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# Indiana & Michigan Electric Company

ANNUAL REPORT 1980

AMERICAN ELECTRIC POWER SYSTEM

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## Background of the Company

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INDIANA & MICHIGAN ELECTRIC COMPANY (the Company) is a subsidiary of American Electric Power Company, Inc. (AEP) and is engaged in the generation, purchase, transmission and distribution of electric power. The Company was organized under the laws of Indiana on February 21, 1925, and is also authorized to transact business in Michigan and West Virginia. Its principal executive offices are in Fort Wayne, Indiana.

On November 30, 1979, a subsidiary, Indiana & Michigan Power Company, which owned and operated the Donald C. Cook Nuclear Plant (the Nuclear Plant), was merged into the Company.

In September 1980, the Company transferred, at net book value, its investment in certain coal mines and related mining assets located in Carbon County, Utah, to a newly-organized subsidiary, Blackhawk Coal Company.

Price River Coal Company, a wholly owned subsidiary of the Company, is engaged in mining coal from land owned by Blackhawk which is being purchased by the Company.

The Company serves 231 communities and 444,139 customers in a 7,700-square-mile area of northern and eastern Indiana and a portion of southwestern Michigan. This area has an estimated population of 1,453,000. Among the principal industries served are manufacturers of automobiles, trucks, automotive parts, manufactured homes, aircraft parts, steel, ferrous and nonferrous castings, farm machinery, machine tools, electric motors, electric transformers, electric wire and cable, glass, textiles, rubber products and electronic components. In addition, the Company supplies wholesale electric power to other electric utilities, municipalities and cooperatives.

The Company's generating plants and important load centers are interconnected by a high-voltage transmission network. This network in turn is interconnected either directly or indirectly with the following other AEP System companies to form a single major integrated power system: Appalachian Power Company, Columbus and Southern Ohio Electric Company, Kentucky Power Company, Kingsport Power Company, Michigan Power Company, Ohio Power Company and Wheeling Electric Company. The Company is also interconnected with the following other utilities: Central Illinois Public Service Company, The Cincinnati Gas & Electric Company, Commonwealth Edison Company, Consumers Power Company, Illinois Power Company, Indiana-Kentucky Electric Corporation (a subsidiary of Ohio Valley Electric Corporation), Indianapolis Power & Light Company, Northern Indiana Public Service Company and Public Service Company of Indiana, Inc.

## Selected Financial Data

	Year Ended December 31,				
	1980	1979	1978	1977	1976
	(in thousands)				
<b>INCOME STATEMENTS DATA:</b>					
OPERATING REVENUES— ELECTRIC .....	<u>\$748,680</u>	<u>\$689,066</u>	<u>\$597,894</u>	<u>\$506,669</u>	<u>\$415,549</u>
TOTAL OPERATING EXPENSES .....	<u>580,484</u>	<u>527,617</u>	<u>440,074</u>	<u>378,345</u>	<u>313,645</u>
OPERATING INCOME .....	<u>168,196</u>	<u>161,449</u>	<u>157,820</u>	<u>128,324</u>	<u>101,904</u>
TOTAL OTHER INCOME AND DEDUCTIONS .....	<u>30,541</u>	<u>29,042</u>	<u>29,750</u>	<u>28,346</u>	<u>29,867</u>
INCOME BEFORE INTEREST CHARGES .....	<u>198,737</u>	<u>190,491</u>	<u>187,570</u>	<u>156,670</u>	<u>131,771</u>
NET INTEREST CHARGES .....	<u>98,665</u>	<u>91,404</u>	<u>74,300</u>	<u>61,241</u>	<u>76,541</u>
CONSOLIDATED NET INCOME— before preferred stock dividend requirements .....	<u>100,072</u>	<u>99,087</u>	<u>113,270</u>	<u>95,429</u>	<u>55,230</u>
PREFERRED STOCK DIVIDEND REQUIREMENTS ..	<u>23,242</u>	<u>19,995</u>	<u>18,357</u>	<u>14,041</u>	<u>11,977</u>
EARNINGS APPLICABLE TO COMMON STOCK ....	<u>\$ 76,830</u>	<u>\$ 79,092</u>	<u>\$ 94,913</u>	<u>\$ 81,388</u>	<u>\$ 43,253</u>
<b>BALANCE SHEETS DATA:</b>					
ELECTRIC UTILITY PLANT .....	\$3,117,381	\$2,657,930	\$2,397,245	\$2,107,032	\$1,933,305
ACCUMULATED PROVISIONS FOR DEPRECIATION, DEPLETION AND AMORTIZATION .....	<u>561,773</u>	<u>475,643</u>	<u>410,520</u>	<u>358,826</u>	<u>316,916</u>
NET ELECTRIC UTILITY PLANT .....	2,555,608	2,182,287	1,986,725	1,748,206	1,616,389
TOTAL ASSETS AND OTHER DEBITS .....	2,826,172	2,616,996	2,360,813	2,130,899	1,919,189
COMMON STOCK, PREMIUMS ON CAPITAL STOCK AND OTHER PAID-IN CAPITAL .....	637,287	587,193	527,193	467,193	409,193
RETAINED EARNINGS .....	124,318	136,802	136,072	105,366	78,776
<b>CUMULATIVE PREFERRED STOCK:</b>					
NOT SUBJECT TO MANDATORY REDEMPTION .	197,000	197,000	197,000	157,000	117,000
SUBJECT TO MANDATORY REDEMPTION (a) ..	68,348	70,000	30,000	30,000	30,000
LONG-TERM DEBT (a) .....	1,264,673	1,124,255	1,050,626	1,038,483	913,832

(a) Including portion due within one year.

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

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The following are some of the more significant factors bearing on the financial condition of Indiana & Michigan Electric Company and its subsidiaries as reflected in the consolidated results of operations. This discussion refers to the consolidated financial statements appearing on the following pages.

## Operating Revenues and Expenses

Consolidated operating revenues increased 15.2% in 1979 and 8.7% in 1980. Operating revenues have risen more steeply than energy sales because of higher retail and wholesale rates, which went into effect during such period, and higher fuel costs, a portion of which is passed on to customers through fuel adjustment charges.

Revenues from retail customers (residential, commercial and industrial) rose by 7.4% in 1979 on a 2.1% increase in kilowatt-hour sales, and were down 1.6% in 1980, on a 3.0% decline in kilowatt-hour sales.

The Company shared in the AEP System's ability to take advantage of its high generating availability, low operating costs and efficient transmission system to increase its opportunity sales to neighboring utilities. Wholesale revenues increased 29.5% in 1979 and 23.0% in 1980 on increases in kilowatt-hour sales of 19.0% and 12.4%, respectively. Wholesale sales to municipalities, electric cooperatives and other electric utilities are expected to continue to be significant during the next few years as well.

The gains in wholesale sales were responsible for increases in purchased and interchange power expenses (6.6% in 1979 and 5.7% in 1980). Because of AEP's powerful interconnection and transmission capacity, during periods of peak demand which exceeded the AEP System's internal generating capacity, wholesale customers' requirements were able to be met by purchasing power from neighboring utilities for resale to others.

Fuel expenses increased by 18.0% in 1980, as contrasted with 16.3% in 1979, with the result that total operating expenses increased in line with operating revenues (10.0% in 1980 and 19.9% in 1979). Future fuel expenses may be affected by contract negotiations between the coal industry and the United Mine Workers, increasing foreign purchases of United States coal, and the possibility of yet more stringent environmental restrictions on burning certain types of coal. Whether or not continued increases in fuel costs will adversely affect earnings will depend on the Company's continued ability to recover those costs promptly in the face of efforts by consumer groups and others to delay or reduce rate increases and to eliminate or reduce the extent of coverage of fuel adjustment clauses.

## Construction and Financing Program

Expenditures for the Company's construction program over the three-year period 1981-1983 are estimated to be approximately \$1.1 billion. Substantial additional expenditures may be required if existing generating plants have to be further modified or require additional facilities to comply with possible future environmental quality standards. In recent years, the construction program has been affected by substantial increases in construction costs and difficulties in obtaining financing for the program due to high costs of capital. The construction program is reviewed continuously and revised from time to time in response to revised projections of load growth and changes in the cost and availability of capital. In recent years, these reviews have resulted in extending construction schedules of a number of projects with the objective of reducing the level of annual construction expenditures. However, deferrals of construction projects may have an adverse effect on the quality of the Company's service to its customers in the future, and any resulting reductions in current construction costs may, in the long run, be at least partially offset by cancellation charges and general inflationary trends. In addition, when the completion date of a project under construction is substantially delayed, it becomes more expensive, both because of the foregoing factors and because certain costs such as real property taxes, allowances for funds used during construction and other overheads continue to accrue until the facility is placed in commercial operation.

It is estimated that approximately 38% of the Company's projected construction expenditures for 1981-1983 will be financed with internally-generated funds. The additional amounts needed will have to be raised externally, as in the past, through sales of securities and investments in the Company's common equity by AEP. The Company initially finances current construction expenditures in excess of available internally-generated funds by issuing unsecured short-term debt (commercial paper and bank loans) and then periodically reduces short-term debt with the proceeds from sales of long-term debt securities and preferred stock and with investments in the Company's common equity by AEP.

The amounts of short-term debt which the Company may issue are limited by regulatory restrictions under the Public Utility Holding Company Act of 1935 and by restrictions in its charter and in certain debt instruments. At December 31, 1980, the Company had received authorizations from the Securities and Exchange Commission to issue a total of approximately \$200,000,000 of short-term debt. Note 8 of Notes to Consolidated Finan-

cial Statements contains information on the Company's short-term bank lines of credit and revolving credit agreements. Bank lines of credit may be withdrawn by the banks extending them at any time.

In order for the Company to issue additional long-term debt and preferred stock, it is necessary for it to comply with earnings coverage requirements contained in its mortgage bond and debenture indentures and in its charter. In order to issue additional long-term debt (except to refund maturing long-term debt), the Company must have pre-tax earnings equal to at least twice the annual interest charges on long-term debt, giving effect to the issuance of the new debt, for a period of 12 consecutive months within the 15 months immediately preceding the date of the new issue. To issue additional preferred stock, the Company must have after-tax gross income at least equal to one and one-half times annual interest charges and preferred dividends, giving effect to the issuance of the new preferred stock, for the same period. These provisions do not prevent certain types of pollution control revenue bond financings by public bodies on behalf of the Company, but the levels of coverage under them may affect the cost and marketability of such bonds. At December 31, 1980, the coverages of the Company under these provisions were at least 2.39 for long-term debt and 1.36 for preferred stock.

In view of these restrictions on the issuance of additional debt securities and preferred stock, the Company believes that it will be possible to meet the capital requirements of its construction program only if the Company receives rate increases over the next several years sufficient to maintain the earnings levels required to issue the necessary amounts of long-term debt and preferred stock and to provide an appropriate return on new equity investment.

#### Net Income

Consolidated net income before preferred dividend requirements decreased by 12.5% in 1979 and increased by 1.0% in 1980. These changes in net income were accompanied by a decrease in the total proportion of allowance for funds used during construction (AFUDC) reflected in net income, from 44.7% in 1978 to 37.8% in 1979 and an increase to 50.2% in 1980, as a result of the commercial operation of the Cook Nuclear Plant Unit 2 in 1978 and the increasing investment in the Rockport Plant (now under construction) in 1980. AFUDC does not represent cash income or a reduction in actual interest expense, but is an accounting convention required by regulatory systems of accounts. The net cost of borrowed funds used for construction and a reasonable rate of return on other funds when so used is capitalized as a cost of construction projects with a concurrent credit to the Income Statement. The amount capitalized is generally included in the plant investment base for setting rates and recovered through depreciation charges included in rates after the project is placed in commercial operation.

#### Effects of Inflation

The high rates of inflation in recent years have had a drastic effect on the Company's consolidated revenues, expenses and net income that is not readily evident in conventional financial statements. For additional information on the effects of inflation, refer to Note 13 of the Notes to Consolidated Financial Statements, which presents a consolidated statement of income for 1980, adjusted for effects of changing prices, and a comparison of selected supplementary data for a two-year period, similarly adjusted.

# Auditors' Opinion

**Deloitte  
Haskins+Sells**

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To the Shareowners and the Board of  
Directors of Indiana &  
Michigan Electric Company:

We have examined the consolidated balance sheets of Indiana & Michigan Electric Company and its subsidiaries as of December 31, 1980 and 1979 and the related consolidated statements of income, retained earnings, and sources and applications of funds for each of the three years in the period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 2 of Notes to Consolidated Financial Statements, (1) a court decision has reversed in part and remanded a 1978 Indiana retail rate order and, (2) the Company is collecting certain wholesale revenues subject to possible refund. In addition, the Company is involved in the antitrust matters discussed in Note 10 of Notes to Consolidated Financial Statements.

In our opinion, subject to the effect on the consolidated financial statements identified above of such adjustments, if any, as might have been required had the outcome of the rate and antitrust matters referred to in the preceding paragraph been known, such consolidated financial statements present fairly the financial position of the Company and its subsidiaries at December 31, 1980 and 1979, and the results of their operations, and their sources and applications of funds for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

*Deloitte Haskins & Sells*

February 24, 1981

## Consolidated Statements of Income

	Year Ended December 31,		
	1980	1979	1978
	(in thousands)		
OPERATING REVENUES—ELECTRIC .....	<u>\$748,680</u>	<u>\$689,066</u>	<u>\$597,894</u>
OPERATING EXPENSES:			
Operation:			
Fuel for Electric Generation .....	171,943	145,743	125,277
Purchased and Interchange Power (net) .....	128,645	121,706	114,154
Other : .....	79,788	70,184	60,001
Maintenance .....	41,377	37,624	32,724
Depreciation, Depletion and Amortization .....	77,668	74,099	59,844
Taxes Other Than Income Taxes .....	26,131	27,176	26,432
State Income Taxes .....	165	1,529	(378)
Federal Income Taxes .....	54,767	49,556	22,020
Total Operating Expenses .....	<u>580,484</u>	<u>527,617</u>	<u>440,074</u>
OPERATING INCOME .....	<u>168,196</u>	<u>161,449</u>	<u>157,820</u>
OTHER INCOME AND DEDUCTIONS:			
Allowance for Other Funds Used During Construction .....	18,438	17,365	27,974
Miscellaneous Nonoperating Income Less Deductions .....	12,103	11,677	1,776
Total Other Income and Deductions .....	<u>30,541</u>	<u>29,042</u>	<u>29,750</u>
INCOME BEFORE INTEREST CHARGES .....	<u>198,737</u>	<u>190,491</u>	<u>187,570</u>
INTEREST CHARGES:			
Interest on Long-term Debt .....	109,138	96,127	89,397
Interest on Short-term Debt .....	18,847	13,787	5,964
Miscellaneous Interest Charges .....	2,507	1,567	1,566
Total Interest Charges .....	<u>130,492</u>	<u>111,481</u>	<u>96,927</u>
Allowance for Borrowed Funds Used During Construction (credit) .....	<u>(31,827)</u>	<u>(20,077)</u>	<u>(22,627)</u>
Net Interest Charges .....	<u>98,665</u>	<u>91,404</u>	<u>74,300</u>
CONSOLIDATED NET INCOME—before preferred stock dividend requirements .....	100,072	99,087	113,270
PREFERRED STOCK DIVIDEND REQUIREMENTS .....	<u>23,242</u>	<u>19,995</u>	<u>18,357</u>
EARNINGS APPLICABLE TO COMMON STOCK .....	<u>\$ 76,830</u>	<u>\$ 79,092</u>	<u>\$ 94,913</u>

See Notes to Consolidated Financial Statements.



# Consolidated Balance Sheets

	December 31,	
	1980	1979
	(in thousands)	
<b>ASSETS AND OTHER DEBITS</b>		
<b>ELECTRIC UTILITY PLANT:</b>		
Production .....	\$1,501,750	\$1,442,315
Transmission .....	433,653	427,818
Distribution .....	283,153	269,708
General and Miscellaneous (includes nuclear fuel and mining plant) .....	195,140	38,163
Construction Work in Progress .....	703,685	479,926
<b>Total Electric Utility Plant .....</b>	<b><u>3,117,381</u></b>	<b><u>2,657,930</u></b>
Less Accumulated Provisions for Depreciation, Depletion and Amortization .....	561,773	475,643
<b>Electric Utility Plant Less Provisions .....</b>	<b><u>2,555,608</u></b>	<b><u>2,182,287</u></b>
<b>OTHER PROPERTY AND INVESTMENTS .....</b>	<b><u>27,409</u></b>	<b><u>212,892</u></b>
<b>CURRENT ASSETS:</b>		
Cash .....	10,665	4,598
Special Deposits and Working Funds .....	3,630	3,990
Accounts Receivable:		
Customers .....	62,216	56,928
Associated Companies .....	23,066	20,576
Miscellaneous .....	5,319	3,773
Accumulated Provision for Uncollectible Accounts .....	(371)	(381)
Materials and Supplies (at average cost or less):		
Fuel .....	65,586	49,284
Construction and Operation Materials and Supplies .....	19,510	17,309
Accrued Utility Revenues .....	11,796	20,104
Prepayments and Other Current Assets .....	4,795	2,093
<b>Total Current Assets .....</b>	<b><u>206,212</u></b>	<b><u>178,274</u></b>
<b>DEFERRED DEBITS:</b>		
Unamortized Debt Expense .....	3,520	3,220
Property Taxes .....	1,473	1,402
Deferred Collection of Fuel Costs .....	789	1,297
Other Work in Progress .....	10,696	11,321
Other Deferred Debits .....	20,465	26,303
<b>Total Deferred Debits .....</b>	<b><u>36,943</u></b>	<b><u>43,543</u></b>
<b>Total .....</b>	<b><u>\$2,826,172</u></b>	<b><u>\$2,616,996</u></b>

See Notes to Consolidated Financial Statements.

	December 31,	
	1980	1979
	(in thousands)	
<b>LIABILITIES AND OTHER CREDITS</b>		
<b>CAPITALIZATION:</b>		
Common Stock — No Par Value:		
Authorized — 2,500,000 Shares		
Outstanding — 1,400,000 Shares .....	\$ 56,584	\$ 56,584
Premiums on Capital Stock .....	381	381
Other Paid-in Capital .....	580,322	530,228
Retained Earnings .....	124,318	136,802
Total Common Shareowner's Equity .....	761,605	723,995
Cumulative Preferred Stock:		
Not Subject to Mandatory Redemption .....	197,000	197,000
Subject to Mandatory Redemption (less sinking fund requirements due within one year) .....	67,000	68,500
Long-term Debt (less portion due within one year) .....	1,245,403	1,088,222
Total Capitalization (less amounts due within one year) .....	2,271,008	2,077,717
<b>CURRENT LIABILITIES:</b>		
Cumulative Preferred Stock Sinking Fund Requirements		
Due Within One Year .....	1,348	1,500
Long-term Debt Due Within One Year .....	19,270	36,033
Short-term Debt:		
Notes Payable to Banks .....	104,550	93,490
Commercial Paper .....	41,975	55,805
Accounts Payable:		
General .....	41,701	45,559
Associated Companies .....	13,052	16,127
Dividends Declared:		
Common Stock .....	11,500	30,130
Cumulative Preferred Stock .....	5,805	5,732
Customer Deposits .....	2,202	2,018
Taxes Accrued .....	23,804	20,134
Interest Accrued .....	27,467	21,480
Revenue Refunds Accrued .....	20,026	16,470
Other Current Liabilities .....	24,136	20,195
Total Current Liabilities .....	336,836	364,673
<b>COMMITMENTS AND CONTINGENCIES (NOTE 10)</b>		
<b>DEFERRED CREDITS AND OPERATING RESERVES:</b>		
Deferred Income Taxes .....	191,884	156,447
Deferred Investment Tax Credits .....	17,950	10,712
Other Deferred Credits and Operating Reserves .....	8,494	7,447
Total Deferred Credits and Operating Reserves .....	218,328	174,606
Total .....	\$2,826,172	\$2,616,996

# Consolidated Statements of Sources and Applications of Funds

	Year Ended December 31,		
	1980	1979	1978
	(in thousands)		
<b>SOURCES OF FUNDS:</b>			
Funds from Operations:			
Consolidated Net Income .....	\$100,072	\$ 99,087	\$113,270
Principal Non-fund Charges (Credits) to Income:			
Depreciation, Depletion and Amortization .....	83,393	77,746	59,853
Provision for Deferred Income Taxes (net).....	35,437	35,844	18,359
Deferred Investment Tax Credits (net) .....	13,509	10,714	2,425
Allowance for Other Funds Used During Construction .....	(18,438)	(17,365)	(27,974)
Other (net) .....	1,274	1,380	506
Total Funds from Operations .....	<u>215,247</u>	<u>207,406</u>	<u>166,439</u>
Funds from Financings and Contributions:			
Issuances and Contributions:			
Capital Contributions from Parent Company .....	50,000	60,000	60,000
Cumulative Preferred Stock .....	—	38,708	38,486
Long-term Debt .....	177,021	164,069	369,839
Short-term Debt (net) .....	(2,770)	24,355	23,090
Total .....	<u>224,251</u>	<u>287,132</u>	<u>491,415</u>
Less Retirements of Cumulative Preferred Stock and Long-term Debt .....	<u>38,149</u>	<u>90,692</u>	<u>357,877</u>
Net Funds from Financings and Contributions .....	<u>186,102</u>	<u>196,440</u>	<u>133,538</u>
Sales of Property .....	<u>50,673</u>	<u>57,898</u>	<u>42,416</u>
Total Sources of Funds .....	<u>\$452,022</u>	<u>\$461,744</u>	<u>\$342,393</u>
<b>APPLICATIONS OF FUNDS:</b>			
Plant and Property Additions:			
Gross Additions to Utility Plant .....	\$304,678	\$321,405	\$340,209
Gross Other Additions .....	6,013	47,028	31,024
Total Gross Additions .....	310,691	368,433	371,233
Allowance for Other Funds Used During Construction .....	(18,438)	(17,365)	(27,974)
Net Plant and Property Additions .....	292,253	351,068	343,259
Dividends on Common Stock .....	89,320	77,070	62,692
Dividends on Cumulative Preferred Stock .....	23,242	19,995	18,357
Other Changes (net) .....	11,117	1,953	13,675
Increase (Decrease) in Working Capital (a) .....	36,090	11,658	(95,590)
Total Applications of Funds .....	<u>\$452,022</u>	<u>\$461,744</u>	<u>\$342,393</u>
(a) Excludes Cumulative Preferred Stock Sinking Fund Requirements Due Within One Year, Long-term Debt Due Within One Year and Short-term Debt and is represented by increase (decrease) as follows:			
Cash and Cash Items .....	\$ 5,707	\$ (19,426)	\$ (59,280)
Accounts Receivable .....	9,334	12,059	8,696
Materials and Supplies .....	18,503	37,698	107
Accrued Utility Revenues .....	(8,308)	6,293	(4,338)
Accounts Payable .....	6,933	4,079	(29,809)
Dividends Declared on Common Stock .....	18,630	(15,878)	(2,892)
Revenue Refunds Accrued .....	(3,556)	(3,679)	(5,865)
Taxes Accrued .....	(3,670)	(129)	(1,201)
Other (net) .....	(7,483)	(9,359)	(1,008)
	<u>\$36,090</u>	<u>\$ 11,658</u>	<u>\$ (95,590)</u>

## Consolidated Statements of Retained Earnings

	Year Ended December 31,		
	1980	1979	1978
	(in thousands)		
Balance at Beginning of Year:			
As Previously Reported .....	\$137,876	\$136,829	\$104,566
Restatement (Note 2) .....	(1,074)	(757)	800
As Restated .....	136,802	136,072	105,366
Consolidated Net Income .....	100,072	99,087	113,270
Total .....	236,874	235,159	218,636
Deductions:			
Cash Dividends Declared:			
Common Stock .....	89,320	77,070	62,692
Cumulative Preferred Stock:			
4½ % Series .....	495	495	495
4.56% Series .....	273	273	273
4.12% Series .....	165	165	165
7.08% Series .....	2,124	2,124	2,124
7.76% Series .....	2,716	2,716	2,716
8.68% Series .....	2,604	2,604	2,604
12 % Series .....	3,425	3,600	3,600
\$2.15 Series .....	3,440	3,440	3,440
\$2.25 Series .....	3,600	3,600	2,940
\$2.75 Series .....	4,400	978	—
Total Cash Dividends Declared .....	112,562	97,065	81,049
Capital Stock Expense .....	(6)	1,292	1,515
Total Deductions .....	112,556	98,357	82,564
Balance at End of Year .....	\$124,318	\$136,802	\$136,072

See Notes to Consolidated Financial Statements.

## Notes to Consolidated Financial Statements

### 1. Significant Accounting Policies:

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

A wholly owned subsidiary, Indiana & Michigan Power Company (the Generating Subsidiary) was merged into the Company on November 30, 1979, at which time the Company assumed the obligations of the Generating Subsidiary.

The accounting and rates of the Company are subject in certain respects to the requirements of state regulatory

bodies and in certain respects to the requirements of the Federal Energy Regulatory Commission (FERC).

The consolidated financial statements include the accounts of the Company and two wholly owned subsidiaries engaged in coal mining. Significant inter-company items have been eliminated in consolidation. The consolidated financial statements have been prepared on the basis of the accounts which are maintained for FERC purposes.

*Electric Utility Plant; Other Property and Investments; Depreciation, Depletion and Amortization*

Electric utility plant is stated at original cost. Generally, the plant of the Company is subject to first mortgage liens.

The Company capitalizes, as a construction cost, an allowance for funds used during construction, an item not representing cash income, which is defined in the applicable regulatory systems of accounts as the net cost of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. The composite rates used by the Company were 10.75% during 1980 and 1979, and 10.5% in 1978, (the Generating Subsidiary used 10.5% and 10.2%, during 1979 and 1978 applied on a semi-annual compound basis).

The Company provides for depreciation on a straight-line basis over the estimated useful lives of the property. The current provisions are determined largely with the use of functional composite rates as follows:

Functional Class of Property	Composite Annual Rate
<b>Production:</b>	
Steam-Nuclear .....	4.0%
Steam-Fossil-fired .....	3.1%
Transmission .....	2.9%
Distribution .....	3.3%
General .....	3.5%

Depreciation, depletion and amortization of coal-mining property are provided in amounts estimated to be sufficient to amortize the costs of the related assets, less any estimated salvage (which is not significant), over their useful lives and are calculated by use of the following methods:

Description	Method
Mining Structures and Equipment	Straight-line method (original lives range from 2 to 30 years)
Coal Interests and Mine Development Costs	Units-of-production method (based on estimated recoverable tonnages; current rate averages \$1.05 per ton)

Substantially all of the amount of the provisions for depreciation, depletion and amortization of coal-mining property is classified in the Consolidated Statements of Income as fuel for electric generation.

Operating expenses are charged with the costs of labor, materials, supervision and other costs incurred in maintaining the properties. Property accounts are charged with costs of betterments and major replacements of property and the accumulated provisions for depreciation are charged with retirements, together with removal costs less salvage.

Other property and investments are generally stated at cost.

*Income Taxes*

Deferred Federal income taxes, reduced where applicable by investment tax credits, are provided by the Company generally to the extent that such amounts are allowed for rate-making purposes. On October 1, 1978, January 1, 1979 and May 1, 1979, the Company expanded deferred tax accounting to additional book/tax timing differences pursuant to orders of the Public Service Commission of Indiana (PSCI), FERC and the Michigan Public Service Commission (MPSC), respectively.

The Company normalizes the effect of tax reductions resulting from investment tax credits recognized in connection with accruals of current income taxes and provisions for certain deferred Federal income taxes, consistent with rate-making policies. The deferred investment tax credits applicable to current Federal income taxes payable are amortized over 30 years.

The consolidated coal subsidiaries use the "flow-through" method of accounting for investment tax credits.

*Pension Plans*

The companies participate with other companies in the AEP System in a non-contributory trustee plan to provide pensions for all their employees who are not participants in pension plans of the United Mine Workers of America (UMWA), subject to certain eligibility requirements. The pension plan conforms to the Employee Retirement Income Security Act of 1974 (ERISA).

Pension costs for the years ended December 31, 1980, 1979 and 1978 were approximately \$3,416,000, \$3,117,000 and \$2,624,000, respectively. These amounts cover the costs of currently accruing benefits and amortization of, and interest on, unfunded prior-service costs. The latter costs, approximately \$1,943,000 at December 31, 1979, the date of the most recent actuarial study, are being amortized over 30 years. The plan may be modified or terminated at any time, subject to limitation of labor agreements.

At December 31, 1979, the actuarial present value of accumulated vested benefits was \$44,567,000 and the actuarial present value of accumulated nonvested benefits was \$2,561,000. The market value of net assets available for benefits at December 31, 1979 was \$66,615,000. The assumed rate of return used in determining the actuarial present value of accumulated benefits was 8%.

Under a contract with the UMWA, a subsidiary is required to make payments into two multi-employer pension plans based on coal production and hours worked. The cost of the plans was approximately \$1,690,000 in 1980. As of June 30, 1980, the Company's actuary estimates, based on information that is available, that the

subsidiaries' share of the unfunded vested liabilities of the UMWA pension plans approximates \$9,200,000.

**Black Lung Benefits**

The subsidiaries engaged in coal-mining activities are liable under the Federal Coal Mine Health and Safety Act of 1969 (Act), as amended, to pay certain black lung benefits to eligible present and former employees. Effective January 1, 1980, self-insurance accruals are being provided sufficient to amortize the actuarially computed present and future liabilities for such benefits over the average remaining life of the mines. The provision in 1980 was approximately \$391,000. On December 28, 1979, a Black Lung Benefits Trust was established by the AEP System under Section 501(c)(21) of the Internal Revenue Code. At January 1, 1980 (the date of the latest actuarial valuation), the subsidiaries' unfunded actuarial value of medical and liability benefits under the Act, as well as comparable state legislation, was approximately \$12,000,000. Commencing in 1980, the companies began funding the actuarially determined liabilities, including a provision for the previously accrued but unfunded liabilities, at a level which currently approximates the recorded expense provisions.

**Other**

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

Miscellaneous nonoperating income for the years ended December 31, 1980, 1979 and 1978 includes gains amounting to \$397,000, \$147,000 and \$261,000, respectively, on certain long-term debt reacquired.

Debt discount or premium and debt expense are being amortized over the lives of the related debt issues and the amortization thereof is included within miscellaneous interest charges.

**2. Restatements, Operating Revenues and Operating Expenses:**

The 1979 and 1978 financial statements have been restated to reflect the effects of certain revenue refunds as ordered by federal and state regulatory commissions in 1980. The effects of such restatements are as follows:

Increase (Decrease) in:	Year Ended December 31,	
	1979	1978
	(in thousands)	
Operating Revenues .....	\$ (2,077)	\$ (5,586)
Operating Expense:		
Purchased and Interchange		
Power (net) .....	(1,013)	(2,153)
Federal Income Tax .....	(252)	(1,418)
Miscellaneous Interest Charges .....	520	278
Miscellaneous Nonoperating Income .....	1,015	736
Consolidated Net Income .....	<u>\$ (317)</u>	<u>\$ (1,557)</u>

The Company has collected retail revenues under final orders of PSCI which became effective in February 1977 and September 1978. In November 1979, a Court of Appeals ruled that the 1977 increase granted by the PSCI (\$41,800,000 on an annual basis) was excessive, said that the PSCI had over-estimated the Company's Federal income tax allowance, and ordered the case sent back to the PSCI for further hearings. The Company has appealed the ruling to the Supreme Court of Indiana. The Company's petition to the Indiana Supreme Court for review of this decision was denied on April 29, 1980. Hearings were held before the PSCI on October 30, 1980. On January 21, 1981, the PSCI issued an order requiring the Company to refund to its Indiana retail customers \$9,315,000, including interest of \$1,215,000. Prior periods have been restated to give effect to such refunds. On February 19, 1981, the Company filed its refund plan for the disposition of the \$9,315,000 refund. The Company indicated it is prepared to proceed with the refund plan, however, it requested a stay of the refund pending any appeal that may be made by another party to the proceeding. Subsequently, the PSCI issued an order approving the refund plan but denying the Company's request for a stay. In a separate proceeding before the Court of Appeals, certain petitioners have similarly challenged the tax provision allowed in the 1978 increase (\$43,000,000 on an annual basis) granted by the PSCI. On February 5, 1981, the Court of Appeals of Indiana affirmed, in part, and reversed, in part, the PSCI decision, relating to the 1978 increase and remanded the matter to the PSCI for further proceedings with respect to certain issues, including the issue relating to Federal income tax expense. Three commercial customers have filed a complaint with a Circuit Court in Michigan appealing an order of MPSC allowing the Company a \$10,800,000 annual rate increase in 1979, seeking a summary judgment in connection with the tax provision allowed in the rate increase. The Company is an intervening defendant in the proceeding. The Company cannot predict the outcome of these matters.

Wholesale-for-resale transactions are effected among the principal operating companies of the AEP System pursuant to a System interconnection agreement. In May 1975, the FPC permitted a modification to the interconnection agreement to be placed into effect as of June 2, 1975, subject to refund. The modification has the effect generally, of decreasing the expenses of those System companies which have a generating capability in excess of their peak loads plus appropriate reserves, and of increasing the expenses of those participating companies which have negative capacity balances. In July 1979, FERC issued an opinion and order which generally approved the 1975 modification, but ordered that the monthly capacity equalization factor applicable to settle-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ments among System companies under the interconnection agreement be reduced from a basis of a 17.5% annual carrying charge, to a 16.49% annual carrying charge. In August 1979, AEP System companies filed a supplement to the modification causing the monthly carrying charge factor to be reduced in accordance with the FERC order. In November 1979, FERC accepted the supplement to the modification for filing and made it effective June 2, 1975. In September 1979, FERC issued an order denying an application for rehearing by AEP System companies and other parties to the proceeding, confirming its decision of July 1979, and providing that adjustments from the effective date of the modification to reflect the revised monthly carrying charge factor should be effected by credits to future billings rather than through cash refunds. In October 1979, AEP System companies filed with FERC a plan designed to effect the required adjustments through credits to future billings and in September 1980, FERC approved the compliance program. In October 1980, the Company and other AEP System companies party to the modification requested and, in December 1980, FERC authorized the Company and the other AEP System companies to restate their respective accounts to record as prior period adjustments the settlement of intrasystem transactions and related interest, net of related income tax effects. Action was commenced effective with December 1980 billings to

complete the compliance program previously authorized by FERC. The amounts shown in the Consolidated Statements of Income for the years 1979 and 1978 and the other financial data with respect to such periods included herein, reflect the prior period adjustments authorized by FERC.

Revenues collected by the Company from other wholesale and retail rate increases placed into effect subject to possible refund are estimated as follows:

	(in thousands)
1980 .....	\$16,923
1979 .....	18,988
1978 .....	10,151
Prior to 1978 .....	<u>19,320</u>
Total .....	<u>\$65,382</u>

See Note 10 for information with respect to an antitrust decision enjoining the Company from charging certain wholesale rates.

Operating revenues derived from a certain wholesale customer represent approximately 9%, 10% and 12% of total operating revenues for 1980, 1979 and 1978, respectively.

In 1978, the Company received approval of the PSCI to collect, over a five-year period ending in 1983, substantially all of its deferred fuel costs.

**3. Federal Income Taxes:**

The details of Federal income taxes are as follows:

	Year Ended December 31,		
	1980	1979	1978
	(in thousands)		
<b>Charged to Operating Expenses:</b>			
Current Federal Income Taxes (net) .....	\$ 6,983	\$ 5,293	\$ 1,357
Deferred Federal Income Taxes (net) .....	34,275	33,549	18,238
Deferred Investment Tax Credits (net) .....	<u>13,509</u>	<u>10,714</u>	<u>2,425</u>
Total .....	<u>54,767</u>	<u>49,556</u>	<u>22,020</u>
<b>Charged (Credited) to Other Income and Deductions:</b>			
Current Federal Income Taxes (net) .....	1,526	(1,297)	815
Deferred Federal Income Taxes (net) .....	<u>1,162</u>	<u>2,295</u>	<u>121</u>
Total .....	<u>2,688</u>	<u>998</u>	<u>936</u>
<b>Total Federal Income Taxes .....</b>	<b><u>\$57,455</u></b>	<b><u>\$50,554</u></b>	<b><u>\$22,956</u></b>

The companies' effective Federal income tax rates were less than the statutory rates for the years 1980, 1979 and 1978. The following is a reconciliation of the differences between the amount of Federal income taxes computed by multiplying net income before Federal income taxes by the applicable statutory tax rate and the amount of Federal income tax expense reported in the Consolidated Statements of Income.

	Year Ended December 31,		
	1980	1979	1978
	(in thousands)		
Consolidated Net Income—before preferred stock dividend requirements .....	\$100,072	\$ 99,087	\$113,270
Federal Income Taxes .....	<u>57,455</u>	<u>50,554</u>	<u>22,956</u>
Pre-Tax Book Income .....	<u>\$157,527</u>	<u>\$149,641</u>	<u>\$136,226</u>
Federal Income Tax on Pre-Tax Book Income at Statutory Rate of 46% in 1980 and 1979 and 48% in 1978	\$ 72,462	\$ 68,835	\$ 65,388
Increase (Decrease) in Federal Income Taxes Resulting from:			
Excess of Tax over Book Depreciation .....	(16,794)	(22,149)	(19,691)
Allowance for Funds Used During Construction and Miscellaneous Items Capitalized on the Books but Deducted for Tax Purposes (not shown below) .....	(24,532)	(18,338)	(25,853)
Mine Development and Exploration Expense .....	(211)	(2,487)	(4,680)
Unbilled Revenues .....	3,793	(2,867)	2,054
Amortization of Pollution Control Facilities .....	(4,032)	(4,030)	(4,080)
Other .....	144	(4,281)	(1,405)
Federal Income Tax on Current-Year Taxable Income (separate-return basis) .....	30,830	14,683	11,733
Adjustment Due to System Consolidation .....	(10,394)	(8,380)	(11,733)
Minimum Tax on Preference Items .....	—	—	650
Current-Year Investment Tax Credit .....	<u>(14,305)</u>	<u>(4,431)</u>	<u>—</u>
Currently Payable .....	6,131	1,872	650
Adjustments of Prior-Year Accruals (net) .....	(210)	(683)	(276)
Adjustments for Tax Losses (a):			
Federal Income Taxes .....	8,625	10,447	7,503
Investment Tax Credit .....	<u>(6,037)</u>	<u>(7,640)</u>	<u>(5,705)</u>
Current Federal Income Taxes (net) .....	<u>8,509</u>	<u>3,996</u>	<u>2,172</u>
Deferred Federal Income Taxes (net of amortization) Resulting from the Following Timing Differences:			
Depreciation (liberalized and asset depreciation range) .....	16,689	20,513	17,439
Amortization of Pollution Control Facilities .....	3,767	3,719	573
Allowance for Borrowed Funds Used During Construction .....	12,130	7,918	1,148
Unbilled Revenues .....	(3,822)	2,590	(2,082)
Percentage Repair Allowance .....	5,005	1,894	403
Accelerated Amortization of Emergency Facilities (amortization of prior-year provisions) .....	(2,131)	(1,817)	(1,848)
Other .....	(1,432)	(121)	(474)
Investment Tax Credit Applicable to Deferred Federal Income Taxes on Certain Timing Differences ..	<u>5,231</u>	<u>1,148</u>	<u>3,200</u>
Deferred Federal Income Taxes (net) .....	<u>35,437</u>	<u>35,844</u>	<u>18,359</u>
Deferred Investment Tax Credits (net) .....	<u>13,509</u>	<u>10,714</u>	<u>2,425 (b)</u>
Total Federal Income Taxes .....	<u>\$ 57,455</u>	<u>\$ 50,554</u>	<u>\$ 22,956 (b)</u>

- (a) The AEP System allocates Federal income taxes currently payable in accordance with Securities and Exchange Commission (SEC) regulations which require that the benefit of tax losses be allocated to the AEP System companies with taxable income. The benefits of these tax losses, without affecting taxes payable, are reallocated to the AEP System companies giving rise to such losses, as it is expected that these losses would be usable in subsequent years to reduce taxes payable of the loss companies through the application of the SEC allocation.
- (b) Federal income taxes for 1977 were approximately \$3,194,000 less than originally estimated due to changes in repair allowance and mine development deductions. However, taxes payable were not significantly affected due to available investment tax credit offsets. The reduction was recorded in the third quarter of 1978 principally as a reduction of deferred investment tax credits.



The companies join in the filing of a consolidated Federal income tax return with its affiliated companies in the AEP System. Unused System investment tax credits at December 31, 1980 aggregated approximately \$267,000,000, of which approximately \$13,000,000 may be carried forward through 1984, \$92,300,000 through 1985, \$56,800,000 through 1986 and \$104,900,000 through 1987. As required by the Internal Revenue Code, approximately \$37,300,000 of these amounts, generated by Columbus and Southern Ohio Electric Company prior to its acquisition, must be utilized by it. Of the System investment tax credit carryforwards, approximately \$29,000,000 has been applied as a reduction of deferred income taxes prior to December 31, 1980 and will not be reflected in net income when realized in future years except as affected by changes in deferred income taxes.

The System's consolidated Federal income tax returns for the years prior to 1970 have been settled. The returns for the years 1970 through 1973 have been reviewed by the Internal Revenue Service (IRS) and additional taxes for those years have been proposed, some of which the System companies have protested. In the opinion of the System companies, adequate provision has been made for such additional taxes. The IRS has also completed its review of the returns for the years 1974 through 1976. Although the IRS has proposed substantial disallowances, such disallowances, if sustained, would not result in a material assessment of additional taxes due to the availability of substantial investment tax credit carryforwards. The System companies are protesting the bulk of the proposed disallowances. Based on the information available at this time, the effect of the proposed disallowances is not expected to be material to System earn-

ings due predominantly to the availability of substantial investment tax credit carryforwards and deferred Federal income tax provisions relating to certain of the proposed disallowances, although the ultimate effect is not presently determinable.

#### 4. Other Property and Investments:

A portion of the Company's Western coal reserves were transferred to Blackhawk Coal Company (a wholly owned subsidiary) as of September 1, 1980. The amount of the investment transferred to Blackhawk, included in other property and investments at December 31, 1979, was \$185,373,000.

#### 5. Common Stock, Premiums on Capital Stock and Other Paid-in Capital:

The Company received from its parent cash capital contributions of \$50,000,000 in 1980, \$60,000,000 in 1979 and \$60,000,000 in 1978. In 1980 a credit to other paid-in capital of \$94,000 represented the excess of par value over cost of cumulative preferred stock reacquired by the Company to meet sinking fund requirements. There were no common stock transactions and no transactions affecting premiums on capital stock during the years 1980, 1979 and 1978.

#### 6. Retained Earnings:

Various restrictions on the use of retained earnings for cash dividends on common stock and other purposes are contained in or result from covenants in mortgage indentures, debenture and bank loan agreements, charter provisions and orders of regulatory authorities. Approximately \$48,800,000 at December 31, 1980, was so restricted.

**7. Cumulative Preferred Stock:**

At December 31, 1980, authorized shares of cumulative preferred stock were as follows:

<u>Par Value</u>	<u>Shares Authorized</u>
\$100.....	2,250,000
25.....	11,200,000

In 1978 shareowners authorized an increase of \$25 par value cumulative preferred stock to 7,200,000 shares and in 1980 additional authorization was received for an increase to 11,200,000 shares. The cumulative preferred stock is callable at the option of the Company at the price indicated plus accrued dividends. The involuntary liquidation preference is par value. Unissued shares of the cumulative preferred stock may or may not possess mandatory redemption characteristics upon issuance. The Company issued and sold 1,600,000 shares of the \$2.25 series in 1978; and 1,600,000 shares of the \$2.75 series in 1979.

**A. Cumulative Preferred Stock Not Subject to Mandatory Redemption:**

<u>Series</u>	<u>Current Call Price</u>	<u>Redemption Restricted Prior to</u>	<u>Par Value</u>	<u>Shares Outstanding</u>	<u>Amount</u>	
					<u>December 31,</u>	
					<u>1980</u>	<u>1979</u>
(in thousands)						
4 1/4 %	\$106.125		\$100	120,000	\$ 12,000	\$ 12,000
4.56%	102		100	60,000	6,000	6,000
4.12%	102.728		100	40,000	4,000	4,000
7.08%	106.45		100	300,000	30,000	30,000
7.76%	107.32		100	350,000	35,000	35,000
8.68%	107.44		100	300,000	30,000	30,000
\$2.15	27.15	5/1/82	25	1,600,000	40,000	40,000
\$2.25	27.25	3/1/83	25	1,600,000	40,000	40,000
					<u>\$197,000</u>	<u>\$197,000</u>

**B. Cumulative Preferred Stock Subject To Mandatory Redemption:**

<u>Series(c)</u>	<u>Current Call Price</u>	<u>Redemption Restricted Prior to</u>	<u>Par Value</u>	<u>Shares Outstanding</u>	<u>Amount</u>	
					<u>December 31,</u>	
					<u>1980</u>	<u>1979</u>
(in thousands)						
12%(a)	\$112		\$100	283,480	\$28,348	\$30,000
\$2.75(b)	27.75	10/1/84	25	1,600,000	40,000	40,000
					68,348	70,000
Less Sinking Fund Requirements Due Within One Year .....					1,348	1,500
					<u>\$67,000</u>	<u>\$68,500</u>

(a) A sinking fund for the 12% series requires the Company to provide, on or before October 1 of each year, beginning in 1980, for the purchase, or redemption at \$100 a share, of 15,000 shares of such series. The Company has the right, on each sinking fund date, to redeem an additional 15,000 shares. At December 31, 1980 the Company had reacquired 1,520 shares in anticipation of sinking fund requirements. Unless all sinking fund provisions have been met, no distribution may be made on the common stock.

(b) A cumulative sinking fund for the \$2.75 series requires the Company to redeem 80,000 shares on each October 1 commencing on October 1, 1984. The Company has the option to credit shares purchased or otherwise acquired in lieu of redeeming shares for the sinking fund and has the non-cumulative option to double the number of shares to be redeemed in any year on and after October 1, 1984.

(c) The minimum sinking fund provisions of the series subject to mandatory redemption aggregate \$1,500,000 in each of the years 1981, 1982 and 1983, and \$3,500,000 in 1984 and 1985.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Long-term debt by major category was outstanding as follows (less portion due within one year):

	December 31,	
	1980	1979
	(in thousands)	
First Mortgage Bonds .....	\$1,044,369	\$ 924,464
Sinking Fund Debentures .....	22,705	23,668
Installment Purchase Contracts .....	158,799	119,678
Other Long-term Debt .....	19,530	20,412
Total (less portion due within one year) .....	<u>\$1,245,403</u>	<u>\$1,088,222</u>

First mortgage bonds outstanding were as follows:

% Rate	Due	December 31,	
		1980	1979
		(in thousands)	
2½	1980—June 1 .....	\$ —	\$ 18,015
3½	1982—January 1 .....	16,046	16,046
10½	1982—June 1 .....	70,000	70,000
3½	1983—September 1 .....	13,762	13,762
11	1983—September 1 .....	60,000	60,000
3½	1984—October 1 .....	15,082	15,082
10½	1984—December 1 (e)(d)(e) ...	61,500	63,000
10	1985—March 1 (e) .....	12,000	12,750
10½	1987—January 1 .....	80,000	80,000
13½	1987—February 1 (a) .....	55,000	—
3½	1988—February 1 .....	22,974	22,974
4½	1988—November 1 .....	17,557	17,557
11½	1990—June 1 (b) .....	80,000	—
4½	1993—August 1 .....	42,902	42,902
7	1998—May 1 .....	35,000	35,000
8½	2000—April 1 .....	50,000	50,000
9½	2003—June 1 (d)(e) .....	288,500	300,000
8½	2003—December 1 .....	40,000	40,000
9½	2008—March 1 .....	100,000	100,000
	Unamortized Discount (net) .....	(1,454)	(859)
		1,058,869	956,229
	Less Portion Due Within One year .....	14,500	31,765
	Total .....	<u>\$1,044,369</u>	<u>\$924,464</u>

- (a) Issued by the Company in February 1980.
- (b) Issued by the Company in June 1980.
- (c) Guaranteed by American Electric Power Company, Inc.
- (d) On November 30, 1979, the Company assumed the obligation of the Generating Subsidiary to pay the principal of and interest on these bonds, which are secured by a first mortgage lien on the Nuclear Plant.
- (e) Sinking fund payments are required as follows:
  - 10% series due 1985—\$750,000 annually on March 1.
  - 10½% series due 1984—\$2,250,000 annually on December 1, through 1983, with the noncumulative election to redeem an additional \$2,250,000 in each year.
  - 9½% series due 2003—\$11,500,000 annually on June 1, through 1991 and \$13,500,000 annually on June 1, 1992 through 2002 with the noncumulative option to redeem an additional amount in each of the specified years from a minimum of \$100,000 to a maximum equal to the scheduled requirement for each year, but with a maximum optional redemption, as to all years in the aggregate, of \$75,000,000.

The indentures relating to the first mortgage bonds contain improvement, maintenance and replacement provisions requiring the deposit of cash or bonds with the

trustee, or in lieu thereof, certification of unfunded property additions. The Company has elected to use unfunded property additions to meet these provisions in the past.

Sinking fund debentures of the Company outstanding were as follows:

	December 31,	
	1980	1979
	(in thousands)	
5¼% Due 1986—June 1 .....	\$11,266	\$11,898
7¼% Due 1998—May 1 .....	11,390	11,713
Unamortized Premium .....	49	57
Total .....	<u>\$22,705</u>	<u>\$23,668</u>

Installment purchase contracts have been entered into by the Company in connection with the issuance of pollution control revenue bonds by governmental authorities as follows:

% Rate	Due	December 31,	
		1980	1979
		(in thousands)	
City of Lawrenceburg, Indiana:			
8½	2006—July 1 .....	\$ 25,000	\$ 25,000
7	2006—May 1 .....	40,000	40,000
6½	2006—May 1 .....	12,000	12,000
City of Rockport, Indiana:			
9½	2005—June 1 .....	6,500	—
9½	2010—June 1 .....	33,500	—
City of Sullivan, Indiana:			
7½	2004—May 1 .....	7,000	7,000
6½	2006—May 1 .....	25,000	25,000
7½	2009—May 1 .....	13,000	13,000
	Unamortized Discount .....	(3,201)	(2,322)
	Total .....	<u>\$158,799</u>	<u>\$119,678</u>

Under the terms of certain installment purchase contracts, the Company is required to pay purchase price installments in amounts sufficient to enable the cities to pay interest on and the principal (at stated maturities and upon mandatory redemption) of related pollution control revenue bonds issued to finance the construction of pollution control facilities at certain generating plants of the Company.

Other long-term debt outstanding consisted of:

	December 31,	
	1980	1979
	(in thousands)	
Coal Reserve Obligations Payable in Equal Annual Installments Through 1985 with Interest at 8% .....	\$23,688	\$23,926
Notes Payable Due 1981 Through 1985, 6%-7% .....	612	644
Other .....	—	110
	24,300	24,680
Less Portion Due Within One Year .....	4,770	4,268
Total .....	<u>\$19,530</u>	<u>\$20,412</u>

Long-term debt of the Company, excluding premium or discount, outstanding at December 31, 1980 is due as follows:

	<u>Principal Amount</u> (in thousands)
1981.....	\$ 19,270
1982.....	105,808
1983.....	93,531
1984.....	87,352
1985.....	25,536
Later Years.....	<u>937,783</u>
	<u>\$1,269,280</u>

At December 31, 1980 and 1979, the principal amounts of debentures reacquired in anticipation of sinking fund requirements were \$1,944,000 and \$1,789,000, respectively. The Company may make additional debenture or first mortgage bond sinking fund payments of up to \$14,550,000 annually.

At December 31, 1980, the Company had an unused revolving line of credit with various banks of

\$100,000,000. The line of credit requires a commitment fee of ½ of 1% per annum of unused credit.

The Company had unused short-term bank lines of credit of approximately \$195,000,000 and \$124,000,000 at December 31, 1980 and 1979, respectively, under which notes could be issued with no maturity more than 270 days after date of issue. The available lines of credit are subject to withdrawal at the banks' option, and \$181,000,000 and \$104,000,000, respectively, of such lines are shared with other AEP System companies. In accordance with informal agreements with the banks, compensating balance deposits of up to 10% or, in certain instances, equivalent fees are required to maintain the lines of credit and, on any amounts actually borrowed, generally either additional compensating balance deposits of up to 10% are maintained or adjustments in interest rates are made. Substantially all bank balances are maintained by the Company to compensate the banks for services and for both used and available lines of credit.

#### 9. Supplementary Income Statement Information and Related-Party Transactions:

Electric operating revenues shown in the Consolidated Statements of Income include sales of energy to AEP System companies of approximately \$17,400,000, \$17,000,000 and \$17,500,000 for the years ended December 31, 1980, 1979 and 1978, respectively.

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

	<u>Year Ended December 31.</u>		
	<u>1980</u>	<u>1979</u>	<u>1978</u>
		(in thousands)	
Purchased Power (a) .....	\$ 42,147	\$ 16,485	\$ 6,241
Interchange Power (net):			
AEP System Electric Utilities .....	87,111	105,606	77,889
Other Companies (b) .....	(613)	(385)	30,024
	<u>\$128,645</u>	<u>\$121,706</u>	<u>\$114,154</u>
Taxes Other Than Income Taxes:			
Real and Personal Property Taxes .....	\$16,193	\$15,230	\$14,617
State Gross Sales, Excise and Franchise Taxes and Miscellaneous State and Local Taxes .....	7,309	9,501	9,842
Social Security Taxes — Federal and State .....	2,629	2,445	1,973
	<u>\$26,131</u>	<u>\$27,176</u>	<u>\$26,432</u>
Fuel for Electric Generation includes charges relating to mining operations, as follows:			
Maintenance .....	\$5,680	\$3,787	\$ —
Depreciation, Depletion and Amortization .....	5,653	3,643	—
Taxes Other Than Federal Income Taxes .....	1,061	686	—

(a) Includes power purchased from Ohio Valley Electric Corporation (OVEC) of approximately \$15,837,000 in 1980, \$4,205,000 in 1979 and \$1,558,000 in 1978.

(b) Includes interchange power sold to OVEC of approximately \$386,000 in 1980, \$1,367,000 in 1979 and \$908,000 in 1978.

Charges to operating expenses for royalties and for advertising are less than 1% of gross revenues in each year.

Sales and purchases of energy and interchange power transactions are regulated by the various commissions having jurisdiction.

American Electric Power Service Corporation provides certain services to the Company and the affiliated companies in the AEP System. The costs of the services are determined by the service company on a direct charge basis to the extent practicable and on reasonable bases of proration for indirect costs. The charges for services are made on a cost basis and include no compensation for the use of equity capital, all of which is furnished to the service company by AEP. The service company is subject to the regulation of the SEC under the Public Utility Holding Company Act of 1935.

**10. Commitments and Contingencies:**

The construction budget of the companies for the year 1981 is estimated at \$303,000,000 and, in connection therewith, commitments have been made.

The Company participates with its parent, three associated utility companies, several unaffiliated utility companies, and OVEC in supplying the U.S. Department of Energy (DOE) with the power requirements of its plant near Portsmouth, Ohio. The proceeds from the sales of power by OVEC are designed to be sufficient for OVEC to meet its operating expenses and fixed costs, including amortization of long-term debt capital (balance approximately \$4,000,000 as of December 31, 1980), over a period ending in 1981 and the completion of the purchase of pollution control facilities (the unamortized cost of which aggregated approximately \$163,000,000 at December 31, 1980) and to provide for an annual return on its equity capital. The Company, as a participant, is entitled to receive from OVEC, and is obligated to pay for 7.6% of the power not required by DOE. The power agreement terminates by its terms, in 1992.

In 1978, three court proceedings brought in recent years by certain municipalities in Indiana and Michigan, all wholesale customers of the Company, were combined into a single consolidated case in the United States District Court for the Northern District of Indiana and a fourth action was commenced in the same court. A trial of the consolidated case was held and in January 1979 the court ruled for the plaintiffs that the Company, its parent, and American Electric Power Service Corporation have violated the antitrust laws, awarded the municipalities damages of approximately \$12,100,000 when trebled,

placed limitations on the Company's putting into effect or charging wholesale rates to the plaintiffs and enjoined the Company from certain practices. The financial statements at December 31, 1980 and 1979 do not include any provision for such damages. The Company, AEP and American Electric Power Service Corporation have appealed the decision to the United States Circuit Court for the Seventh Circuit which, on February 21, 1980 issued a decision which affirmed the decision of the District Court, but vacated the damage and injunctive provisions of its decision and remanded them to the District Court for additional proceedings. In March 1979, two other municipal customers brought a separate action against the Company, its parent and the Service Corporation alleging violations of the antitrust laws and seeking damages of at least \$7,000,000 before trebling and other remedies. Certain issues in the complaint are similar to those tried in the consolidated case.

In another proceeding, the Company is awaiting a decision with respect to a ruling by an administrative law judge in 1977 on a complaint made to FERC by eleven municipalities. That complaint alleged that the municipal electric systems had been threatened with termination of wholesale electric service. The Company has filed a brief on exceptions with FERC. The Company cannot predict whether the initial decision will become the final decision of FERC without change or the effect thereof.

Two contractors, United Nuclear Corporation and General Atomic Company (GAC), are variously obligated to supply uranium concentrates and six fabricated nuclear-fuel reloads to the Company. Each contractor claims, among other things, that it is not or may not be obligated to make deliveries of uranium concentrates or fabricated nuclear-fuel reloads and that it is entitled to a price higher than contracted. The Company received the first two reloads and assured delivery of the remaining four reloads through rights-reserved agreements with GAC, which were incorporated into injunctive orders of the court. Under the agreements, pending the court's judgment and without prejudice to the ultimate rights of the parties, the reloads were to be supplied at a higher provisional cost to the Company. In 1978, a U.S. District Court entered judgment ordering GAC to pay the Company damages of approximately \$16,000,000 and to deliver the remaining reloads at the price specified in the contract. GAC has appealed the judgment. A stay of the monetary portion of the judgment has been granted, but motions to stay the specific-performance portion of the judgment have been denied.

In 1978, a retail customer of the Company commenced an action, individually and as representative of an alleged class, in the U.S. District Court, alleging that the Company's lease of electric utility assets from the City of Fort Wayne is in violation of Federal antitrust laws. The complaint seeks to have the lease declared null and void, asks that the Company be restrained from charging excessive prices for the purchase of electric power, seeks treble damages in an unspecified amount in respect of allegedly excessive charges to residents of the City of Fort Wayne and seeks to restore the control of the electric utility assets in question to the City of Fort Wayne. In May, June and July, 1979 the court granted in part and denied in part the Company's motion to dismiss or for summary judgment. The Court dismissed plaintiffs' allegations concerning abuse of a legally acquired monopoly but ruled that plaintiffs could continue to assert other theories of violation of Federal antitrust laws and certified a class of residential customers who may maintain the action.

In 1975, the Federal Power Commission issued an order instituting an investigation under the Federal Power Act concerning the reasonableness and prudence of the coal purchasing policies and practices of members of the System, the manner in which wholesale fuel adjustment clauses are implemented by System members, and related matters. A complainant and eight intervenors are also participating in the proceeding. In 1978, the FERC staff issued a preliminary report which alleged overcharges on the part of the entire System, and of which only a portion relates to the Company's operations. The report also questioned certain aspects of the System's fuel policies, including the AEP System's decision to expand its use of coal from mines owned by affiliates and its use of Western coal. In November 1979, the FERC staff submitted its final recommendations to the administrative law judge. The final recommendations urge refunds of alleged overcharges, corrections of alleged improper coal accounting and pricing practices, disallowances of certain fuel costs associated with Western coal acquisitions, revision of FERC regulations regarding affiliate fuel costs and establishment of hearing procedures to resolve certain of the issues and that a separate investigation be instituted concerning System administration of long-term fuel supply contracts. The System companies have submitted a written response supporting the decisions previously made by the System companies. On February 14, 1980, FERC issued an order directing the administrative law judge immediately to certify to FERC the entire

record in the proceeding for review by the Commission and ordered that the procedural schedule be placed in abeyance, pending a further directive. The Company cannot assess the outcome or significance of this proceeding.

The Company intends to apply to regulatory commissions to provide, through future increased rates, for the costs that will be incurred to store spent nuclear fuel and to decommission the Nuclear Plant at the end of its service life. The Company plans to effect modifications to increase the present spent-fuel storage capacity of the Nuclear Plant to permit normal operations through the early 1990's, at an estimated cost of \$6,000,000. The Company is also studying alternative methods of decommissioning the Nuclear Plant but cannot reasonably estimate, at this time, the future costs that will be incurred.

The Price-Anderson Act limits the public liability of a licensee of a nuclear plant to \$560,000,000 for a single nuclear incident, to be covered in part by private insurance with the balance to be covered by agreements of indemnity with the Nuclear Regulatory Commission. The Company has purchased private insurance in the maximum available amount of \$160,000,000. In the event of a nuclear incident involving any commercial nuclear facility in the country, the Company, together with other licensees, could be individually assessed \$5,000,000 per incident for each reactor owned (subject to a maximum of \$10,000,000 in any year in the event of more than one incident). The Price-Anderson indemnities have been decreased by the aggregate amount which is assessable against existing licensees and will continue to decrease as new operating units are licensed.

The Company has procured property insurance in the maximum available amount of \$300,000,000 for damage to the nuclear plant facilities and is a self-insurer for any property loss in excess of that amount. The Company also has obtained membership in Nuclear Electric Insurance Limited (NEIL), which provides its members with insurance to cover extra costs of replacement power resulting from a prolonged accidental outage of a nuclear unit. The Company's policy insures against such increased costs up to \$2,000,000 per week (starting 26 weeks after the outage) for one year and \$1,000,000 per week for the second year, or 80% of those amounts per unit if both units are down for the same reason. The Company would be subject to a retrospective premium of up to \$8,200,000 per unit (five times the annual premium) if NEIL's losses exceed its accumulated funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Leases:

The Company, as part of its operations, leases property, plant, and equipment under leases ranging in length from 1 to 35 years. Most of the leases require the Company to pay related property taxes, maintenance costs and other costs of operation. The Company expects that in the normal course of business, leases will generally be renewed or replaced by other leases. The majority of the various rentals is under leases having purchase options or renewal options for substantially all of the economic lives of the properties.

Rentals are analyzed as follows:

	Year Ended December 31,		
	1980	1979	1978
	(in thousands)		
Gross Rentals .....	\$88,000	\$70,000	\$60,000
Less Rental Recoveries (including sublease rentals)(a) .....	3,000	2,000	1,000
Net Rentals(b) .....	<u>\$85,000</u>	<u>\$68,000</u>	<u>\$59,000</u>
(a) Includes amounts paid for or reimbursed by associated companies.			
(b) Classified as:			
Operating Expenses .....	\$82,000	\$62,000	\$51,000
Clearing and Miscellaneous Accounts (portions of which are charged to income) .....	3,000	6,000	8,000
	<u>\$85,000</u>	<u>\$68,000</u>	<u>\$59,000</u>

Future minimum lease payments, by period and in the aggregate, under the Company's capital leases and noncancelable operating leases consisted of the following at December 31, 1980:

	Capital Leases (a)	Operating Leases
	(in thousands)	
1981 .....	\$ 7,000	\$ 7,000
1982 .....	6,000	7,000
1983 .....	6,000	7,000
1984 .....	5,000	7,000
1985 .....	5,000	7,000
Later Years .....	<u>66,000</u>	<u>76,000</u>
Total Future Minimum Lease Payments ..	95,000	<u>\$111,000</u>
Less Estimated Interest Element Included Therein (b) .....	<u>55,000</u>	
Estimated Present Value of Future Minimum Lease Payments .....	<u>\$40,000</u>	

(a) Excludes leases of nuclear fuel, all of which are capital leases. Nuclear fuel rentals comprise the unamortized balance of the lessor's cost (approximately \$127,000,000 at December 31, 1980) less salvage value, if any, to be paid over the period of usage in proportion to heat produced, and carrying charges on the lessor's unrecovered cost. It is contemplated that portions of the presently leased material will be replenished by additional leased material.

(b) Interest rates used range from 4.9% to 14.7%.

The following is a pro forma analysis of leased properties under capital leases and related obligations, assuming that such leases were capitalized:

	December 31,	
	1980	1979
	(in thousands)	
Nuclear Fuel .....	\$214,000	\$169,000
Coal-transportation Equipment .....	14,000	15,000
Real Estate .....	13,000	13,000
Electric Distribution System Property .....	13,000	12,000
Other Transportation Equipment .....	<u>11,000</u>	<u>11,000</u>
Gross Properties under Capital Leases ...	265,000	220,000
Less Accumulated Provision for Amortization .....	<u>104,000</u>	<u>73,000</u>
Net Properties under Capital Leases .....	<u>\$161,000</u>	<u>\$147,000</u>
Obligations under Capital Leases (a) .....	<u>\$167,000</u>	<u>\$153,000</u>

(a) Including an estimated \$44,000,000 and \$59,000,000, respectively, due within one year.

Had capital leases been capitalized, any additional net expense would have been insignificant. The above pro forma analysis does not give recognition to offsetting adjustments in allowable revenues that the Company believes would normally be expected to occur through the regulatory rate-making process, if the related leases had been capitalized.

Included in the above analysis of future minimum lease payments and of properties under capital leases and related obligations are certain leases as to which portions of the related rentals are paid for or reimbursed by associated companies in the AEP System based on their usage of the leased property. The Company cannot predict the extent to which or proportion in which the associated companies will utilize the properties under such leases in the future.

**12. Unaudited Quarterly Financial Information:**

The following restated consolidated quarterly financial information is unaudited but, in the opinion of the Company, includes all adjustments (consisting of only normal recurring accruals) necessary for a fair presentation of the amounts shown:

Quarterly Periods Ended	Operating Revenues	Operating Income	Net Income*
	(in thousands)		
1980—			
Mar. 31 .....	\$205,464	\$48,461	\$32,946
June 30 .....	163,476	33,113	17,353
Sept. 30 .....	187,216	40,953	23,188
Dec. 31 .....	192,524	45,669	26,585
1979—			
Mar. 31 .....	171,029	47,683	30,808
June 30 .....	173,426	33,280	19,950
Sept. 30 .....	169,797	41,828	26,205
Dec. 31 .....	174,814	38,658	22,124
1978—			
Mar. 31 .....	145,106	41,787	32,614
June 30 .....	157,958	40,416	34,909
Sept. 30 .....	152,218	40,983	23,157
Dec. 31 .....	142,612	34,634	22,590

\*Before preferred stock dividend requirements.

**13. Unaudited Information On Inflation and Changing Prices:**

The supplementary information in the statements

below is presented in compliance with the requirements of the Financial Accounting Standards Board (FASB). The information is intended to disclose the effects of both general inflation and changing prices; however, the amounts should be considered approximations of such effects rather than precise measures since a number of subjective judgments and estimating techniques were employed in developing the information.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power as measured by the average level of the 1980 Consumer Price Index for All Urban Consumers (CPI-U).

Current cost amounts reflect the changes in specific prices of property, plant and equipment from the date such assets were acquired to the present, and differ from constant dollar amounts to the extent that specific prices have risen at a different rate than the general inflation rate as measured by the CPI-U. The current cost of property, plant and equipment represents the approximate cost of replacing such resources and includes utility plant in service, construction work in progress, land, land rights and other property and investments. Current cost amounts were determined primarily by applying appropriate indexes from the Handy-Whitman Index of Public Utility Construction Costs.

Consolidated Statement of Income  
Adjusted for Effects of Changing Prices

Year Ended December 31, 1980	As Stated in the Primary Financial Statements	Adjusted for General Inflation (constant dollar)	Adjusted for Changes in Specific Prices (current cost)
		(in thousands)	
Operating Revenues .....	\$748,680	\$749,000	\$749,000
Operating Expenses:			
Operation:			
Fuel for Electric Generation (a) .....	171,943	174,000	174,000
Purchased and Interchange Power (net) .....	128,645	129,000	129,000
Other .....	79,788	80,000	80,000
Maintenance .....	41,377	41,000	41,000
Depreciation, Depletion and Amortization (a) .....	77,668	154,000	157,000
Taxes Other Than Federal Income Taxes .....	26,296	26,000	26,000
Federal Income Taxes .....	54,767	55,000	55,000
Total Operating Expenses .....	<u>580,484</u>	<u>659,000</u>	<u>662,000</u>
Operating Income .....	168,196	90,000	87,000
Other Income and Deductions .....	30,541	31,000	31,000
Net Interest Charges .....	(98,665)	(99,000)	(99,000)
Preferred Stock Dividend Requirements .....	(23,242)	(23,000)	(23,000)
Earnings Applicable to Common Stock (b) .....	<u>\$ 76,830</u>	<u>\$ (1,000)</u>	<u>\$ (4,000)</u>
Increase in Specific Prices (current cost) of Property, Plant and Equipment Held During the Year (c) .....			\$ 262,000
Reduction to Net Recoverable Cost (d) .....		\$(216,000)	—
Effect of Increase in General Price Level .....			<u>(532,000)</u>
Excess of Increase in General Price Level over Increase in Specific Prices After Reduction to Net Recoverable Cost .....			(270,000)
Gain from Decline in Purchasing Power of Net Amounts Owed (e) .....		181,000	181,000
Net .....		<u>\$ (35,000)</u>	<u>\$ (89,000)</u>

(Continued)



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Concluded)

(a) As prescribed by the FASB, the items in the Consolidated Statement of Income that have been adjusted are depreciation, depletion and amortization (including portions classified as fuel for electric generation). Depreciation, depletion and amortization charges were computed by applying current accrual rates to the various plant accounts (production, transmission, distribution, general and miscellaneous) after adjusting such accounts for the effects of changing prices.

(b) Including the reduction to net recoverable cost, the loss from operations on a constant dollar basis and current cost basis would have been \$217,000,000 and \$4,000,000, respectively.

(c) At December 31, 1980, current cost of property, plant and equipment, net of accumulated depreciation, depletion and amortization, was \$4,705,000,000 while historical cost or net cost recoverable through depreciation, depletion and amortization was \$2,556,000,000.

(d) The reduction to net recoverable cost of property, plant and equipment (as expressed in terms of inflation-adjusted cost) to historical cost recognizes that the rate-making process limits the Company to recovery of the historical cost of the subject assets.

(e) To reflect properly the economics of rate regulation in the Consolidated Statement of Income Adjusted for Effects of Changing Prices, the reduction to net recoverable cost should be offset by the gain that results from the decline in purchasing power of the net amounts owed by the Company. During a period of inflation, holders of monetary assets such as cash and receivables suffer a loss of general purchasing power while holders of monetary liabilities, generally long-term debt, experience a gain (because debt will be repaid in dollars having less purchasing power). The Company's gain from the decline in purchasing power of its net amounts owed is primarily attributable to the substantial amount of debt and cumulative preferred stock subject to mandatory redemption which has been used to finance utility plant.

Five-Year Comparison of Selected Supplementary Data  
Adjusted for Effects of Changing Prices  
(dollar amounts are expressed in terms of average 1980 dollars)

	Year Ended December 31,				
	1980	1979	1978	1977	1976
Operating Revenues .....	\$749,000	\$782,000	\$756,000	\$689,000	\$601,000
(in thousands, except index data)					
<i>Historical Cost Information Adjusted for General Inflation</i>					
Income (Loss) from Operations (excluding reduction to net recoverable cost) .....	\$ (1,000)	\$27,000			
Net Assets at Year-end at Net Recoverable Cost .....	\$915,000	\$988,000			
<i>Current Cost Information</i>					
Income (Loss) from Operations (excluding reduction to net recoverable cost) .....	\$ (4,000)	\$11,000			
Excess of Increase in General Price Level over Increase in Specific Prices after Reduction to Net Recoverable Cost .....	\$ (270,000)	\$ (217,000)			
Net Assets at Year-end at Net Recoverable Cost .....	\$915,000	\$988,000			
<i>General Financial Data</i>					
Gain from Decline in Purchasing Power of Net Amounts Owed .....	\$181,000	\$197,000			
Average Consumer Price Index .....	246.8	217.5	195.4	181.5	170.5
<i>General Information on Mining Operations</i>					
Proven and Probable Coal Reserves at End of Year (thousands of tons) (note) .....	413,964	415,023			
Tons of Coal Mined (thousands) .....	1,059	669			
Average Market Price (at current-cost per ton) .....	\$52.75	\$52.20			

Note: Proven reserves— The estimated quantities of commercially recoverable reserves that, on the basis of geological, geophysical and engineering data, can be demonstrated with a reasonably high degree of certainty to be recoverable in the future from known mineral deposits by either primary or improved methods.

Probable reserves— The estimated quantities of commercially recoverable reserves that are less well defined than proven reserves and that may be estimated or indicated to exist on the basis of geological, geophysical and engineering data.

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## Directors

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FRANK N. BIEN  
W. A. BLACK  
LAWRENCE R. BRUNKE  
RICHARD E. DISBROW  
JOHN E. DOLAN  
E. W. HERMANSEN (a)

G. E. LEMASTERS  
GERALD P. MALONEY  
RICHARD C. MENGE  
C. W. ROHRIG (b)  
J. F. STARK  
W. S. WHITE, JR.

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## Officers

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W. S. WHITE, JR.  
*Chairman of the Board and  
Chief Executive Officer*

W. A. BLACK  
*President and  
Chief Operating Officer*

J. F. STARK  
*Senior Vice President*

FRANK N. BIEN  
*Vice President*

RICHARD E. DISBROW  
*Vice President*

JOHN E. DOLAN  
*Vice President*

A. JOSEPH DOWD  
*Vice President*

ROBERT S. HUNTER  
*Vice President*

GERALD P. MALONEY  
*Vice President*

RICHARD C. MENGE  
*Vice President*

BEVERLY I. STEARS (c)  
*Vice President*

PETER J. DEMARIA  
*Treasurer*

JOHN R. BURTON  
*Secretary*

BEVERLY I. STEARS (d)  
*Assistant Secretary and  
Assistant Treasurer*

ALLEN H. STUHLMANN  
*Assistant Secretary and  
Assistant Treasurer*

RICHARD P. BOURGERIE (c)  
*Assistant Secretary*

JOHN F. DiLORENZO, JR.  
*Assistant Secretary*

CARL J. MOOS (f)  
*Assistant Secretary*

WARREN O. KELTNER (e)  
*Assistant Secretary*

WILLIAM E. OLSON  
*Assistant Secretary*

WILLIAM J. PROCHASKA (c)  
*Assistant Secretary*

LEONARD V. ASSANTE  
*Assistant Treasurer*

WILLIAM N. D'ONOFRIO  
*Assistant Treasurer*

GERALD R. KNORR  
*Assistant Treasurer*

*The principal occupation of each of the above directors and officers of Indiana & Michigan Electric Company, with nine exceptions, is as an employee of American Electric Power Service Corporation. The exceptions are Messrs. W. A. Black, Lawrence R. Brunke, G. E. LeMasters, Richard C. Menge, Carl J. Moos, C. W. Rohrig, J. F. Stark, Beverly I. Stears, and Allen H. Stuhlmann whose principal occupations are as officers or employees of Indiana & Michigan Electric Company.*

(a) Resigned April 22, 1980

(b) Elected April 22, 1980

(c) Elected June 1, 1980

(d) Resigned June 1, 1980

(e) Resigned September 1, 1980

(f) Elected September 1, 1980

## Operating Statistics

	1980	1979	1978	1977	1976
<b>ELECTRIC OPERATING REVENUES (in thousands):</b>					
From Kilowatt-hour Sales:					
Residential:					
Without Electric Heating .....	\$106,488	\$102,543	\$ 95,676	\$ 89,675	\$ 71,888
With Electric Heating .....	54,277	55,458	53,557	46,324	37,447
Total Residential .....	160,765	158,001	149,233	135,999	109,335
Commercial .....	108,764	106,151	95,423	91,153	72,527
Industrial .....	116,165	127,815	120,180	107,931	80,233
Sales for Resale:					
Municipalities .....	42,295	42,028	37,230	42,391	26,197
Cooperatives .....	21,652	22,176	17,732	15,619	10,491
Other Electric Utilities .....	288,563	222,488	166,391	103,517	110,332
Total Sales for Resale .....	352,510	286,692	221,353	161,527	147,070
Miscellaneous .....	6,150	6,099	7,655	5,974	2,573
Total from Kilowatt-hour Sales .....	744,354	684,758	593,844	502,584	411,738
Other Operating Revenues .....	4,326	4,308	4,050	4,085	3,811
Total Electric Operating Revenues .....	\$748,680	\$689,066	\$597,894	\$506,669	\$415,549

<b>SOURCES AND SALES OF ENERGY (in millions of kilowatt-hours):</b>					
Sources:					
Net Generated — Steam:					
Fossil Fuel .....	6,719	6,443	7,231	7,317	7,701
Nuclear Fuel .....	13,153	11,614	10,101 (a)	4,786	6,809
Net Generated — Hydroelectric .....	85	79	75	68	72
Subtotal .....	19,957	18,136	17,407	12,171	14,582
Purchased .....	1,883	811	301	182	232
Net Interchange .....	3,669	5,389	4,475	7,922	6,523
Total Sources .....	25,509	24,336	22,183	20,275	21,337
Less: Losses, Company Use, Etc. ....	1,426	1,386	1,340	1,270	1,290
Net Sources .....	24,083	22,950	20,843	19,005	20,047
Sales:					
Residential:					
Without Electric Heating .....	2,493	2,389	2,352	2,456	2,384
With Electric Heating .....	1,549	1,619	1,622	1,605	1,577
Total Residential .....	4,042	4,008	3,974	4,061	3,961
Commercial .....	2,716	2,629	2,498	2,671	2,579
Industrial .....	3,932	4,380	4,319	4,473	4,209
Sales for Resale:					
Municipalities .....	1,541	1,534	1,585	1,642	1,527
Cooperatives .....	803	819	814	786	754
Other Electric Utilities .....	10,854	9,386	7,468	5,195	6,849
Total Sales for Resale .....	13,198	11,739	9,867	7,623	9,130
Miscellaneous .....	195	194	185	177	168
Total Sales .....	24,083	22,950	20,843	19,005	20,047

(a) Includes 691 million kilowatt-hours as test generation. The fuel cost associated with such generation is charged to other operation expense.

	1980	1979	1978	1977	1976
<b>AVERAGE COST OF FUEL CONSUMED (a):</b>					
<b>Cents per Million Btu:</b>					
Coal.....	164.49	151.91	109.68	74.96	65.89
Fuel Oil.....	— (c)	220.42	229.68	168.80	76.72(b)
Nuclear.....	48.44	37.82	34.65	29.72	26.34
Overall.....	84.95	76.25	71.16	59.12	46.47(b)
<b>Cents per Kilowatt-hour Generated:</b>					
Coal.....	1.59	1.52	1.11	.73	.63
Fuel Oil.....	— (c)	4.37	2.40	1.88	.84(b)
Nuclear.....	.52	.41	.38	.33	.28
Overall.....	.89	.81	.75	.61	.47(b)

**RESIDENTIAL SERVICE— AVERAGES:**

**Annual Kwh Use per Customer:**

Total.....	10,206	10,210	10,260	10,641	10,439
With Electric Heating.....	20,584	21,611	22,067	22,830	23,200

**Annual Electric Bill:**

Total.....	\$406	\$402	\$389	\$361	\$288
With Electric Heating.....	\$721	\$740	\$736	\$668	\$551

**Price per Kwh (in cents):**

Total.....	3.98	3.94	3.79	3.39	2.76
With Electric Heating.....	3.50	3.43	3.34	2.93	2.37

**NUMBER OF ELECTRIC CUSTOMERS— Year-End:**

**Residential:**

Without Electric Heating.....	321,432	319,477	315,472	313,085	312,211
With Electric Heating.....	75,618	75,606	74,900	72,059	69,237
<b>Total Residential.....</b>	<b>397,050</b>	<b>395,083</b>	<b>390,372</b>	<b>385,144</b>	<b>381,448</b>

Commercial.....	42,758	42,563	42,106	41,907	41,703
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Industrial.....	2,802	2,748	2,689	2,500	2,452
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**Sales for Resale:**

Municipalities.....	23	23	23	23	23
Cooperatives.....	65	65	64	61	59
Other Electric Utilities.....	17	15	20	16	15
<b>Total Sales for Resale.....</b>	<b>105</b>	<b>103</b>	<b>107</b>	<b>100</b>	<b>97</b>

Miscellaneous.....	1,424	1,373	1,331	1,304	1,280
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<b>Total Electric Customers.....</b>	<b>444,139</b>	<b>441,870</b>	<b>436,605</b>	<b>430,955</b>	<b>426,980</b>
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(a) Excludes effect of deferred collection of fuel costs.

(b) Includes effect of refund received from supplier of fuel oil resulting from settlement of litigation concerning pricing. Without such refund, the average cost of fuel oil for 1976 would have been 173.27 cents per million Btu and 1.91 cents per kilowatt-hour generated, and the overall cost of fuel would have been 49.33 cents per million Btu and 0.50 cents per kilowatt-hour generated.

(c) The Company's only fuel oil fired plant was placed in deactivated reserve during November 1979.

## Price Range of Cumulative Preferred Stock

By Quarters (1980 and 1979)

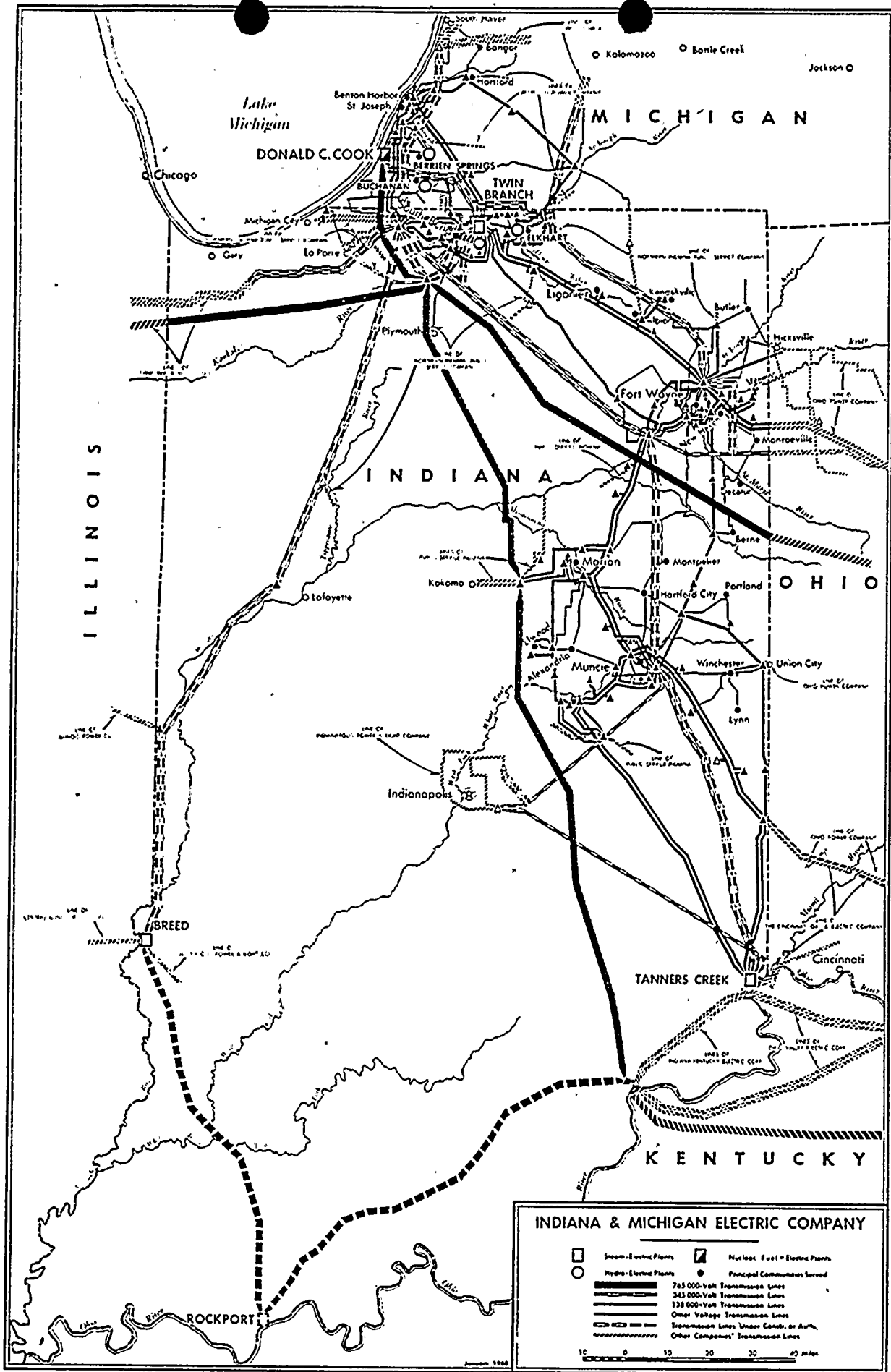
Cumulative Preferred Stock (\$100 Par Value)	1980—Quarters				1979—Quarters			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
4½% Series								
Dividends Paid Per Share	\$1.03125	\$1.03125	\$1.03125	\$1.03125	\$1.03125	\$1.03125	\$1.03125	\$1.03125
Market Price—\$ Per Share								
(OTC)								
Ask (high/low)	—	—	—	—	—	—	—	—
Bid (high/low)	—	—	—	—	—	—	—	—
4.56% Series								
Dividends Paid Per Share	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14	\$1.14
Market Price—\$ Per Share								
(OTC)								
Ask (high/low)	—	—	—	—	—	—	—	—
Bid (high/low)	—	—	—	—	—	—	—	—
4.12% Series								
Dividends Paid Per Share	\$1.03	\$1.03	\$1.03	\$1.03	\$1.03	\$1.03	\$1.03	\$1.03
Market Price—\$ Per Share								
(OTC)								
Ask (high/low)	—	—	—	—	—	—	—	38/38
Bid (high/low)	—	—	—	—	—	—	—	40/40
7.08% Series								
Dividends Paid Per Share	\$1.77	\$1.77	\$1.77	\$1.77	\$1.77	\$1.77	\$1.77	\$1.77
Market Price—\$ Per Share								
(NYSE)—High	56½	59	58½	51½	70	73	69½	61
—Low	47	48	51	44½	64½	65	61	52
7.76% Series								
Dividends Paid Per Share	\$1.94	\$1.94	\$1.94	\$1.94	\$1.94	\$1.94	\$1.94	\$1.94
Market Price—\$ Per Share								
(NYSE)—High	64¾	67½	64¾	55	77¾	76	76¼	70¾
—Low	48	52	55	46¾	72	71	67	60
8.68% Series								
Dividends Paid Per Share	\$2.17	\$2.17	\$2.17	\$2.17	\$2.17	\$2.17	\$2.17	\$2.17
Market Price—\$ Per Share								
(NYSE)—High	70½	72	74	64	86¾	82	82½	78
—Low	60	59	65	55½	79¼	79¾	78½	67½
12% Series								
Dividends Paid Per Share	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00
Market Price—\$ Per Share								
(NYSE)—High	103½	104	102	100	109¾	106½	109½	106
—Low	86½	87½	95	83¼	103	103½	102	98¾
(\$25 Par Value)								
\$2.15 Series								
Dividends Paid Per Share	\$ .5375	\$ .5375	\$ .5375	\$ .5375	\$ .5375	\$ .5375	\$ .5375	\$ .5375
Market Price—\$ Per Share								
(NYSE)—High	17½	18¾	18	15¾	21¾	21½	22½	19¾
—Low	13¾	14¾	14¾	13½	20¾	19¾	19	16¾
\$2.25 Series								
Dividends Paid Per Share	\$ .5625	\$ .5625	\$ .5625	\$ .5625	\$ .5625	\$ .5625	\$ .5625	\$ .5625
Market Price—\$ Per Share								
(NYSE)—High	18¼	19¼	18¾	17	22¾	22¼	23	20¼
—Low	14¼	15	16	14	20½	20¼	20¼	17
\$2.75 Series								
Dividends Paid Per Share	\$ .6875	\$ .6875	\$ .6875	\$ .6875	\$ —	\$ —	\$ —	\$ .6875
Market Price—\$ Per Share								
(NYSE)—High	25	24½	23¾	21½	—	—	—	26¼
—Low	22¾	22	22	18¼	—	—	—	24½

OTC—Over-the-Counter

NYSE—New York Stock Exchange

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

Market quotations provided by National Quotation Bureau, Inc. — Dash indicates quotation not available.



INDIANA & MICHIGAN ELECTRIC COMPANY

The Company's Annual Report  
(Form 10-K) to the Securities and  
Exchange Commission will be available  
on or about March 31, 1981 to shareowners  
upon their written request and at no cost.  
Please address such requests to:

Mr. H. D. Post  
Assistant Treasurer  
American Electric Power  
Service Corporation  
180 East Broad Street  
Columbus, Ohio 43215

**Transfer Agent and Registrar of Cumulative Preferred Stock**

**Morgan Guaranty Trust Company of New York**

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