

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of)	
INDIANA MICHIGAN POWER COMPANY)	
for a power supply cost recovery reconciliation)	Case No. U-15416-R
proceeding for the 12-month period ended)	
December 31, 2008.)	
_____)	

At the December 28, 2009 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. Orjiakor N. Isiogu, Chairman
Hon. Monica Martinez, Commissioner
Hon. Steven A. Transeth, Commissioner

OPINION AND ORDER

On March 31, 2009, Indiana Michigan Power Company (I&M) filed an application, with supporting testimony and exhibits, requesting approval of its power supply cost recovery (PSCR) reconciliation proceeding for the 12-month period ended December 31, 2008.

A prehearing conference was held on May 13, 2009 before Administrative Law Judge Daniel E. Nickerson, Jr. I&M and the Commission Staff participated in the proceedings. Subsequently, the parties submitted a settlement agreement resolving the issues in the case.

According to the terms of the settlement agreement, attached as Exhibit A, the parties agree that issues concerning the D.C. Cook Plant Unit 1 outage should be deferred to I&M's 2009 PSCR reconciliation (Case No. U-15676-R). The parties also agree that for its St. Joseph rate area I&M experienced a total over-recovery of \$4,257,013, including interest, for 2008, and for its Three

Rivers rate area I&M experienced a total under-recovery of \$2,164,366, including interest, for 2008. The parties further agree that I&M should be authorized to roll in the net over and under-recovery amounts into its 2009 PSCR reconciliation.

The Commission finds that the settlement agreement is reasonable and in the public interest, and should be approved.

THEREFORE, IT IS ORDERED that:

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

B. I&M shall roll in the net over-recovery of \$4,257,013 for the St. Joseph rate area and the net under-recovery of \$2,164,366 for the Three Rivers rate area into its 2009 power supply cost recovery reconciliation.

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 426.26.

MICHIGAN PUBLIC SERVICE COMMISSION

Orjiakor N. Isiogu, Chairman

By its action of December 28, 2009.

Monica Martinez, Commissioner

Mary Jo Kunkle, Executive Secretary

Steven A. Transeth, Commissioner

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the Application of)	
INDIANA MICHIGAN POWER COMPANY)	
for a Power Supply Cost Reconciliation)	Case No. U-15416-R
proceeding for the 12-month period)	(e-file)
ended December 31, 2008)	
_____)	

SETTLEMENT AGREEMENT

On March 31, 2009, 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, 2008, together with supporting testimony and exhibits. In its application, I&M requested a PSCR Reconciliation to reconcile separately the costs of power supply incurred and recovered during 2008 for customers located in I&M’s St. Joseph and Three Rivers rate areas.

Based upon its calculations, I&M determined that its 2008 power supply revenues for the St. Joseph rate area exceeded its 2008 power supply costs, resulting in an over-recovery. In addition, I&M determined that the 2008 power supply costs for the Three Rivers rate area exceeded the 2008 power supply revenues, resulting in an under-recovery.

Pursuant to instructions of the Michigan Public Service Commission’s (“Commission”) 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 11, 2009.

Pursuant to the Notice of Hearing, a prehearing conference was held on May 13, 2009, at the Commission offices in Lansing, Michigan, before Administrative Law Judge Daniel E. Nickerson, Jr. Commission Staff ("Staff") was represented by counsel.

The Staff conducted an investigation of I&M's 2008 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.

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

For the purpose of settling the issues in the above-captioned proceeding only, subject to the acceptance and approval of the Commission without modification, and without prejudice to the pre-negotiation positions of the parties in this or any other proceeding, the parties hereto agree and stipulate as follows:

1. I&M and Staff have agreed that, with the exception of Staff reserving their final position on the Cook Nuclear Plant Unit 1 Outage that commenced in September 2008, this Settlement Agreement resolves this case in its entirety. I&M and Staff have agreed to defer the Cook outage issue, including any potential disallowance, into I&M's 2009 PSCR Reconciliation, Case No. U-15676-R. In addition, Staff agrees that any discovery questions will be held in abeyance until the unit returns to service or until the 2009 Reconciliation case. Deferring this issue into Case No. U-15676-R does not in any way waive I&M's position.

2. The St. Joseph rate area experienced a total over-recovery of \$4,257,013 (which includes interest) for 2008. In order to refund the \$4,257,013 over-recovery, I&M will roll it into its upcoming 2009 PSCR reconciliation pursuant to the methodology authorized by the Commission in its Opinion and Order issued in Case No. U-15004.

3. The Three Rivers rate area experienced a total under-recovery of \$2,164,366 (which includes interest) for 2008. In order to collect the \$2,164,366 under-collection, I&M will roll it into its upcoming 2009 PSCR reconciliation, pursuant to the methodology authorized by the Commission in its Opinion and Order issued in Case No. U-15004.

4. The amounts actually expensed for power supply during 2008 in the St. Joseph and Three Rivers rate areas were incurred through reasonable and prudent actions, subject to the reservation referenced in paragraph 1.

5. During the calendar year 2008, no power supply costs were incurred that should be disallowed pursuant to MCL 460.6j(13), subject to the reservation referenced in paragraph 1.

6. It is the opinion of the parties hereto that this Settlement Agreement will promote the public interest, will expedite the 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 I&M. 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. 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.

7. 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.

8. 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.

9. If the Commission does not accept the Settlement Agreement without modification, this Settlement Agreement shall be withdrawn and shall not constitute any part of the record in this proceeding or be used for any other purpose.

10. The parties hereto agree to waive Section 81 of the Michigan Administrative Procedures Act, 1969 PA 306, MCL 24.281, so long as the Commission approves the Settlement Agreement without modification.

INDIANA MICHIGAN POWER COMPANY

Dated: December 8, 2009

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MICHIGAN PUBLIC SERVICE COMMISSION
STAFF

Dated: December ____, 2009

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