<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>(sum Ins 31 to 44)</b>	<b>-</b>		
	<b>NET PLANT IN SERVICE</b>				
46	Production	(In 18 + In 19 - In 31 - In 32)	-		
47	Transmission	(In 20 + In 21 - In 33 - In 34)	-		
49	Plus: Transmission Plant-in-Service Additions (In 22 - In 35)		N/A		N/A
50	Plus: Additional Trans Plant on Transferred Assets (In 23 - In 36)		N/A		N/A
51	Plus: Additional Transmission Depreciation for 2009 (-In 37)		N/A		N/A
52	Plus: Additional General & Intangible Depreciation for 2009 (-In 38)		N/A		N/A
53	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I) (-In 39)		N/A		N/A
54	Distribution	(In 24 + In 25 - In 40 - In 41)	-		
55	General Plant	(In 26 + In 27 - In 42 - In 43)	-		
56	Intangible Plant	(In 28 - In 44)	-		
57	<b>TOTAL NET PLANT IN SERVICE</b>	<b>(sum Ins 47 to 56)</b>	<b>-</b>	<b>NP(h)=</b>	<b>0.00000</b>
	<b>DEFERRED TAX ADJUSTMENTS TO RATE BASE</b>				
58	Account No. 281.1 (enter negative)	(Note D) (Worksheet B, In 2 & In 5.C)	-	NA	-
60	Account No. 282.1 (enter negative)	(Worksheet B, In 7 & In 10.C)	-	DA	-
61	Account No. 283.1 (enter negative)	(Worksheet B, In 12 & In 15.C)	-	DA	-
62	Account No. 190.1	(Worksheet B, In 17 & In 20.C)	-	DA	-
63	Account No. 255 (enter negative)	(Worksheet B, In 24 & In 25.C)	-	DA	-
64	<b>TOTAL ADJUSTMENTS</b>	<b>(sum Ins 59 to 63)</b>	<b>-</b>		
65	PLANT HELD FOR FUTURE USE	(Worksheet A In 29 & In 30)	-	DA	-
66	CONSTRUCTION WORK IN PROGRESS	(Worksheet A In 31.C)	-	TP	0.00000
67	REGULATORY ASSETS	(Worksheet A In 36. (C))	-	DA	-
	<b>WORKING CAPITAL</b>				
68	Cash Working Capital	(Note E) (1/8 * In 105)	-		
70	Transmission Materials & Supplies	(Worksheet C, In 2.(D))	-	TP	0.00000
71	A&G Materials & Supplies	(Worksheet C, In 3.(D))	-	W/S	0.00000
72	Stores Expense	(Worksheet C, In 4.(D))	-	GP(h)	0.00000
73	Prepayments (Account 165) - Labor Allocated	(Worksheet C, In 6.G)	-	W/S	0.00000
74	Prepayments (Account 165) - Gross Plant	(Worksheet C, In 6.F)	-	GP(h)	0.00000
75	Prepayments (Account 165) - Transmission Only	(Worksheet C, In 6.E)	-	DA	1.00000
76	Prepayments (Account 165) - Unallocable	(Worksheet C, In 6.D)	-	NA	0.00000
77	<b>TOTAL WORKING CAPITAL</b>	<b>(sum Ins 69 to 76)</b>	<b>-</b>		
78	IPP CONTRIBUTIONS FOR CONSTRUCTION	(Note F) (Worksheet D, In 7.(B))	-	DA	1.00000
79	<b>RATE BASE (sum Ins 57, 64, 65, 77, 78)</b>		<b>-</b>		

AEP East Companies  
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Utilizing Actual Cost Data for 2009 with Average Ratebase Balances

INDIANA MICHIGAN POWER COMPANY

	(1)	(2)	(3)	(4)	(5)
	<b>EXPENSE, TAXES, RETURN &amp; REVENUE REQUIREMENTS CALCULATION</b>	<b>Data Sources (See "General Notes")</b>	<b>TO Total</b>	<b>Allocator</b>	<b>Total Transmission</b>
Line No.	OPERATION & MAINTENANCE EXPENSE				
80	Production	321.80.b			
81	Distribution	322.156.b			
82	Customer Related Expense	323.164,171,178.b			
83	Regional Marketing Expenses	322.131.b			
84	Transmission	321.112.b			
85	TOTAL O&M EXPENSES	(sum Ins 80 to 84)	-		
86	Less: Total Account 561	(Note G) 321.84-92.b			
87	Less: Account 565	(Note H) 321.96.b			
88	Less: Regulatory Deferrals & Amortizations	(Note J) (Worksheet F, In 4.C)	-		
89	Total O&M Allocable to Transmission	(Ins 84 - 86 - 87 - 88)	-	TP 0.00000	-
90	Administrative and General	323.197.b (Note K)			
91	Less: Acct. 924, Property Insurance	323.185.b			
92	Acct. 928, Reg. Com. Exp.	322.189.b			
93	Acct. 930.1, Gen. Advert. Exp.	322.191.b			
94	Acct. 930.2, Misc. Gen. Exp.	322.192.b			
95	Balance of A & G	(In 90 - sum In 91 to In 94)	-	W/S 0.00000	-
96	Plus: Acct. 924, Property Insurance	(In 91)	-	GP(h) 0.00000	-
97	Acct. 928 - Transmission Specific	Worksheet F In 57.(E) (Note L)	-	TP 0.00000	-
98	Acct. 928 - Transmission Allocated	Worksheet F In 57.(F) (Note L)	-	GP(h) 0.00000	-
99	Acct 930.1 - Only safety related ads -Direct	Worksheet F In 73.(E) (Note L)	-	DA 1.00000	-
100	Acct 930.1 - Only safety related ads - Allocated.	Worksheet F In 73.(F) (Note L)	-	GP(h) 0.00000	-
101	Acct 930.2 - Misc Gen. Exp. - Trans	Worksheet F In 79.(E) (Note L)	-	DA 1.00000	-
102	Acct 930.2 - Misc Gen. Exp. - Allocatcd	Worksheet F In 79.(F) (Note L)	-	W/S 0.00000	-
103	Less: PBOP Expense In Acct. 926 Adjustment	Worksheet F In 12.(F) (Note L)	-	W/S 0.00000	-
104	A & G Subtotal	(sum Ins 95 to 102 less In 103)	-		-
105	O & M EXPENSE SUBTOTAL	(In 89 + In 104)	-		-
106	Plus: TEA Settlement in Account 565	Company Records (Note M)		DA 1.00000	-
107	Plus: Transmission Lease Payments To Affiliates in Acct 565 (Company Records) (Note M)			DA 1.00000	-
108	TOTAL O & M EXPENSE	(In 105 + In 106 + In 107)	-		-
109	DEPRECIATION AND AMORTIZATION EXPENSE				
110	Production	336.2-6.f		NA 0.00000	-
111	Distribution	336.8.f		NA 0.00000	-
112	Transmission	336.7.f		TP 0.00000	-
113	Plus: Transmission Plant-in-Service Additions (Worksheet I) In 21		N/A		N/A
114	General	336.10.f		W/S 0.00000	-
115	Intangible	336.1.f		W/S 0.00000	-
116	TOTAL DEPRECIATION AND AMORTIZATION	(sum Ins 110 to 115)	-		-
117	TAXES OTHER THAN INCOME	(Note N)			
118	Labor Related				
119	Payroll	Worksheet H, In 19 (D)	-	W/S 0.00000	-
120	Plant Related				
121	Property	Worksheet H, In 19 (C)	-	DA	-
122	Gross Receipts/Sales & Use	Worksheet H, In 19 (F)	-	NA 0.00000	-
123	Other	Worksheet H, In 19 (D)	-	GP(h) 0.00000	-
124	TOTAL OTHER TAXES	(sum Ins 119 to 123, In 19 (E))	-		-
125	INCOME TAXES	(Note O)			
126	$T=1 - \{(1 - SIT) * (1 - FIT)\} / (1 - SIT * FIT * p)$		0.00%		
127	$EIT=(T/(1-T)) * (1-(WCLTD/WACC)) =$		0.00%		
128	where WCLTD=(In 160) and WACC = (In 163)				
129	and FIT, SIT & p are as given in Note O.				
130	$GRCF=1 / (1 - T) =$ (from In 126)		-		
131	Amortized Investment Tax Credit (enter negative)	(FF1 p.114, In 19.c)			
132	Income Tax Calculation	(In 127 * In 135)	-		-
133	ITC adjustment	(In 130 * In 131)	-	NP(h) 0.00000	-
134	TOTAL INCOME TAXES	(sum Ins 132 to 133)	-		-
135	RETURN ON RATE BASE (Rate Base*WACC)	(In 79 * In 163)	-		-
136	INTEREST ON IPP CONTRIBUTION FOR CONST. (Note E) (Worksheet D, In 2 (B))		-	DA 1.00000	-
137	TOTAL REVENUE REQUIREMENT	(sum Ins 108, 116, 124, 134, 135, 136)	-		-

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INDIANA MICHIGAN POWER COMPANY

SUPPORTING CALCULATIONS

In No.	TRANSMISSION PLANT INCLUDED IN PJM TARIFF							
138	Total transmission plant	(In 20)						-
139	Less transmission plant excluded from PJM Tariff (Note P)							-
140	Less transmission plant included in OATT Ancillary Services (Worksheet A, In 23, Col. (C)) (Note Q)							-
141	Transmission plant included in PJM Tariff	(In 138 - In 139 - In 140)						-
142	Percent of transmission plant in PJM Tariff	(In 141 / In 138)					<b>TP=</b>	<b>0.00000</b>
143	WAGES & SALARY ALLOCATOR (W/S)	(Note R)						
144	Production	354.20.b	Direct Payroll	Payroll Billed from AEP Service Corp.	Total			-
145	Transmission	354.21,22.b				-	NA	0.00000
146	Distribution	354.23.b				-	TP	0.00000
147	Other (Excludes A&G)	354.24,25,26.b				-	NA	0.00000
148	Total	(sum Ins 144 to 147)	0	0	0			-
149	Transmission related amount						<b>W/S=</b>	<b>0.00000</b>
150	WEIGHTED AVERAGE COST OF CAPITAL (WACC)							\$
151	Long Term Interest	(FF1 p. 257, In 33.i; p. 112, Lns 63-66.c)						-
152	Preferred Dividends	(Worksheet K)						-
153	<u>Development of Common Stock:</u>					12/31/2008	12/31/2009	Average
154	Proprietary Capital	(FF1 p 112, Ln 16.c,d.)				-		-
155	Less Preferred Stock (In 161)	(FF1 p 112, Ln 3.c,d.)				-		-
156	Less Account 216.1	(FF1 p 112, Ln 12.c)				-		-
157	Less Account 219	(FF1 p 112, Ln 15.c,d.)				-		-
158	Common Stock	(In 154 - In 155 - In 156 - In 157)						-
159			Average \$	%		Cost (Note S)		Weighted
160	Long Term Debt (Note T)	(Worksheet K)	-	0.00%		0.00%		0.0000
161	Preferred Stock	(In 155)	-	0.00%		0.00%		0.0000
162	Common Stock	(In 158)	-	0.00%		12.10%		0.0000
163	Total	(Sum Ins 160 to 162)	-				<b>WACC=</b>	<b>0.0000</b>

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Actual Cost Data for 2009 with Average Ratebase Balances

INDIANA MICHIGAN POWER COMPANY

**Letter**

**Notes**

General Notes: a) References to data from Worksheets are indicated as: Worksheet X, Line#.Column.X

- A Revenue credits include:  
a) revenues for grandfathered PTP contracts included in the load divisor  
b) revenues for associated business projects provided by employees whose labor and overhead costs are in the transmission cost of service.  
c) rental revenues earned on assets included in the rate base.  
See Worksheet E for details.
- B The annual and monthly net plant carrying charges on page 1 are used to compute the revenue requirement for RTEP sponsored upgrades or those projects receiving approved incentive-ROE's.
- C No true-up.
- D The total-company balances shown for Accounts 281, 282, 283, 190 only reflect ADIT that relates to utility operations. The balance of Account 255 is reduced by prior flow throughs and is completely excluded if the utility chose to utilize amortization of tax credits against FIT expense. An exception to this is pre-1971 ITC balances, which are required to be taken as an offset to rate base. Account 281 is not allocated. In compliance with FERC Rulemaking RM02-7-000, Asset Retirement Obligation deferrals have been removed from ratebase. Transmission Allocations are shown on WS B.
- E Cash Working Capital assigned to transmission is one-eighth of O&M allocated to transmission, excluding AEP transmission equalization transfers, as shown on line 105.
- F Consistent with Paragraph 657 of Order 2003-A, the amount on line 78 is equal to the balance of IPP System Upgrade Credits owed to transmission customers that made contributions toward the construction of System upgrades, and includes accrued interest and unreturned balance of contributions. The annual interest expense is included on line 136.
- G Removes the expense booked to transmission accounts included in the development of OATT ancillary services rates, including all of Account No. 561.
- H Removes cost of transmission service provided by others. To the extent such service is incurred to provide the PJM service at issue, e.g. transmission equalization agreement, such cost is added back after cash working capital is computed from line 124.
- I Per Note H above, this line is an adjustment to addback the activity in account 565 related to the PJM service at issue in this filing. The amount identified in column is used to remove the impact of this adjustment from the FCR rate calculated on line 11.
- J Removes the impact of regulatory deferrals or their amortization applicable only for state regulatory purposes.
- K General Plant and Administrative & General expenses may be functionalized based on allocators other than the W/S allocator. Full documentation must be provided.
- L Includes Regulatory Commission expenses itemized in FERC Form-1 at page 351, column H. Worksheet F allocates these expense items. FERC Assessment Fees and Annual Charges shall not be allocated to transmission. Only safety-related and educational advertising costs in Account 930.1 are included in the TCOS.
- M Addback of activity recorded in 565 that represents inter-company sales or purchases of transmission capacity necessary to meet each AEP company's transmission load relative to their available transmission capacity.
- N Includes only FICA, unemployment, highway, property and other assessments charged in the current year. Gross receipts tax and taxes related to income are excluded.
- O The currently effective income tax rate, where FIT is the Federal income tax rate; SIT is the State income tax rate, and  $p =$  "the percentage of federal income tax deductible for state income taxes". If the utility is taxed in more than one state it must attach a work paper showing the name of each state and how the blended or composite SIT was developed. Furthermore, a utility that elected to utilize amortization of tax credits against taxable income, rather than book tax credits to Account No. 255 and reduce rate base, must reduce its income tax expense by the amount of the Amortized Investment Tax Credit (Form 1, 266.8.f) (In 131) multiplied by  $(1/1-T)$ . If the applicable tax rates are zero enter 0.  
Inputs Required: FIT = [redacted] (State Income Tax Rate or Composite SIT. Worksheet G)  
SIT = [redacted] (percent of federal income tax deductible for state purposes)  
 $p =$  [redacted]
- P Removes plant excluded from the OATT because it does not meet the PJM's definition of Transmission Facilities or is otherwise ineligible to be recovered under the OATT
- Q Removes transmission plant (e.g. step-up transformers) included in the development of OATT ancillary service rates and not already removed for reasons indicated in Note P.
- R Includes functional wages & salaries billed by AEP Service Corporation for support of the operating company.
- S Long Term Debt cost rate = long-term interest (In 151) / long term debt (In 160). Preferred Stock cost rate = preferred dividends (In 152) / preferred outstanding (In 161). Common Stock cost rate (ROE) = 12.1%, the rate accepted by FERC in Docket No. ER08-XXX. It includes an additional 50 basis points for remaining a member of the PJM RTO
- T The Long Term Debt balance for I&M includes the accumulated balance of principle and related interest for Spent Nuclear Fuel Disposal Costs collected prior to April 7, 1983. This total balance of \$264,182,655 at 12/31/08 is not included in the balance in line 160 above. The difference from the original 2007 balance \$259,022,855 to 2008 is an additional \$5,159,800.

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting Plant Balances  
INDIANA MICHIGAN POWER COMPANY

Line Number	(A) Rate Base Item & Supporting Balance	(B) Source of Data	(C) Balances @ 12/31/2008	(D) Balances For Update Use	(E) Average Balance for 2009
<b>NOTE: Functional ARO investment and accumulated depreciation balances shown below are included in the total functional balances shown here.</b>					
<b>Plant Investment Balances</b>					
1	Production Plant In Service	FF1, page 204/205, ln 46, Col. (b)/(g)	3,510,871,880	-	-
2	Production Asset Retirement Obligation (ARO)	FF1, page 204/205, lns 15,24,34,44, Col. (b)/(g)	210,555,163	-	-
3	Transmission Plant In Service	FF1, page 206/207, ln 58, Col. (b)/(g)	1,115,559,969	-	-
4	Transmission Asset Retirement Obligation	FF1, page 206/207, ln 57, Col. (b)/(g)	-	-	-
5	Distribution Plant In Service	FF1, page 206/207, ln 75, Col. (b)/(g)	1,282,807,855	-	-
6	Distribution Asset Retirement Obligation	FF1, page 206/207, ln 74, Col. (b)/(g)	-	-	-
7	General Plant In Service	FF1, page 206/207, ln 99, Col. (b)/(g)	90,950,125	-	-
8	General Asset Retirement Obligation	FF1, page 206/207, lns 98, Col. (b)/(g)	191,891	-	-
9	Intangible Plant In Service	FF1, page 204/205, ln 5, Col. (b)/(g)	150,285,508	-	-
10	<b>Total Property Investment Balance</b>	(Sum of Lines: 3, 1, 5, 7, 9)	6,150,475,337	-	-
11	<b>Total ARO Balance (included in total on line 10)</b>	(Sum of Lines: 4, 2, 6, 8)	210,747,054	-	-
<b>Accumulated Depreciation &amp; Amortization Balances</b>					
12	Production Accumulated Depreciation	FF1, page 219, lns 20-24, Col. (b)	2,151,153,329	-	-
13	Production ARO Accumulated Depreciation	Company Records	63,497,976	-	-
14	Transmission Accumulated Depreciation	FF1, page 219, ln 25, Col. (b)	493,992,419	-	-
15	Transmission ARO Accumulated Depreciation	Company Records	-	-	-
16	Distribution Accumulated Depreciation	FF1, page 219, ln 26, Col. (b)	434,351,312	-	-
17	Distribution ARO Accumulated Depreciation	Company Records	-	-	-
18	General Accumulated Depreciation	FF1, page 219, ln 28, Col. (b)	22,210,516	-	-
19	General ARO Accumulated Depreciation	Company Records	128,038	-	-
20	Intangible Accumulated Amortization	FF1, page 200, ln 21, Col. (b)	104,775,764	-	-
21	<b>Total Accumulated Depreciation or Amortization</b>	(Sum of Lines: 14, 12, 16, 18, 20)	3,206,483,340	-	-
22	<b>Total ARO Balance (included in total on line 21)</b>	(Sum of Lines: 15, 13, 17, 19)	63,626,014	-	-
<b>Generation Step-Up Units</b>					
23	GSU Investment Amount	Company Records	31,887,901	-	-
24	GSU Accumulated Depreciation	Company Records	18,054,803	-	-
25	<b>GSU Net Balance</b>	(Line 23 - Line 24)	13,833,098	-	-
<b>Transmission Accumulated Depreciation Net of GSU Accumulated Depreciation</b>					
26	Transmission Accumulated Depreciation	(Line 14 Above)	493,992,419	-	-
27	Less: GSU Accumulated Depreciation	(Line 24 Above)	18,054,803	-	-
28	<b>Subtotal of Transmission Net of GSU</b>	(Line 26 - Line 27)	475,937,616	-	-
<b>Plant Held For Future Use</b>					
29	<b>Plant Held For Future Use</b>	FF1, page 214, ln 47, Col. (d)	7,747,429	-	-
30	<b>Transmission Plant Held For Future</b>	Company Records	202,362	-	-
31	<b>Construction Work In Progress</b>	Company Records	-	-	-
<b>Regulatory Assets Approved for Recovery In Ratebase</b>					
31					
32					
33					
34					
35					
36	<b>Total Regulatory Deferrals Included in Ratebase</b>				

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting ADIT and ITC Balances  
INDIANA MICHIGAN POWER COMPANY

<u>Line Number</u>	<u>(A) Description</u>	<u>(B) Source</u>	<u>(C) Balance @ December 31, 2008</u>	<u>(D) Balances For Update Use</u>	<u>(E) Average Balance</u>
1	<b><u>Account 281</u></b>				
2	Year End Utility Deferrals	FF1, p. 272 - 273, ln 8, Col. (k)	306,737		-
3	Less: ARO Related Deferrals	Company Records	-		-
4	Less: Other Excluded Deferrals	Company Records	306,737		-
5	Transmission Related Deferrals	Ln 2 - ln 3 - ln 4	-	-	-
6	<b><u>Account 282</u></b>				
7	Year End Utility Deferrals	FF1, p. 274 - 275, ln 5, Col. (k)	504,159,932		-
8	Less: ARO Related Deferrals	Company Records	54,159,014		-
9	Less: Other Excluded Deferrals	Company Records	343,076,433		-
10	Transmission Related Deferrals	Ln 7 - ln 8 - ln 9	106,924,485	-	-
11	<b><u>Account 283</u></b>				
12	Year End Utility Deferrals	FF1, p. 276 - 277, ln 9, Col. (k)	474,221,784		-
13	Less: ARO Related Deferrals	Company Records	328,952,816		-
14	Less: Other Excluded Deferrals	Company Records	134,346,291		-
15	Transmission Related Deferrals	Ln 12 - ln 13 - ln 14	10,922,677	-	-
16	<b><u>Account 190</u></b>				
17	Year End Utility Deferrals	FF1, p. 234, ln 8, Col. (c)	679,711,219		-
18	Less: ARO Related Deferrals	Company Records	380,836,004		-
19	Less: Other Excluded Deferrals	Company Records	280,736,886		-
20	Transmission Related Deferrals	Ln 17 - ln 18 - ln 19	18,138,329	-	-
21	<b><u>Account 255</u></b>				
22	Year End ITC Balances	FF1, p. 266-267, ln 8, Col. (h)	60,047,918		-
23	Less: Balances Not Qualified for Ratebase	Company Records	60,047,918		-
24	ITC Balances Includeable Ratebase	Ln 22 - ln 23	-	-	-
25	Transmission Related Deferrals	Company Records	0		-

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting Working Capital Rate Base Adjustments  
INDIANA MICHIGAN POWER COMPANY

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
<b>Materials &amp; Supplies</b>								
<u>Line Number</u>		<u>Source</u>	<u>Balance @ December 31, 2008</u>	<u>Balance For Update Use</u>		<u>Average Balance for Rate Year 2008</u>		
1								
2	Transmission Materials & Supplies	FF1, p. 227, In 8, Col. (c)	662,273		-			
3	General Materials & Supplies	FF1, p. 227, In 11, Col. (c)	861,996		-			
4	Stores Expense (Undistributed)	FF1, p. 227, In 16, Col. (c)	0		-			

**Prepayment Balance Summary**

	<u>Average of YE Balance</u>	<u>Excludable Balances</u>	<u>100% Transmission Related</u>	<u>Transmission Plant Related</u>	<u>Transmission Labor Related</u>	<u>Total Included in Ratebase (E)+(F)+(G)</u>
5						
6	Totals as of December 31, 2008	6,260,386	(62,701,138)	0	5,235,921	63,725,603
7	Totals as of December 31, 2009					68,961,524
8	<b>Average Balance</b>	-	-	-	-	-

**Prepayments Account 165 - Balance @ 12/31/2008**

9	<u>Acc. No.</u>	<u>Description</u>	<u>2008 YE Balance</u>	<u>Excludable Balances</u>	<u>100% Transmission Related</u>	<u>Transmission Plant Related</u>	<u>Transmission Labor Related</u>	<u>Total Included in Ratebase (E)+(F)+(G)</u>
10	1650001	Prepaid Insurance	4,891,617	-	-	4,891,617	-	4,891,617
11	165000208	Prepaid Taxes	344,304	-	-	344,304	-	344,304
12	1650003	Prepaid Rents	1,224	1,224	-	-	-	-
13	1650004	Prepaid Interest	10,264	10,264	-	-	-	-
14	1650005	Prepaid Employee Benefits	11,110	-	-	-	11,110	11,110
15	1650006	Other Prepayments	14,690	14,690	-	-	-	-
16	1650009	Prepaid Carry Cost-Factored AR	171,116	171,116	-	-	-	-
17	1650010	Prepaid Pension Benefits	63,714,493	-	-	-	63,714,493	63,714,493
18	1650014	FAS 158 Qual Contra Asset	(63,714,493)	(63,714,493)	-	-	-	-
19	1650016	FAS 112 ASSETS	816,061	816,061	-	-	-	-
		<b>Subtotal - Form 1, p 111.57.c</b>	6,260,386	(62,701,138)	0	5,235,921	63,725,603	68,961,524

**Prepayments Account 165 - Balance For Update Use**

1	<u>Acc. No.</u>	<u>Description</u>	<u>For Update Use YE Balance</u>	<u>Excludable Balances</u>	<u>100% Transmission Related</u>	<u>Transmission Plant Related</u>	<u>Transmission Labor Related</u>	<u>Total Included in Ratebase (E)+(F)+(G)</u>
2								-
3								-
4								-
5								-
6								-
7								-
8								-
9								-
10								-
11								-
		<b>Subtotal - Form 1, p 111.57.c</b>						-

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting IPP Credits  
INDIANA MICHIGAN POWER COMPANY

<u>Line Number</u>	<u>(A) Description</u>	<u>(B) 2008</u>	<u>(C) For Update Use</u>
1	Net Funds from IPP Customers 12/31/2007 (FORM 1, P269, line 8 (b))	(5,481,289)	
2	Interest Accrual	(339,051)	
3	Revenue Credits to Generators	-	
4	<u>Other Adjustments</u>		
5	Accounting Adjustment	183,511	
6	Refund to IPP		
7	Net Funds from IPP Customers 12/31/2008 (FORM 1, P269, line 8(f))	(5,636,829)	-
8	Average Balance for Year as Indicated in Column ((ln 1 + ln 7)/2)	(5,559,059)	-

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting Revenue Credits  
INDIANA MICHIGAN POWER COMPANY

<u>Line Number</u>	<u>Description</u>	<u>Total Company</u>	<u>Non-Transmission</u>	<u>Transmission</u>
1	Account 450, Forfeited Discounts	4,075,094	4,075,094	-
2	Account 451, Miscellaneous Service Revenues	1,314,951	1,258,164	56,787
3	Account 454, Rent from Electric Property	7,884,289	7,467,269	417,020
4	Account 4560015, Associated Business Development	2,569,933	1,736,541	833,392
5	Account 456 - Other Electric Revenues	14,078,906	14,078,906	
6	Accounts 4470004 & 5, Revenues from Grandfathered Transmission Contracts	2,045,231	70,814	1,974,417
7	<b>Total Other Operating Revenues To Reduce Revenue Requirement</b>	<b>31,968,404</b>	<b>28,686,788</b>	<b>3,281,616</b>

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting Allocation of Specific O&M or A&G Expenses  
INDIANA MICHIGAN POWER COMPANY

<u>Line Number</u>	<u>Item No.</u>	<u>Description</u>	<u>2008 Expense</u>	<u>100% Non-Transmission</u>	<u>100% Transmission Specific</u>	<u>Transmission Allocated</u>	<u>Explanation</u>
<b>Regulatory Deferrals &amp; Amortizations</b>							
1		No Applicable Charges for I&M	-				
2			-				
3							
4		<b>Total</b>	0				
<b>Account 926</b>							
2007 Base Year OPEB Expense (Note 1)							
5	9260021	Postretirement Benefits - OPEB	12,395,436				
6	9260057	Postret Ben Medicare Subsidy	(3,981,587)				
7		Net 2007 Base Year Expense	8,413,848				
2008 Current Year Expense							
9	9260021	Postretirement Benefits - OPEB	12,135,688				
10	9260057	Postret Ben Medicare Subsidy	(4,090,860)				
11		Net 2008 Expense	8,044,828				
12		<b>Net Increase (Decrease) in OPEB Expense</b>	(369,020)	This Amount Is Allocated on Wages & Salaries			
Note 1: Absent a 205 Filing with FERC, this base amount will not change in subsequent years.							
<b>Account 928</b>							
13	9280000	Regulatory Commission Exp	1,052,347	1,052,347	-	-	- Indiana Rate Case Filing Support
14	9280001	Regulatory Commission Exp-Adm	11,232,908	11,232,908	-	-	- Nuclear Regulatory Commission/FERC Hydro
15	9280002	Regulatory Commission Exp-Case	227,774	227,774	-	-	- Indiana Rate Case
16		<b>Total</b>	12,513,029	12,513,029	-	-	
<b>Account 930.1</b>							
17	9301000	General Advertising Expenses	190,460	190,460	-	-	
18	9301001	Newspaper Advertising Space	33,077	33,077	-	-	
19	9301002	Radio Station Advertising Time	107,083	107,083	-	-	
20	9301003	TV Station Advertising Time	7,200	7,200	-	-	
21	9301005	Radio & TV Advertising Prod Exp	-	-	-	-	
22	9301006	Spec Corporate Comm Info Proj	8,532	8,532	-	-	
23	9301007	Special Adv Space & Prod Exp	4,300	4,300	-	-	
24	9301008	Direct Mail and Handouts	3,179	3,179	-	-	
25	9301009	Fairs, Shows, and Exhibits	758	758	-	-	
26	9301010	Publicity	5,354	5,354	-	-	
27	9301011	Dedications, Tours, & Openings	6,455	6,455	-	-	
28	9301012	Public Opinion Surveys	75,823	75,823	-	-	
29	9301013	Movies Slide Films & Speeches	89,870	89,870	-	-	
30	9301014	Video Communications	801	801	-	-	
31	9301015	Other Corporate Comm Exp	245,526	245,526	-	-	
32		<b>Total</b>	778,418	778,418	-	-	
<b>Account 930.2</b>							
33	9302000	Misc General Expenses	2,826,920			2,826,920	
34	9302003	Corporate & Fiscal Expenses	225,481			225,481	
35	9302004	Research, Develop&Demonstr Exp	50,848	50,848			
36	9302005	Nucl Fac Ins - Replce Engy Cst	(2,561,633)	(2,561,633)			
37	9302007	Assoc Business Development Exp	1,460,713	1,039,353	421,361		
38		<b>Total</b>	2,002,329	(1,471,432)	421,361	3,052,401	

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting - Development of Composite State Income Tax Rate  
INDIANA MICHIGAN POWER COMPANY

Indiana Corporate Income Tax	8.50%	
Apportionment Factor	53.54%	
Effective Indiana State Income Tax Rate		4.55%
Michigan Single Business Tax	6.04%	
Apportionment Factor	11.40%	
Effective Michigan State Income Tax Rate		0.69%
West Virginia Corporate Income Tax	8.75%	
Apportionment Factor	4.46%	
Effective West Virginia State Income Tax Rate		0.39%
State Income Tax Rate - Ohio	8.50%	
Phase-out Factor (Note 1)	20.00%	
Apportionment Factor	7.36%	
Effective Ohio State Income Tax Rate		0.13%
Kentucky Corporation Income Tax	6.00%	
Apportionment Factor	1.18%	
Effective Kentucky State Income Tax Rate		0.07%
Missouri Corporation Income Tax	6.25%	
Apportionment Factor	0.00%	
Effective Missouri State Income Tax Rate		0.00%
Illinois Corporation Income Tax	7.30%	
Apportionment Factor	0.05%	
Effective Illinois State Income Tax Rate		0.00%
Total Effective State Income Tax Rate		<u>5.83%</u>

Note 1

The Ohio State Income Tax is being phased-out over a 5 year period and is being replaced with a Commercial Activities Tax. The taxable portion of income is 20% in 2008.

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting Taxes Other than Income  
INDIANA MICHIGAN POWER COMPANY

Line No.	(A) Account	(B) Total Company	(C) Property	(D) Labor	(E) Other	(F) Non-Allocable
1	<b>Revenue Taxes</b>					
2	Gross Receipts Tax	13,553,299				13,553,299
3	<b>Real Estate and Personal Property Taxes - See Line</b>					
4	Real and Personal Property - Michigan	22,674,002	22,674,002			
5	Real and Personal Property - Indiana	21,722,035	21,722,035			
6	Other Jurisdictions	23,303	23,303			
7	<b>Payroll Taxes</b>					
8	Federal Insurance Contribution (FICA )	11,748,021		11,748,021		
9	Federal Unemployment Tax	133,585		133,585		
10	State Unemployment Insurance	557,222		557,222		
11	<b>Miscellaneous Taxes</b>					
12	State Public Service Commission Fees	1,401,900			1,401,900	
13	State Franchise Taxes	154,477			154,477	
14	State Lic/Registration Fee	125			125	
15	Misc. State and Local Tax	-			-	
16	Sales & Use	76,746				76,746
17	Federal Excise Tax	47,648				47,648
18	Michigan Single Business Tax	(79,072)				(79,072)
19	Total Taxes by Allocable Basis (Total Company Amount Ties to FFI p.114, Ln 14,(c))	72,013,291	44,419,340	12,438,828	1,556,502	13,598,621

**Functional Property Tax Allocation**

	Production	Transmission	Distributions	General	Totals	
20	Functionalized Net Plant (Hist. TCOS, Lns 210 thru 220)	1,212,661,364	621,567,550	848,456,543	68,675,756	2,751,361,213
	<b>MICHIGAN JURISDICTION</b>					
21	Percentage of Plant in MICHIGAN JURISDICTION	61.49%	14.95%	19.52%	44.26%	
22	Net Plant in MICHIGAN JURISDICTION (Ln 20 * Ln 21)	745,665,473	92,924,349	165,618,717	30,395,890	1,034,604,428
23	Less: Net Value Exempted Generation Plant	250,268,680				
24	Taxable Property Basis (Ln 22 - Ln 23)	495,396,793	92,924,349	165,618,717	30,395,890	784,335,748
25	Relative Valuation Factor	100%	100%	100%	100%	
26	Weighted Net Plant (Ln 24 * Ln 25)	495,396,793	92,924,349	165,618,717	30,395,890	
27	General Plant Allocator (Ln 26 / (Total - General Plant))	65.71%	12.33%	21.97%	-100.00%	
28	Functionalized General Plant (Ln 27 * General Plant)	19,972,450	3,746,344	6,677,095	(30,395,890)	-
29	Weighted MICHIGAN JURISDICTION Plant (Ln 26 + 28)	515,369,243	96,670,693	172,295,812	(0)	784,335,748
30	Functional Percentage (Ln 29/Total Ln 29)	65.71%	12.33%	21.97%		
31	Functionalized Payment in MICHIGAN JURISDICTION	14,898,573	2,794,609	4,980,821		22,674,002
	<b>INDIANA JURISDICTION</b>					
32	Net Plant in INDIANA JURISDICTION (Ln 20 - Ln 22)	466,995,891	528,643,201	682,837,826	38,279,866	1,716,756,785
33	Less: Net Value Exempted Generation Plant	97,578,018				
34	Taxable Property Basis	369,417,873	528,643,201	682,837,826	38,279,866	1,619,178,767
35	Relative Valuation Factor	100%	100%	100%	100%	
36	Weighted Net Plant (Ln 34 * Ln 35)	369,417,873	528,643,201	682,837,826	38,279,866	
37	General Plant Allocator (Ln 36 / (Total - General Plant))	23.37%	33.44%	43.19%	-100.00%	
38	Functionalized General Plant (Ln 37 * General Plant)	8,945,080	12,800,560	16,534,227	(38,279,866)	
39	Weighted INDIANA JURISDICTION Plant (Ln 36 + 38)	378,362,953	541,443,761	699,372,053	0	1,619,178,767
40	Functional Percentage (Ln 39/Total Ln 39)	23.37%	33.44%	43.19%		
41	Functionalized Payment in INDIANA JURISDICTION	5,075,915	7,263,719	9,382,401		21,722,035
42	Total Other Jurisdictions: (Line 6 * Net Plant Allocator)		5,102			23,303
43	Total Functionalized Property Taxes (Sum Lns 31, 41, 42)	19,974,488	10,063,430	14,363,221		44,419,340

**AEP East Companies**  
**Cost of Service Formula Rate Using 2008 FF1 Balances**  
**Worksheet Supporting Transmission Plant in Service Additions**  
**INDIANA MICHIGAN POWER COMPANY**

**I. Calculation of Composite Depreciation Rate**

1	Transmission Plant @ Beginning of Historic Period (2008) (P.206, ln 58,(b)):	1,078,331,817
2	Transmission Plant @ End of Historic Period (2008) (P.207, ln 58,(g)):	1,115,559,969
3		2,193,891,786
4	Average Balance of Transmission Investment	1,096,945,893
5	Annual Depreciation Expense, Historic TCOS, ln 275	15,550,510
6	Composite Depreciation Rate	1.42%
7	Round to 1% to Reflect a Composite Life of 100 Years	1.00%

**II. Calculation of Property Placed in Service by Month and the Related Depreciation Expense**

8	Month in Service	Capitalized Balance	Composite Annual Depreciation Rate	Annual Depreciation	Monthly Depreciation	No. Months Depreciation	First Year Depreciation Expense
9	January	\$ 2,400,184	1.00%	\$ 24,002	\$ 2,000	11	\$ 22,000
10	February	\$ 3,358,929	1.00%	\$ 33,589	\$ 2,799	10	\$ 27,990
11	March	\$ 2,603,338	1.00%	\$ 26,033	\$ 2,169	9	\$ 19,521
12	April	\$ 2,682,937	1.00%	\$ 26,829	\$ 2,236	8	\$ 17,888
13	May	\$ 2,643,529	1.00%	\$ 26,435	\$ 2,203	7	\$ 15,421
14	June	\$ 2,721,678	1.00%	\$ 27,217	\$ 2,268	6	\$ 13,608
15	July	\$ 2,513,873	1.00%	\$ 25,139	\$ 2,095	5	\$ 10,475
16	August	\$ 2,569,539	1.00%	\$ 25,695	\$ 2,141	4	\$ 8,564
17	September	\$ 9,629,402	1.00%	\$ 96,294	\$ 8,025	3	\$ 24,075
18	October	\$ 2,758,865	1.00%	\$ 27,589	\$ 2,299	2	\$ 4,598
19	November	\$ 6,327,193	1.00%	\$ 63,272	\$ 5,273	1	\$ 5,273
20	December	\$ 19,308,939	1.00%	\$ 193,089	\$ 16,091	0	\$ -
21	Investment	<u>\$ 59,518,406</u>				Depreciation Expense	<u>\$ 169,413</u>

**III. Plant Transferred**

22	\$ -	<== This input area is for original cost plant
23	\$ -	<== This input area is for accumulated depreciation that may be associated with capital expenditures. It would have an impact if a company had assets transferred from a subsidiary.
24 (Ln 7 * Ln 22)	\$ -	<== This input area is for additional Depreciation Expense

**IV. List of Major Projects Expected to be In-Service in 2009**

25	Major Zonal Projects	Estimated Cost (000's)	Month in Service
26	000015358 TS/I&M/Twin Branch Area Impr	7,388	Sep-09
27	Subtotal	7,388	
28	<u>PJM Socialized/Beneficiary Allocated Regional Projects</u>		
	Subtotal	-	

**I. Calculate Return and Income Taxes with basis point ROE increase for Projects Qualified for Regional Billing.**

**A. Determine 'R' with hypothetical basis point increase in ROE for Identified Projects**

ROE w/o incentives Historic			12.10%
Project ROE Incentive Adder			
ROE with additional basis point incentive			12.10%
Determine R (cost of long term debt, cost of preferred stock and equity percentage)			
	%	Cost	Weighted cost
Long Term Debt	43.24%	6.02%	2.604%
Preferred Stock	0.31%	4.20%	0.013%
Common Stock	56.44%	12.10%	<u>6.830%</u>
		R =	9.447%

SUMMARY OF ANNUAL PJM RTEP APPROVED REGIONAL REVENUE REQUIREMENTS				
HISTORIC YEAR	2008	Rev Require	W Incentives	Incentive Amounts
	As Projected in Prior Year	\$ -	\$ -	\$ -
	Actual after True-up	\$ -	\$ -	\$ -
	Incremental Revenue Requirement	-	-	-
PROJECTED YEAR	2009	-	-	\$ -

**B. Determine Return using 'R' with hypothetical basis point ROE increase for Identified Projects.**

Rate Base (Page 2 of 25, In 242)	514,359,686
R (from A. above)	9.447%
Return (Rate Base x R)	48,592,045

**C. Determine Income Taxes using Return with hypothetical basis point ROE increase for Identified Projects.**

Return (from B. above)	48,592,045
Effective Tax Rate (Page 3 of 25, In 290)	45.90%
Income Tax Calculation (Return x CIT)	22,304,785
ITC Adjustment	(785,510)
Income Taxes	21,519,275

**II. Calculate Net Plant Carrying Charge Rate (Fixed Charge Rate or FCR) with hypothetical basis point ROE increase.**

**A. Determine Annual Revenue Requirement less return and Income Taxes.**

Annual Net Revenue Requirement (Page 1 of 25, In 164)	84,110,986
T.E.A. & Lease Payments (Page 3 of 25, Lns 269 & 270)	(37,398,479)
Return (Page 3 of 25, In 298)	48,592,045
Income Taxes (Page 3 of 25, In 297)	<u>21,519,275</u>
Annual Revenue Requirement, Less Return and Taxes	51,398,146

**B. Determine Annual Revenue Requirement with hypothetical basis point increase in ROE.**

Annual Revenue Requirement, Less Return and Taxes	51,398,146
Return (from I.B. above)	48,592,045
Income Taxes (from I.C. above)	<u>21,519,275</u>
Annual Revenue Requirement, with Basis Point ROE increase	121,509,465
Depreciation (Page 3 of 25, In 275)	<u>15,106,004</u>
Annual Rev. Req, w/ Basis Point ROE increase, less Depreciation	106,403,461

**C. Determine FCR with hypothetical basis point ROE increase.**

Net Transmission Plant (Page 7 of 27, In 211)	607,734,452
Annual Revenue Requirement, with Basis Point ROE increase	121,509,465
FCR with Basis Point increase in ROE	19.99%

Annual Rev. Req, w / Basis Point ROE increase, less Dep.	106,403,461
FCR with Basis Point ROE increase, less Depreciation	17.51%
FCR less Depreciation (Page 6 of 27, In 172)	<u>17.51%</u>
Incremental FCR with Basis Point ROE increase, less Depreciation	0.00%

**III. Calculation of Composite Depreciation Rate**

Transmission Plant @ Beginning of Historic Period ( ) (P.206, In 58,(b)):	1,078,331,817
Transmission Plant @ End of Historic Period ( ) (P.207, In 58,(g)):	<u>1,115,559,969</u>
Subtotal	2,193,891,786
Average Transmission Plant Balance for 2008	1,096,945,893
Annual Depreciation Rate (Page 8 of 27, In 275)	<u>15,550,510</u>
Composite Depreciation Rate	1.42%
Depreciable Life for Composite Depreciation Rate	70.54
Round to nearest whole year	71



AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting Cost of Debt  
INDIANA MICHIGAN POWER COMPANY

**Calculation of Interest Expense Based on Outstanding Debt at Year End**

(A)	(B)	(C)	(D)	(E)
<u>Issuance</u>	<u>Principle Amount</u>	<u>Interest Rate</u>	<u>Annual Expense</u>	<u>Notes</u>
<b>Long Term Debt (FF1.p. 256-257.h)</b>				
PCRB - Lawrenceburg In. - Series I	25,000,000	0.900%	225,000	
PCRB - Lawrenceburg In. - Series H	52,000,000	0.850%	442,000	
<b>Reacquired PCRB's</b>				
PCRB - Rockport In. - 2006 Series A	(50,000,000)	5.000%	(2,500,000)	
PCRB - Rockport In. - 1995 Series B	(50,000,000)	4.100%	(2,050,000)	
PCRB - Rockport In. - 2002 Series A	50,000,000	4.625%	2,312,500	
PCRB - Rockport In. - 2006 Series A	50,000,000	5.000%	2,500,000	
PCRB - Rockport In. - 1995 Series B	50,000,000	4.100%	2,050,000	
PCRB - Rockport In. - 2007 Series D	40,000,000	5.250%	2,100,000	
Senior Unsecured Notes - Series D	150,000,000	6.000%	9,000,000	
Senior Unsecured Notes - Series E	100,000,000	6.375%	6,375,000	
Senior Unsecured Notes - Series F	175,000,000	5.050%	8,837,500	
Senior Unsecured Notes - Series G	125,000,000	5.650%	7,062,500	
Senior Unsecured Notes - Series H	400,000,000	6.050%	24,200,000	
<b>Issuance Discount, Premium, &amp; Expenses:</b>				
Financial Hedges & Auction Fees	FF1.p. 256 & 257.Lines Described as Hedges or Fees		2,105,612	
Amort of Debt Discount and Expenses	FF1.p. 117.63.c		2,467,181	
Amor of Debt Premimums (Enter Negative)	FF1.p. 117.65.c		-	
<b>Reacquired Debt:</b>				
Amortization of Loss	FF1.p. 117.64.c		2,142,335	
Amortization of Gain	FF1.p. 117.66.c		(1,712)	
<b>Total Interest on Long Term Debt</b>	1,117,000,000	6.02%	67,267,916	
<b>Preferred Stock (FF1.p. 250-251)</b>				
	<b>Preferred Shares Outstanding</b>			
4.125% Series - \$100 - 55,335 Shares O/S	5,533,500	4.13%	228,257	
4.56% Series - \$100 - 14,412 Shares O/S	1,441,200	4.56%	65,719	
4.12% Series - \$100 - 11,055 Shares O/S	1,105,500	4.12%	45,547	
<b>Dividends on Preferred Stock</b>	8,080,200	4.20%	339,522	

NOTE: I&M has \$259,022,855 in Spent Nuclear Fuel Disposal Costs accumulated prior to 4/7/1983 that are not included in long term debt for purposes of calculating a weighted average cost of capital.

**Calculation of Average Debt Balance in Calendar Year**

Long Term Debt @ December 31, 2008	1,117,000,000	
Long Term Debt @ December 31, 2009	(FF1, p.257.33.h , Exclude SNF Funds In I&M)	
Average Balance During 2009	1,117,000,000	

**Calculation of Average Preferred Stock Balance in Calendar Year**

	<u>Balance</u>	<u>Dividend</u>	
Preferred Stock @ December 31, 2008	8,080,200		(FF1 p 112, Ln 3.c)
Preferred Stock @ December 31, 2009			(FF1 p 112, Ln 3.c)
Average Balance During 2009	8,080,200		(FF1 p. 118. Ln 29.c)