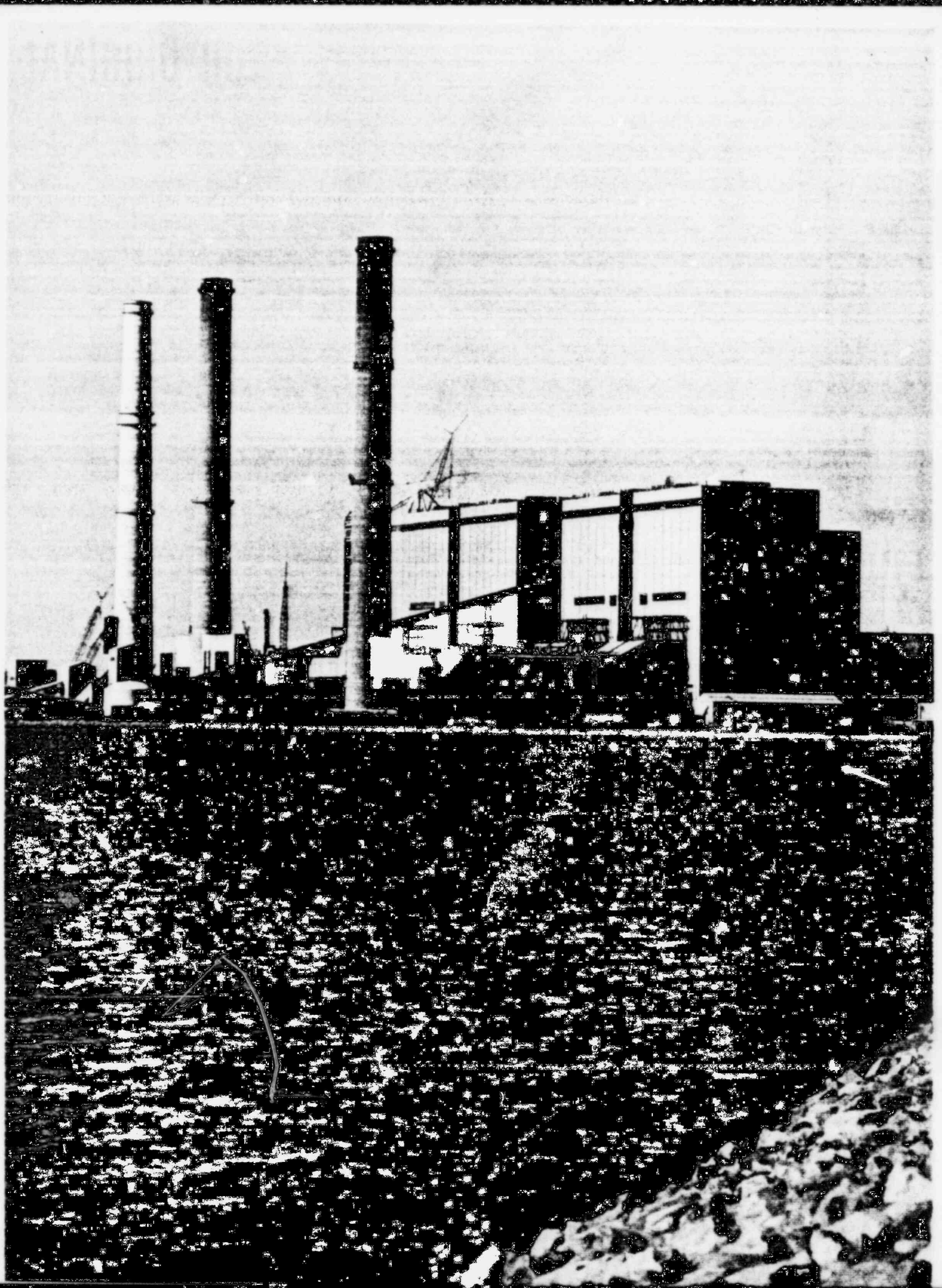
PUBLIC
SERVICE
INDIANA

annual report 1980



highlights

	1980	1979	% Increase (Decrease)
Kilowatt-hours sold*	**18 898**	18 223	3.7
Operating revenues*	**$ 645.7**	$ 628.5	2.7
Net income*	**$ 122.7**	$ 123.0	(.2)
Common stock—per share			
Earnings	**$ 3.21**	$ 3.79	(15.3)
Dividends paid	**$ 2.44**	$ 2.28	7.0
Book value	**$ 24.87**	$ 24.72	.6
Rate of return on year-end net plant in service and inventories (original cost)	**8.6%**	9.1%	
Customers at year-end	**536 162**	530 298	1.1
Electric heating customers	**92 220**	86 889	6.1
Average kilowatt-hours used—domestic customers	**10 812**	10 349	4.5
System peak load in megawatts			
Summer	**3 896**	3 598	8.3
Winter**	**3 554**	3 718	(4.4)
Construction*	**$ 487.1**	$ 364.2	
Nuclear fuel*	**5.6**	22.5	
	$ 492.7	$ 386.7	27.4
Utility plant*	**$3 077.9**	$2 595.1	18.6

*millions

** A new winter peak load of 3,827 megawatts (mw) was established on January 12, 1981, surpassing the previous winter peak load of 3,718 mw in 1979.

Gibson Station, one of America's largest energy facilities, will have five coal-fired units in operation in 1982. 2,540,000 kilowatts (with 650,000 kilowatts under construction)

to the shareholders

As we enter the second year of a new decade, it is evident that virtually all facets of our economic, social and political structures are dominated by the single phenomenon of inflation. It is the paramount problem of our country today. And it must be cured unless we, as a nation, are prepared to significantly alter our present societal structures.

And inflation affected Public Service Indiana in 1980 in many ways—a decline in earnings per common share, higher wage and operating expense levels, increased construction costs and record-breaking new money costs.

Earnings per common share declined from $3.79 to $3.21 for the year ended December 31, 1980. This level of earnings is not adequate to attract the capital we need, at favorable rates, for essential construction. On December 8, a request for a retail rate increase of 23%, aggregating $120 million on an annual basis, was filed with the Public Service Commission of Indiana. A request for increased rates to wholesale customers will also be filed with the federal regulatory agency in mid-1981.

Action on the retail rate increase is not expected until mid-1981. Pending approval of this rate request, a further decline in earnings is expected.

Resumption of safety-related construction at the Marble Hill nuclear project was authorized by the Nuclear Regulatory Commission late in the year. Safety-related work had been halted in August 1979. During the year, we restructured the entire nuclear organization as a division of the Company and added a substantial number of personnel with extensive commercial nuclear experience.

Menscer Bark

Other highlights were:

- Kilowatt-hour sales increased 3.7% to 18.9 billion; higher use by residential, commercial and wholesale customers offset a decline in industrial sales. Revenues increased $17.2 million to $645.7 million.
- Common stock dividend payments increased for the twentieth consecutive year; a quarterly increase of 4¢ per share was effective June 1 for a new annual rate of $2.48 per share.
- Construction expenditures in 1980 totalled $487 million. Expenditures for the fifth coal-fired unit at the Gibson Station, scheduled for 1982 completion, were $93 million; Marble Hill expenditures were $326 million.
- New financing included the sale of $225 million of first mortgage bonds and $136 million of new preferred and common stock issues.

After several months of intensive study by the Company and an independent consulting firm, revised time schedules and cost estimates for the Marble Hill project were announced. The two nuclear units are now scheduled for service in 1986 and 1987 and are estimated to cost $3.4 billion; the Company's 83% ownership portion will be $2.8 billion. These increases are due to the increased complexities of nuclear construction and regulation and the lengthened time of construction. Despite this increase from the previous estimate of $1.9 billion, the economics of nuclear power remain very favorable due to significant fuel cost savings as compared with fossil fuels.

Reflecting the new Marble Hill estimates, the Company announced a revised construction program of $2.7 billion for the 1980-84 period and a $1.1 billion program for the 1985-89 period. External financing requirements are estimated at $1.9 billion for the 1980-84 period and $280 million for the subsequent five-year period.

A buildup in coal inventories continued throughout the year focusing on the expiration of the coal miners' labor agreement on March 27, 1981. At year-end, coal stockpiles totalled 4.4 million tons or the equivalent of 140 days' supply. Total investment in coal stockpiles at year-end was $113.7 million.

The election of Darrell V. Menscer, formerly senior vice president, Carolina Power and Light Company, to the post of president and chief operating officer on May 2, 1980 added further top management capability for the years ahead. At the same time, Hugh A. Barker, formerly president, was named chairman and continues as the Company's chief executive officer.

The successful development of the Company in the two decades from 1960 to 1980 was due in large part to the leadership of Carroll H. Blanchar who was Chairman of the Board at the time of his death on March 16, 1980. Our tribute to him must include recognition of his outstanding leadership to the Company, the electric industry and the State, his management skills and his warmth as a friend and fellow employee.

1980 was a difficult year for the entire country, as it was for us. The years ahead promise continuing challenges. The dedication and skills of our 4,900 employees, the Company's human resources, give assurance that these challenges will be met successfully.

By order of the Board of Directors

Hugh A. Barker
Chairman and Chief Executive Officer

Darrell V. Menscer
President and Chief Operating Officer

January 30, 1981

looking ahead: investors are key to the future

Where the electric utility industry and we as a company have been is important. But still more vital to those who have invested or plan to invest money in an electric utility is what lies ahead.

Electric utilities will require over $20 billion of new money annually over the next few years. In order to raise these funds, the industry must be able to compete in the capital market with other industries.

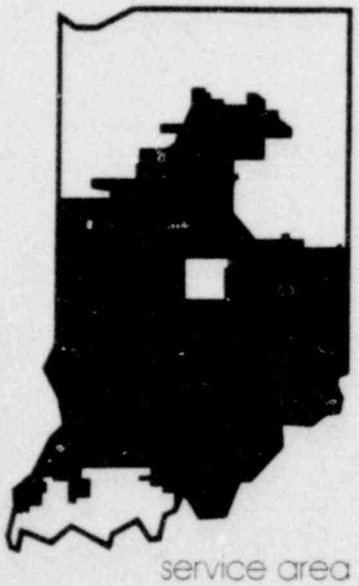
The future promises jarring changes. The era of "cheap" energy is over. So may be the continuation of near-faultless electric service and unlimited supply.

Indeed, some basic assumptions about the future of electric service in the U.S. can be made.

- Competition for capital will hit hard on capital-intensive utilities and may affect both quality and cost of service.

- The cost of electricity (and all forms of energy) will rise in the wake of continuing inflation. The cost of facilities presently under construction, which reflect the inflation of the '70s and new environmental requirements, mandate substantial increases in the price of electric power.

- Electric power shortages may occur in some parts of the nation by 1990 and will broaden by the year 2000 unless necessary generating facilities are completed on time.



service area

Public Service Indiana is committed to a strategy aimed at avoiding crippling power shortages and moderating the impact of inflation on customer bills.

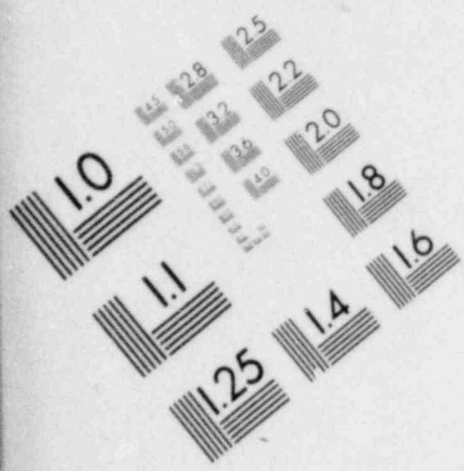
The key to this strategy is holding capital needs to a minimum and maintaining a strong financial position in order to compete for needed capital at the lowest cost. The future of electric utilities is tied to their ability to finance. This, in turn, hinges on their ability to maintain earnings at adequate levels, to receive prompt regulatory response to well-documented requests for rate relief, and to find new ways to offset the encroachment of inflation.

Service to customers, then, starts with the investor. Public Service Indiana is acutely aware of this critical relationship. Capital can only be attracted by paying the going price. In order to raise $1.5 billion of new money in the 1981-84 period, we must remain competitive in the money markets.

But energy users must understand this cost relationship and why it means higher prices ahead. Nobody likes higher prices but we have the obligation to broaden customer understanding of the economics of the electric industry.

Our strategy to finance the future includes:

- Minimizing capital needs via stringent cost control measures; optimum utilization of all facilities, regardless of age; and load management programs to minimize the need for costly new facilities.



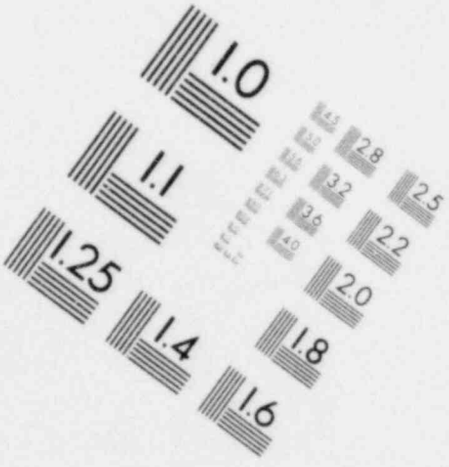
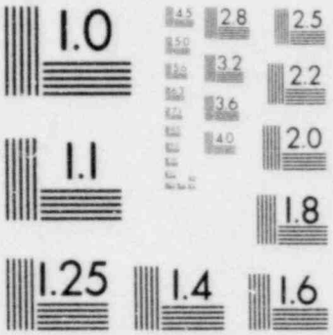
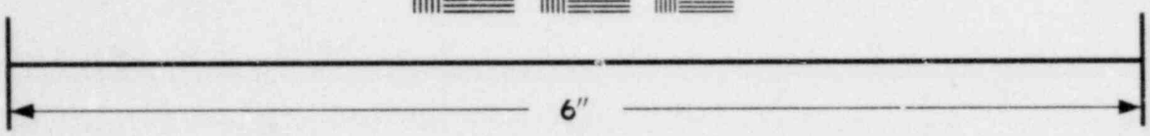
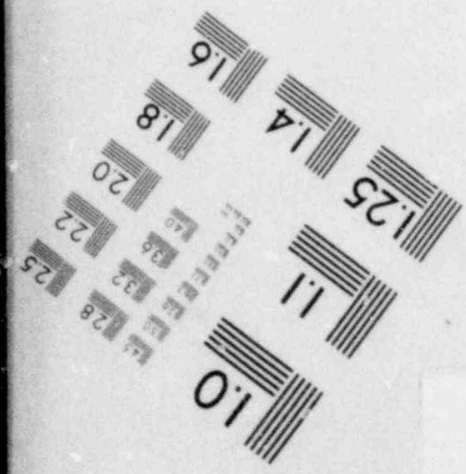
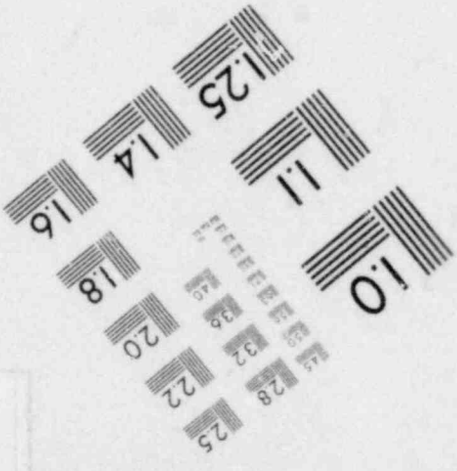


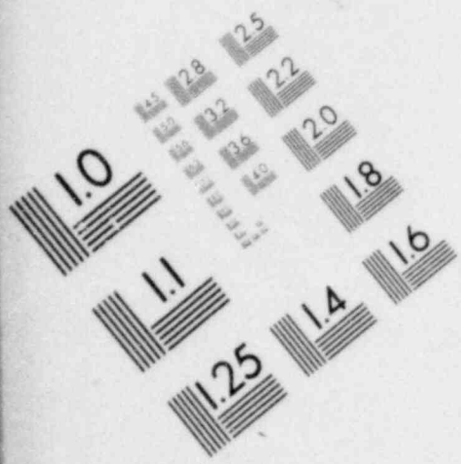
IMAGE EVALUATION TEST TARGET (MT-3)











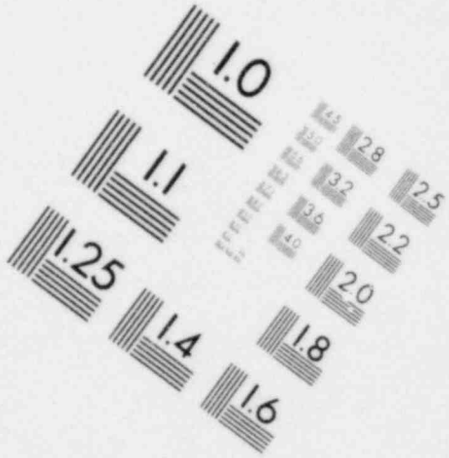
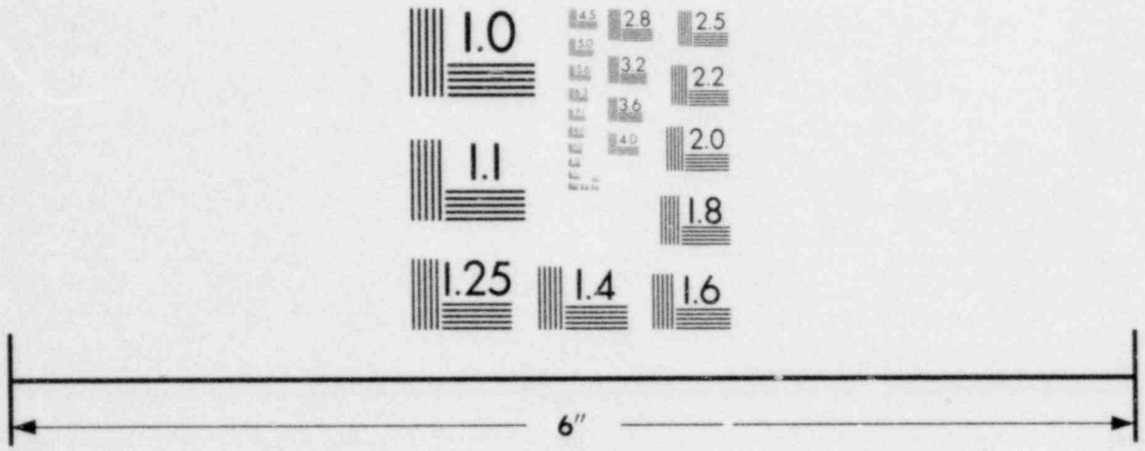
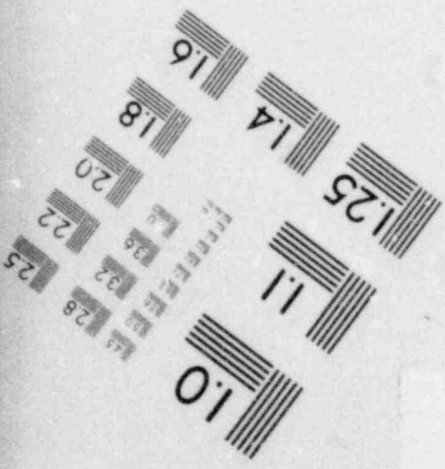
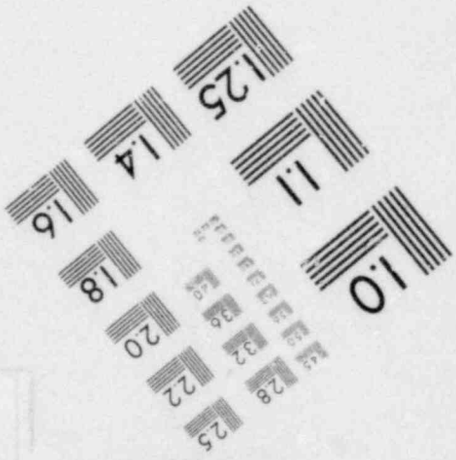


IMAGE EVALUATION
TEST TARGET (MT-3)







- Taking the necessary steps to restore investor confidence in utility equities by increased earnings and to avoid dilution of shareholders' investment.

- Working for legislative approval of the inclusion of Construction Work in Progress in the rate base. Current recovery of financing costs during the construction period of new facilities benefits both the consumer and shareholder over the long run.

Public Service Indiana has a construction program to assure adequate capacity into the future. Current annual growth projections of 4% recognize that load growth has slowed. But growth there will be. And there is the future need to replace older facilities when economics dictate their retirement.

With the addition of a 650,000 kilowatt coal-fired unit in late 1982 and the Company's 83% ownership of two 1,13 million kilowatt nuclear units to be completed in late 1986 and 1987, no further capacity will be needed until the mid-1990s.

We believe that completion of our nuclear plant on a timely basis is essential and will lock in place substantial economies for the customer and improve the investment quality of the Company. Despite the higher capital costs of nuclear capacity, the overall cost of nuclear energy, including fuel costs, will be substantially lower than equivalent coal-based energy.

We are aware of the impact of inflation and are working to hold the line in many ways. Our record on that count is good. Through internal efficiencies, operating costs, other than fuel, rose only about two-thirds as fast as the rate of inflation during the 1969-79 period. Fuel costs, heavily influenced by international energy policies and environmental requirements, rose 3 1/2 times as fast as the rate of inflation and sent electricity costs sharply upward.

As energy costs climb, the consumer takes many energy-saving steps he would not have taken before. This is equally true of electric utilities. A good example is the incentive to reduce the use of oil-burning peaking units when oil costs three to four times as much.

Higher costs of electricity from traditional fuels such as coal and oil and even nuclear provide the incentives for research and development of new technologies. Painful as higher prices are, they can make once uneconomic alternatives more attractive.

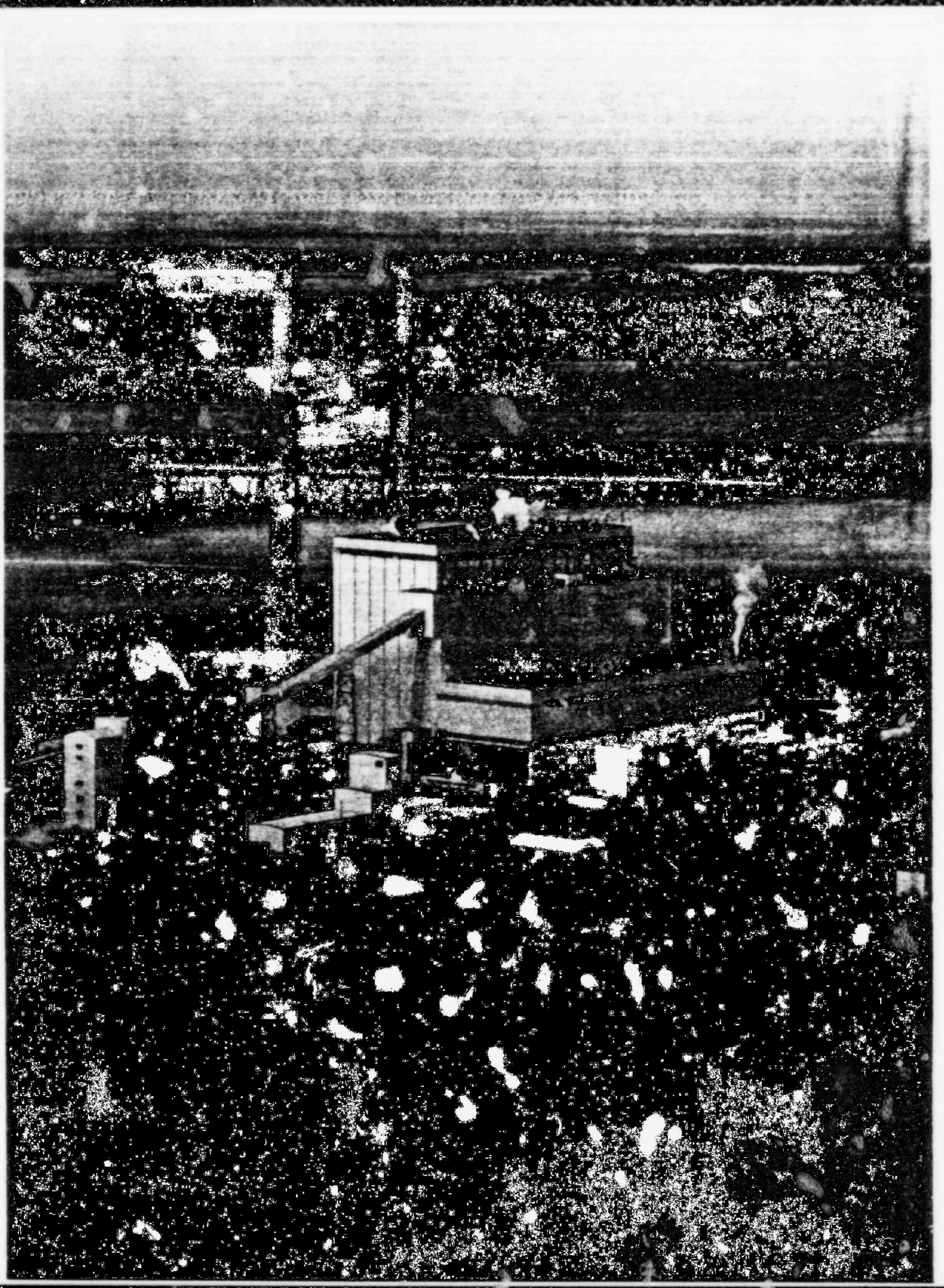
Another way to hold the line on costs is to maintain a strong credit standing. Public Service Indiana securities historically have held high credit ratings and have enabled us to raise capital at lower costs. Maintenance of good ratings can save consumers millions of dollars in interest costs.

But favorable security ratings begin with earnings levels which not only protect the bondholder and preferred stockholder but increase the investment and dividend potential of the common stock. An adequate rate of return is a function of the regulatory process. We believe that the record of Indiana regulation has recognized that both the investor and the consumer are best served when a utility is permitted an adequate return.

We don't like rate increases any more than our customers do, but they will be vital in helping to keep Public Service Indiana financially viable. We believe that regulation can be helped by customer perception and understanding of the reasons for rate increases. We will continue efforts that broaden customer knowledge of our operations.

Public Service Indiana rates today are below the mid-point nationally. We recognize that our location close to midwest coal fields gives a cost advantage but we also believe that regulation and management dedication to electric service at the lowest possible cost have been important factors. Although we know our rates will increase, we expect that our relative position will be maintained.

The future of Public Service Indiana will be based on the firm foundation of the past. Our fight against inflation must be unrelenting. We are committed to minimizing the need for additional generating capacity, to maximizing managerial and operating efficiencies, to a quest for practical innovation and to the recognition that our ability to serve the customer well depends largely on our ability to serve our investors well.



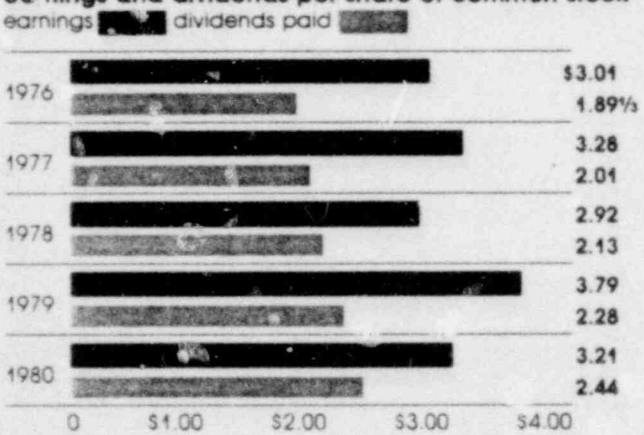
1980 in review

net income and dividends

Although net income for 1980 of $122.7 million was virtually the same as 1979, earnings per common share declined from $3.79 to $3.21. This decline reflects the continuing impact of inflation on operating expenses, double-digit interest rates and the common and preferred shares issued during the year. Earnings are expected to continue a downward trend in 1981 pending approval of the Company's rate increase request filed in early December.

Dividends paid per share of common stock increased 16¢ in 1980 to $2.44 compared with $2.28 in the previous year. The June 1, 1980 increase of 4¢ per common share marked the twentieth consecutive year in which dividend payments have increased.

earnings and dividends per share of common stock



retail rate increase filed

In December 1980, the Company filed a petition with the Public Service Commission of Indiana requesting that retail rates be increased 23%. The proposed increase would provide additional annual revenues of $120 million, of which one-half would go for federal and state income taxes. A decision is not expected before mid-1981.

While rate increases are never popular, they are necessary to offset the harsh realities of inflation. Present rates, based on adjusted 1977 costs, do not reflect 1980 price levels. However, the requested rate increase is less than the cumulative effect of inflation since the Company filed its previous retail rate request in December 1977.

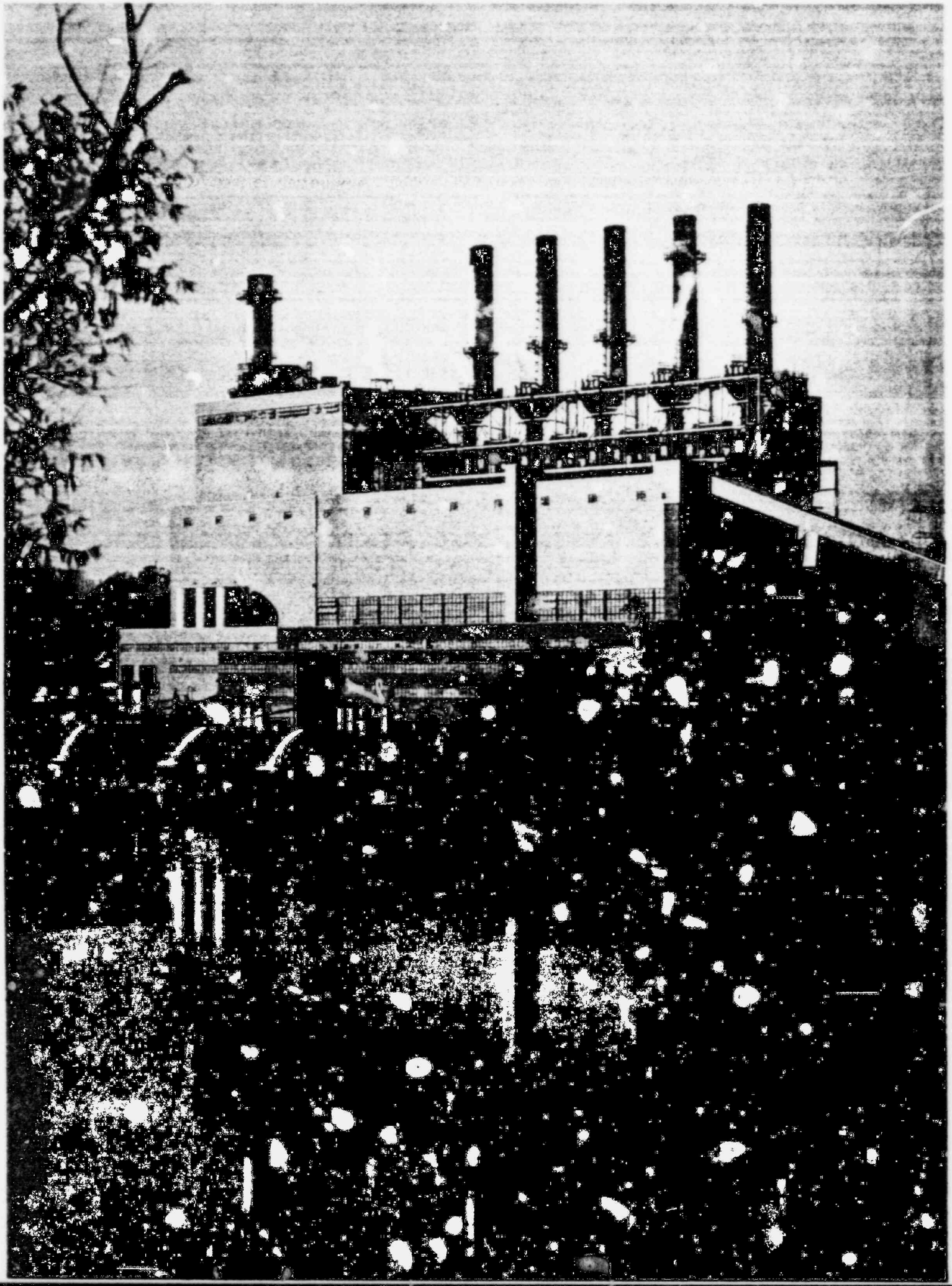
A filing with the federal regulatory authority for increased wholesale rates will be made in mid-1981; the amount of such increase has not been determined.

revenues and energy use

Operating revenues for 1980 rose to $645.7 million, an increase of 2.7% over 1979's $628.5 million, while kilowatt-hour sales increased 3.7% over the previous year climbing to a new high of 18.9 billion. Domestic sales increased 6% while commercial sales increased almost 5%. These increases reflected, in part, the hot weather experienced during the summer.

Industrial sales, however, were down 4%. The depressed auto industry, the slowdown in housing starts and the lack of growth in the steel industry were major factors affecting the Company's industrial loads. Sales to Chrysler Corporation and Penn-Dixie Steel Corporation, two of the Company's major industrial customers, each declined 16% from 1979 levels.

Cayuga Station in Vermillion County is one of the nation's most efficient power plants. 951,000 kilowatts



Kwh sales to wholesale customers increased 13% due in large part to the increased load requirements of Hoosier Energy REC, Inc., a rural electric generating cooperative. Hoosier Energy is constructing a new generating station with the first of two units scheduled for service in late 1981. Because of the new station, the Company's firm power commitments to Hoosier Energy, which approximate 325 megawatts during the winter season, will terminate on September 30, 1981.

Net customer additions for the year totalled 5,900 as the customer base increased to 536,000. Over 5,300 new heating customers were added during the year. At year-end, electric heating customers totalled 92,000 or 17% of all customers.

Average annual residential kwh usage increased from 1979's 10,349 to 10,812 for 1980 largely reflecting heavy air conditioning usage during the 1980 heat wave.

peak energy demand

Energy demand established a new peak on July 15, 1980 of 3,896 megawatts, an increase of 8.3% over the previous summer peak and a 4.8% increase over the 1978-79 winter peak of 3,718 megawatts. On January 12, 1981, a new winter peak of 3,827 megawatts was established exceeding the previous winter peak by 2.9%.

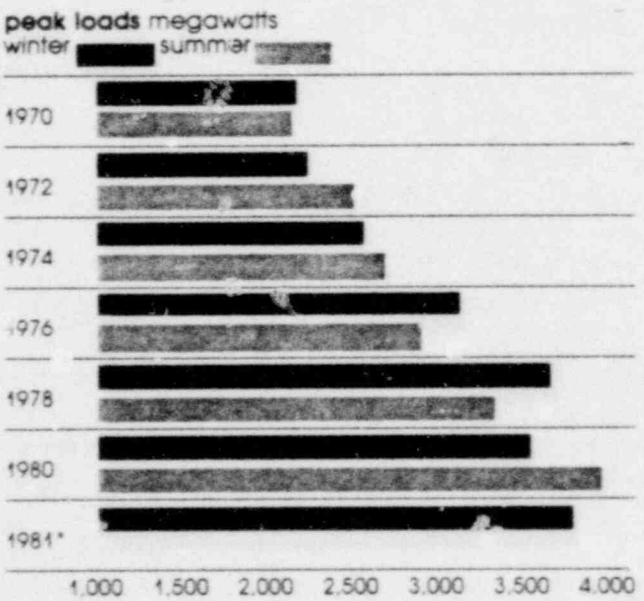
Future load projections continue to indicate that the Company will remain a winter peaking system although summer peaks are expected to closely parallel winter peaks. The dual summer-winter peaking experience results in economies for the customer through more intensive use of installed generating capacity and avoids the necessity of building capacity to meet single season peaking conditions.

Because of the effects of conservation and reduced load growth expectations, the Company lowered its 1980-1991 forecast of annual winter peak load growth from 6% to 4 1/2%. At the same time, the forecast for annual summer peak load growth was reduced from 4% to 3 1/2%. Kilowatt-hour sales growth during the same period is expected to be in the same percentage range.

The new forecast will not affect generating units presently under construction. Because of present uncertainties surrounding the construction of new nuclear power plants and the associated 12-15 year time frames for planning and construction, the next generating capacity to be installed after Marble Hill will be coal-fired.

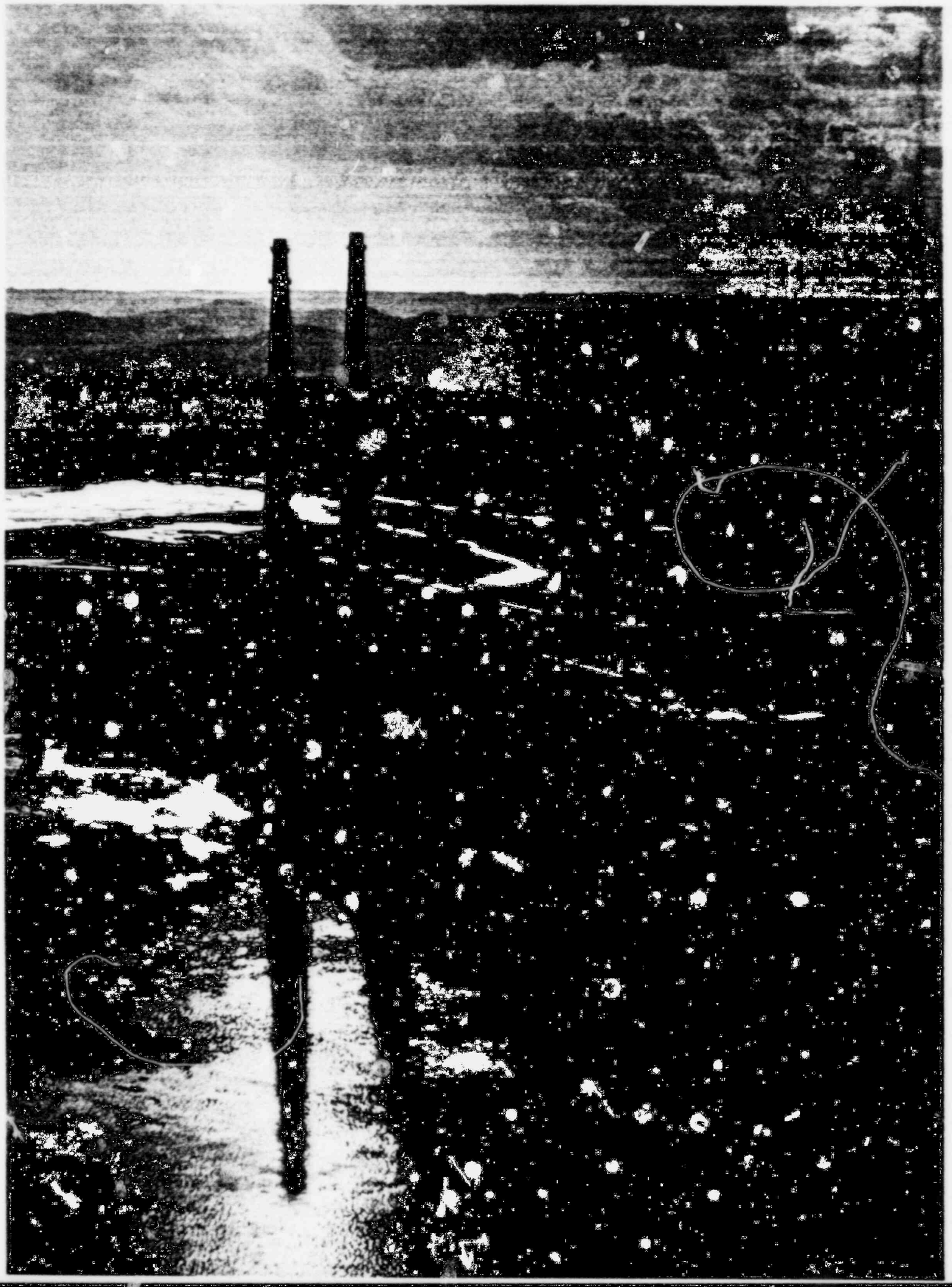
operations

Fuel expenses, reflecting price escalations and slightly higher kwh production levels, increased $13 million for the year. Fuel costs continue to be the largest component of the customers' monthly bill, with one-third of each revenue dollar being spent for fuel.



*reflects January 12, 1981 peak load of 3,827 mw

Wabash River Station north of Terre Haute has been in service since 1953. 698,000 kilowatts



Operating and maintenance expenses were up 23% to $144 million, reflecting the impact of inflation, higher wage levels and necessary manning requirements to maintain adequate service levels. Since increased operating costs mean higher consumer rates, the need for operational efficiencies continued to be stressed throughout the year.

Construction work in progress, including nuclear fuel, totalled $1.1 billion at year-end compared to $664 million at December 31, 1979. Due to the increasing investments in Gibson Unit 5 and Marble Hill, the allowance for equity and debt funds used during construction increased $27.3 million during the year to $69.3 million.

Total tax expense during the year declined $24.6 to $95.1 million. Income tax expense decreased $18.5 million because of lower levels of pre-tax income; other tax expense decreased $6.1 million and reflected adjustments of real estate and personal property tax expense for prior years.

Interest expense rose almost $21 million to $86.4 million reflecting new debt borrowings and double-digit interest rates experienced throughout the year.

construction program

Construction spending during the year reached a record high of $487 million, compared with the 1979 level of $364 million. The major portion of 1980 construction outlays were $93 million for the new 650 megawatt unit at the Gibson Station and $326 million for the two 1,130 megawatt Marble Hill nuclear units. Additional expenditures in 1980 included $8 million for other production plant, $8 million for substations, $17 million for transmission lines, $32 million for distribution facilities and $3 million for general property.

Construction expenditures for 1981 are estimated to be $591 million and will aggregate $2.2 billion for the 1981-84 period. In the subsequent 1985-89 period, expenditures are expected to decline sharply and are presently estimated at $1.1 billion. The 1985-89 program includes $52 million for the next increment of generating capacity which, based on present load forecasts, will be required in 1994.

Nuclear fuel expenditures in 1980 were $5.6 million. While 1980 expenditures had been expected to be $25 million, production delays were experienced at a new Wyoming uranium mine which will supply eight million pounds of uranium to the Company over a 16-year period. Deliveries of uranium from this mine are expected to commence in early 1981. Nuclear fuel outlays for 1981 are estimated at $58.5 million and $291 million for the 1981-84 period.

financing

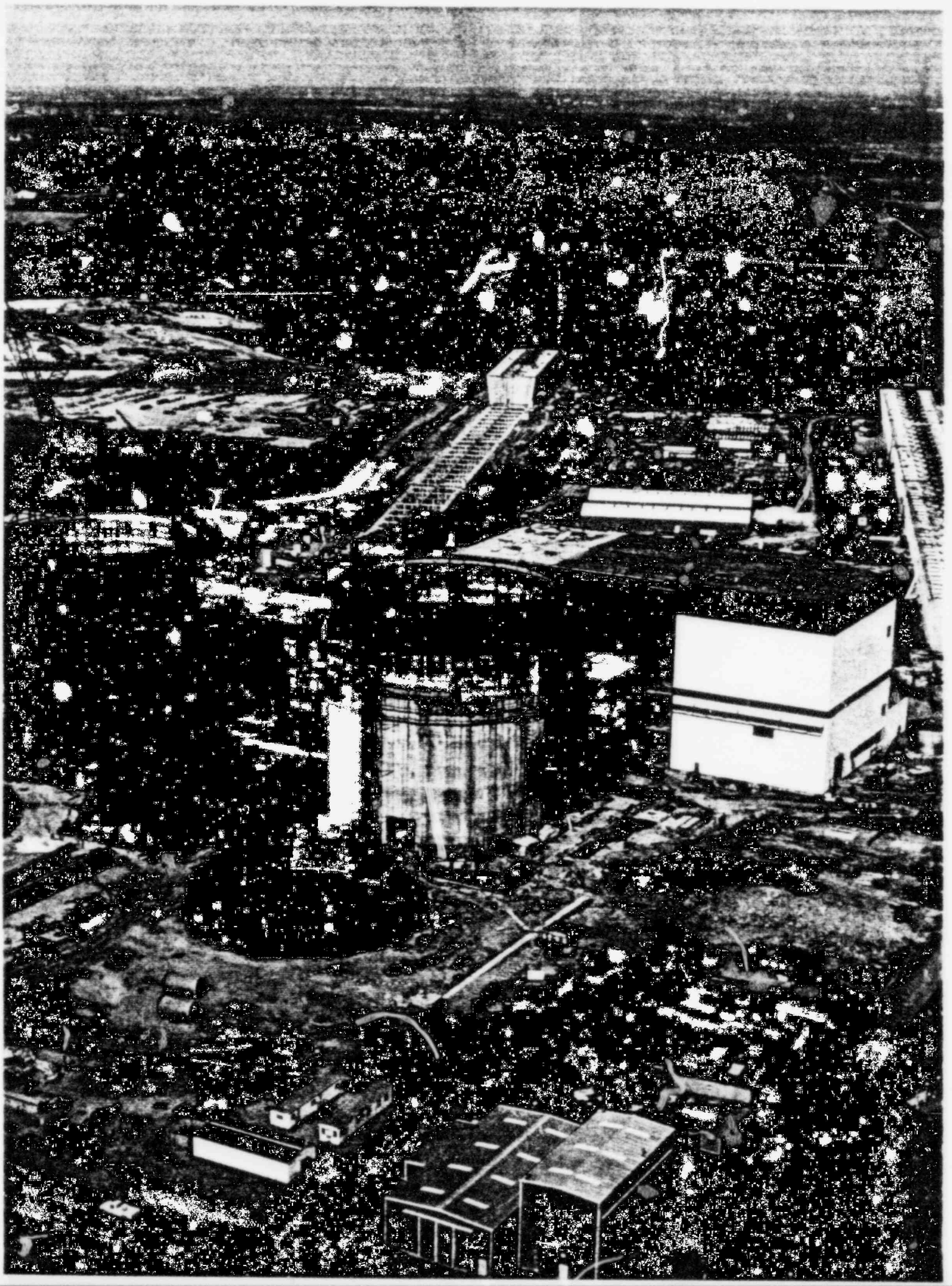
Company financing in 1980 was accomplished against a background of continuing inflation, unprecedented interest rate levels and volatile capital markets. Similar conditions are expected to continue throughout much of 1981.

New money requirements in 1980 totalled $373 million. A $50 million, 9.60%, preferred stock issue was sold in January followed by two bond issues and a sale of common stock. In March, a $100 million, 14%, first mortgage bond issue (Series DD) was marketed with a seven-year maturity; another first mortgage bond issue of $125 million (Series EE) was sold in August at a rate of 12 1/8% and a ten-year maturity.

In August, 2.7 million additional shares of common stock were sold at a price to the public of $20 7/8 per share.

An additional 1,036,000 common shares, raising $21 million, were issued under the Company's automatic dividend reinvestment plan. New issues of common stock through employee investment tax credit and stock purchase plans aggregated 417,000 shares and proceeds of $9 million. At year-end, 12% of all common shareholders, representing over 22% of outstanding shares, were participating in the automatic dividend reinvestment program.

Gallagher Station on the Ohio River opposite Louisville, Kentucky burns coal delivered by barge.
560,000 kilowatts



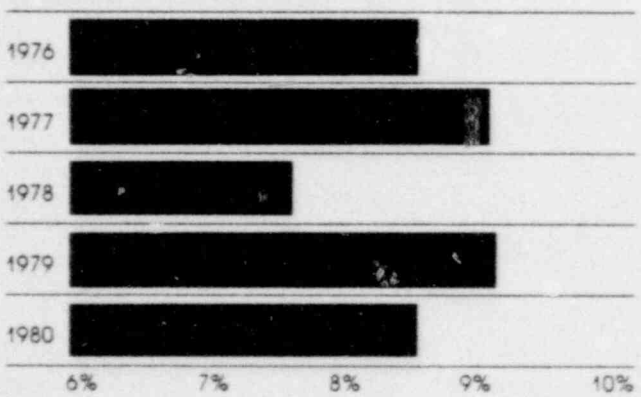
Financing requirements for 1981 are estimated at $430 million; 1981-84 financing requirements will aggregate $1.5 billion. Initial 1981 financing included the sale in late January of an additional 3.25 million shares of common stock and a first mortgage bond issue of $125 million. The amounts, timing and types of securities to be sold for the balance of the 1981-84 program have not been determined.

Sale of common stock below book value by the electric utility industry has been increasingly prevalent in recent years, and in 1980 virtually all sales of common stock by the industry, including those of the Company, were made below book value. The sale of new stock below book value dilutes the investment of present shareholders, increases the number of shares outstanding and requires additional revenue from the customer to maintain dividend levels.

The financial well-being of the electric utility industry, and its ability to compete favorably in the capital markets, would be enhanced by the ability to sell common stock above book value. Adequate regulatory recognition of revenue requirements to accomplish this objective will be essential in the years ahead.

The interests of shareholders, and customers, are served best when sales of equity securities are made at levels which adequately recognize the present investment of the shareholders in the Company. We intend to press for a better understanding of these principles by regulatory agencies, by legislators and our customers.

rate of return on year-end net plant in service and inventories (original cost)



Marble Hill Nuclear Station's two units on the Ohio River are scheduled for completion in late 1986 and 1987. 2,260,000 kilowatts

marble hill

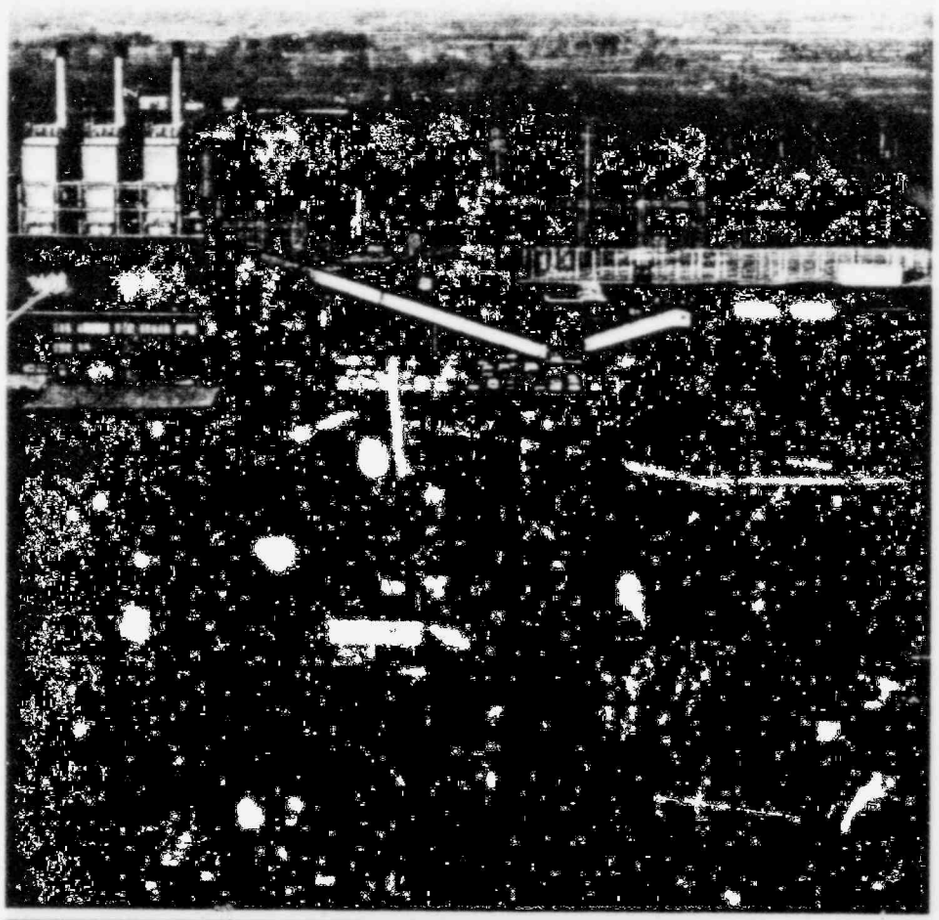
Safety-related construction at Marble Hill resumed late in 1980 after the Nuclear Regulatory Commission (NRC) authorized two of three major contractors to restart certain construction work. All work on the two reactor containment buildings, the auxiliary building, fuel handling facilities and other safety-related areas was suspended in August 1979. In May 1980, the NRC issued a plan for a step-by-step resumption of safety-related work. The Company anticipates that it will be permitted to resume all safety-related work by the end of the first quarter of 1981. Non-safety related work continued throughout the year.

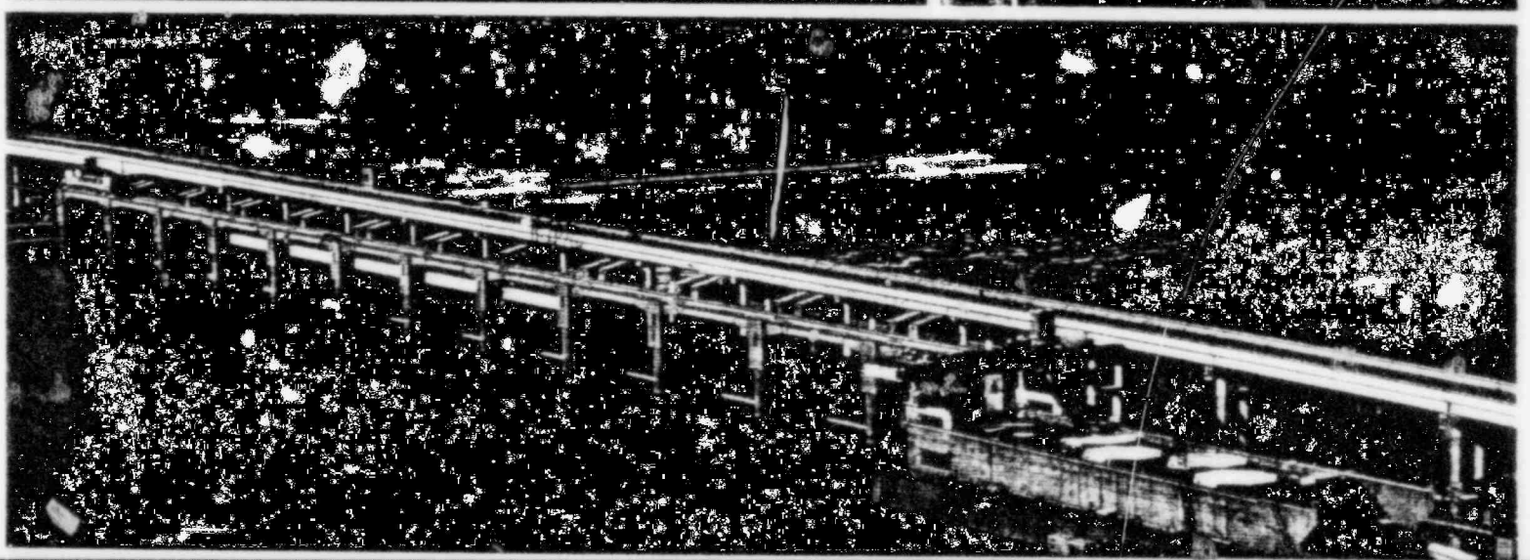
Since work was suspended in 1979, the Company has restructured its project management and quality control and quality assurance staffs and has added a substantial number of personnel with extensive commercial nuclear experience to direct or assist in the critical areas of the project. At the present time, over 500 project management, engineering and quality control and assurance personnel and 100 operating personnel are on-site as well as 700 contractor craft personnel.

In July 1980, after an intensive eight month analysis of time schedules and costs, revised completion dates and project costs were announced. New completion dates, originally 1982 and 1984, were set for December 1986 and 1987. Revised project costs are now estimated at $3.4 billion, up from the previous estimate of $1.9 billion. The Company's 83% ownership interest, originally estimated at $1.5 billion, is now expected to total $2.8 billion.

The revised time schedules and cost estimates are due to the increasing complexity and scope of nuclear construction requirements, added complexity of the nuclear regulatory process, licensing delays, inflation and additional financing costs due to the extended construction schedule. Additional costs of financing will account for almost half of the increased costs of the project. At December 31, 1980, the Company had expended $522 million on Marble Hill Unit 1 and $246 million on Marble Hill Unit 2.

While Marble Hill construction costs have been substantially increased, most of the 92 nuclear units under construction in the United States have experienced comparable cost increases and extended schedules.





While nuclear plant costs are high, new coal-fired plants also reflect significant increases in costs. Company estimates of new coal-fired capacity in the early 1990s are $2,000 per kilowatt compared with Marble Hill's $1,518 per kilowatt. Of even greater significance is a comparison of Marble Hill fuel costs with fuel costs of a coal-fired plant built in the same time period. Nuclear fuel costs over the life of the plant are estimated at $8 billion compared with $27 billion for coal.

In February 1980, the Company was notified by the American Society of Mechanical Engineers (ASME) that the proposed quality assurance program applicable to nuclear piping systems was in compliance with ASME standards; the ASME N-Certificate of Authorization was received January 19, 1981. Lack of such certification was related, in part, with the suspension of safety-related work.

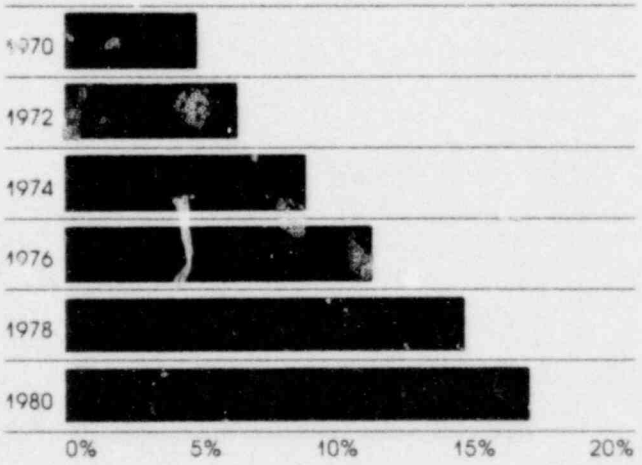
environmental matters

Company efforts to meet and comply with required air and water quality standards and disposal of solid waste and certain types of hazardous materials used in day-to-day operations continued throughout the year. The Company is committed to compliance programs which meet all state and federal regulations but will continue to oppose unreasonable environmental regulations which impose substantial customer costs without commensurate benefits.

A brief summary of major environmental efforts and pending litigation at year-end follows:

- The start of preliminary engineering for the construction of a tall stack at the Wabash River Station, estimated to cost $28 million, to meet certain air standards in Vigo County. Although the Indiana Air Pollution Control Board has approved the Company's program, required Environmental Protection Agency (EPA) approval has not been received. Because of this uncertainty, work on this project has been suspended by the Company.
- A petition filed by Jefferson County, Kentucky alleging that the Company's Gallagher Station contributes to air pollution problems in the Louisville area. During EPA hearings, data presented by the Company and the EPA indicated the station does not make an adverse contribution to air quality in the State of Kentucky. While the EPA has the matter under advisement, the Company does not expect an adverse ruling. However, a suit has been filed by Jefferson County requesting EPA to make a determination of the effects of the emissions from the Gallagher Station on the Louisville area.
- The intention of the State of New York to bring action against EPA and the Company with regard to sulfur dioxide emissions from the Wabash River Station. Other midwestern utilities have also been notified of similar action. The Company has notified the State of New York that information forming the basis for such action is inaccurate and that the Company should be excluded.
- Notification from EPA that the Gibson Station is in violation of the opacity standards of the Indiana state environmental plan which would subject the Company to noncompliance penalties under the Clean Air Act Amendments of 1977. Company tests show that the Gibson Station is not in violation.

electric heating customers
percent of total



Smaller coal and diesel-fired generating units, as well as a hydroelectric plant at Markland Dam on the Ohio River, augment the four baseload stations on our system. Noblesville Station (upper left) has a capacity of 90,000 kilowatts; Edwardsport Station (upper right) is rated at 165,000 kilowatts; oil-fired peaking stations at Connersville (shown left corner) and at Wabash produce 98,000 and 104,000 kilowatts, respectively. Markland Hydroelectric Station (bottom) has three turbines with a total capability of 55,000 kilowatts.

Construction began in late 1980 on the sulfur dioxide removal system for Gibson Unit 5 scheduled for service in 1982. This system is estimated to cost $111 million and will produce a dry waste product to be stored on-site.

1980 industrial power use

Industry	KWH (thousands)	% Increase (Decrease)
Chemicals & Drugs	**916 577**	4.4
Steel & Iron	**641 517**	(11.9)
Motor Vehicles & Equipment	**449 765**	(8.3)
Coal	**347 668**	(3.0)
Engines & Machinery	**327 294**	(7.5)
Paper Products	**309 652**	(3.1)
Aluminum	**307 151**	(3.8)
Cement	**277 569**	(15.1)
Fabricated Metal Products	**208 396**	(9.6)
Plastic Products	**194 141**	(.1)
Stone & Clay Products	**184 698**	(3.3)
Electric Equipment & Machinery	**150 161**	(6.1)
Bakery & Beverage Products	**106 901**	.8
Glass Products	**96 842**	(4.7)
Household Appliances	**92 276**	(5.5)
Radio & Television	**78 073**	5.5
Canned & Frozen Food	**77 177**	(7.4)
Gypsum, Stone, Sand & Gravel	**71 540**	(3.2)
Natural Gas & Petroleum	**67 715**	(16.9)
Rubber Products	**67 508**	(14.3)
Furniture & Fixtures	**59 607**	(3.8)
Printing & Publishing	**34 490**	(11.5)
Other Diversified Industries	**962 263**	3.8
	6 029 001	(4.2)

research

Total energy research and development expenditures in 1980 were $2.9 million compared with $2.5 million in the previous year. The major portion of these expenditures—$2.1 million in 1980—was provided to the Electric Power Research Institute (EPRI) for a wide range of electric utility industry research activities including solar energy, wind power, energy storage and advanced heating/cooling technologies. The 1980 EPRI budget for all research was $280 million.

In late 1980, another major step was taken by Allis-Chalmers in the development of their KILnGAS coal gasification process with the start of construction of a full scale unit at Illinois Power Company's Wood River Generating Station. This process converts coal to a clean, low Btu gas suitable for combustion in electric generation facilities. Commercial operation is expected in early 1983. The Company and eleven other utilities have joined Allis-Chalmers and the State of Illinois in supporting the $135 million project. The Company will contribute $2.5 million to this project over a period of five years.

energy conservation

Growing interest in the "add-on" electric heat pump led to the development of a public awareness information program to begin early in 1981. Use of the "add-on" heat pump by customers utilizing natural gas or oil for basic heating conserves such fuels without increasing winter peak loads of the Company. Annual revenue of $1.8 million is expected to result from this program by 1985.

A wide range of customer programs to conserve energy is an ongoing commitment of the Company. A four-year program to convert present street lighting equipment throughout the Company's service territory to high efficiency, high pressure sodium units was announced at mid-year. Completion of this program will save more than 21 million kwh annually.

employees

At year-end, the Company had 4,868 employees compared with 4,351 at year-end 1979. Manning increases during the year reflected the additional staffing of the Marble Hill Nuclear Division and necessary manning to meet Company growth and increased regulatory requirements.

Salaries and wages increased $21.2 million to a total of $97.9 million for the year. Employee benefits, including retirement, life insurance, disability and health protection plans, totalled $17.2 million, up $3.1 million from the prior year. The present two-year labor agreement with the International Brotherhood of Electrical Workers, covering almost 2,200 employees, will expire April 30, 1981.

In 1980, a comprehensive employee opinion survey was conducted by an independent consulting firm. While survey results indicated a high degree of job satisfaction, employee concerns were candidly voiced. Programs designed to meet these concerns and further strengthen Company-employee relationships are being instituted.

Safety performance evaluations, minority employment practices, and supervisory and management development programs received ongoing emphasis throughout the year.

The Company's safety record for 1980 was the best in its history with all major reporting units improving over the previous year. A new Target Zero program is in place to further emphasize the importance of safety in day-to-day operations.

management changes

Focusing on present and future management needs and continued growth of the Company, the Board of Directors on May 2, 1980 elected Hugh A. Barker to the position of chairman; he will continue to be the Company's chief executive officer. At the same time, Darrell V. Menscer was elected president, a director and chief operating officer. Mr. Menscer, 46, was formerly senior vice president, Carolina Power and Light Company, and brings a broad range of utility experience to the Company.

At the same time, Seth W. Shields, formerly vice president-electric system, was named senior vice president to head the newly formed nuclear division and Lloyd M. Griffin was named senior vice president-customer services.

At the annual meeting on April 7, 1980, shareholders approved an amendment increasing the membership of the Board of Directors and elected Dr. Melvin Pereiman, president of Eli Lilly International Corporation, to succeed Walter J. Matthews. A former president of the Company and a director since 1968, Mr. Matthews had reached mandatory retirement age. At its meeting on the same day, the Board of Directors appointed Mrs. Dagmar Riley Jones, a retired newspaper publisher, and Dr. W. George Pinnell, executive vice president of Indiana University, as new directors.

company ownership

At year-end, 48,921 shareholders owned the Company's 33.9 million shares of common stock, an increase of 10,662 shareholders during the year. Preferred stock was owned by 4,503 shareholders. Of all shareholders, 45% reside in Indiana or an adjoining state and 93% are individuals and family groups. The largest single shareholder held less than 5% of the total shares outstanding.

company information

Additional information about the electric utility industry, nuclear power or the Company, including the annual 10-K report to the Securities and Exchange Commission, is available without charge to any shareholder upon request. Address your request to: Shareholder Relations, Public Service Indiana, 1000 East Main Street, Plainfield, Indiana 46168.

officers

Hugh A. Barker
Chairman and Chief Executive Officer

Darrell V. Mensch
President and Chief Operating Officer

Charles W. Campbell
Senior Vice President and General Counsel

Lloyd M. Griffin
Senior Vice President-Customer Service

Remi C. Pattyn
Senior Vice President and Assistant to the President

Vernley R. Rehnstrom
Senior Vice President-Finance

Seth W. Shields
Senior Vice President-Nuclear Division

William F. Brown
Vice President-Personnel Relations

Lloyd A. Crews
Vice President-Construction

W. E. George
Vice President-Power

Barton G. Grabow
Vice President-Public Relations

Gerald Hofmockel
Vice President-Engineering

James H. Pennington
Vice President-Financial Operations

Richard P. Stein
Vice President-Public Affairs

William M. Cook
Vice President-Northern Division

Willard Twyman
Vice President-Southern Division

Charles E. Uhl
Vice President-Western Division

W. J. Hebble
Treasurer

Joe E. Rogers
Secretary

G. W. Roberts
Assistant Treasurer and Assistant Secretary

Donald W. Schlehuser
Comptroller

M. S. Harkness
Assistant Comptroller

James L. Koenig
Assistant Comptroller

Greg K. Kimberlin
Assistant General Counsel

board of directors

Hugh A. Barker
Chairman and Chief Executive Officer of the Company

Dagmar Riley Jones
Retired Publisher, The Bloomington Herald-Telephone and Bedford Daily Times-Mail, Bloomington

Richard B. Stoner
Vice Chairman of the Board, Cummins Engine Company, Inc., Diesel Engine Manufacturing, Columbus

Richard H. Blacklidge

Retired Publisher,
The Kokomo Tribune,
Kokomo

Charles W. Campbell

Senior Vice President and
General Counsel of the
Company

Shelton M. Hannig

President and Chairman of
the Board, Marsh, Inc., Design
and Construction,
Terre Haute

Darrell V. Menscer

President and Chief
Operating Officer of the
Company

Melvin Perelman, Ph.D.

President, Eli Lilly International
Corporation, Pharmaceuticals,
Indianapolis

W. George Pinnell, Ph.D.

Executive Vice President,
Indiana University,
Bloomington

Burr S. Swezey, Jr.

Chairman of the Board,
Lafayette National Bank,
Lafayette; Chairman of the
Board, Union Bank and Trust
Company, Delphi

audit committee
Richard H. Blacklidge, chairman
Shelton M. Hannig, vice chairman
Dagmar Riley Jones
W. George Pinnell
Hugh A. Barker, ex officio

compensation and nominating committee
Richard B. Stoner, chairman
Melvin Perelman
W. George Pinnell
Burr S. Swezey, Jr.
Hugh A. Barker, ex officio

finance committee
Hugh A. Barker, chairman
Charles W. Campbell
Darrell V. Menscer

responsibility for financial statements

The financial statements of Public Service Indiana are representations of the management of the Company; accordingly, the integrity, accuracy and objectivity of presentation is assumed by Company management. Financial statement preparation is in conformity with generally accepted accounting principles and follows accounting policies and principles prescribed by the Public Service Commission of Indiana and the Federal Energy Regulatory Commission.

In meeting its responsibilities for the reliability of the financial statements, management depends on the Company's system of internal accounting control. This system is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the policies and principles described above. The Company also seeks to assure the objectivity and integrity of its accounts by careful selection of its managers, division of responsibilities, delegation of authority and communication programs for the entire organization to assure that policies and standards are understood.

Management maintains, controls and utilizes an internal auditing program to evaluate the adequacy and application of financial and operating controls, compliance with Company policies and procedures and the accountability and safeguarding of Company assets. Management believes that the Company's accounting controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period by employees in the normal course of performing their assigned functions.

The Board of Directors, through its Audit Committee composed of Directors other than Company employees, pursues its responsibilities for these financial statements by meeting periodically with management, internal auditing and the independent auditors to assure that each are carrying out their respective responsibilities. The Audit Committee has full access to the internal and independent auditors and meets with them, with and without management being present, to discuss auditing and financial reporting matters.

statements of income

	1980	1979	1978
		(thousands)	
Electric Operating Revenues	**$645 688**	$628 538	$538 423
Operating Expenses			
Fuel	**276 012**	263 000	205 919
Purchased power	**(75 252)**	(80 381)	(17 070)
	200 760	182 619	188 849
Taxes (page 28)	**95 107**	119 657	90 606
Other operation	**85 744**	71 910	58 280
Maintenance	**58 372**	45 500	41 028
Depreciation	**67 960**	64 765	53 028
	507 943	484 451	431 791
Operating Income	**137 745**	144 087	106 632
Other Income—Net			
Allowance for equity funds used during construction	**43 963**	25 913	21 637
Other	**1 951**	2 489	2 021
	45 914	28 402	23 658
Income Before Interest Charges	**183 659**	172 489	130 290
Interest Charges	**86 352**	65 585	56 013
Less allowance for debt funds used during construction	**25 380**	16 086	13 431
	60 972	49 499	42 582
Net Income	**122 687**	122 990	87 708
Dividends on Preferred Stock	**22 080**	16 896	14 075
Common Stock			
Income Available	**$100 607**	$106 094	$ 73 633
Average Shares Outstanding	**31 383**	27 962	25 211
Earnings Per Share	**$3.21**	$3.79	$2.92

statements of earnings invested in the business

	1980	1979	1978
		(thousands)	
Balance January 1	**$201 565**	$161 300	$143 683
Net Income	**122 687**	122 990	87 708
	324 252	284 290	231 391
Deduct			
Cash dividends			
Preferred stock	**21 680**	16 634	13 761
Common stock (1980—$2.44; 1979—$2.28; 1978—$2.13 per share)	**75 813**	63 363	53 715
Capital stock issuance expenses	**3 679**	2 728	2 615
	101 172	82 725	70 091
Balance December 31	**$223 080**	$201 565	$161 300

The accompanying notes are an integral part of these financial statements.

balance sheets
assets

	December 31 1980	1979
	(Thousands)	
Electric Utility Plant—original cost		
In Service		
Production	**$1 089 143**	$1 082 456
Transmission	**356 661**	337 306
Distribution	**480 408**	452 665
General	**55 970**	59 169
	1 982 182	1 931 596
Accumulated depreciation	**521 485**	462 010
	1 460 697	1 469 586
Construction work in progress		
Gibson Unit 5	**177 468**	84 813
Marble Hill Unit 1	**521 776**	302 633
Marble Hill Unit 2	**245 747**	139 141
Other	**73 968**	65 804
	1 018 959	592 391
Nuclear fuel	**76 765**	71 122
	2 556 421	2 133 099
Current Assets		
Cash	**3 406**	6 473
Accounts receivable	**56 139**	54 396
Federal income tax refunds	**18 650**	4 400
Reimbursable nuclear project expenditures	**7 771**	11 055
Fossil fuel—at average cost	**113 665**	91 274
Materials and supplies—at average cost	**26 153**	20 889
Other	**6 980**	7 388
	232 764	195 875
Other	**19 692**	13 114
	$2 808 877	$2 342 088

The accompanying notes are an integral part of these financial statements.

capitalization and liabilities

	December 31 1980	1979
	(thousands)	
Common Stock Equity		
Common stock—without par value—authorized 60,000,000 shares—outstanding 33,947,808 shares in 1980 and 29,794,493 shares in 1979	$ 621 321	$ 535 075
Earnings invested in the business	223 080	201 565
Total common stock equity	844 401	736 640
Cumulative Preferred Stock (page 27)		
Not subject to mandatory redemption	235 000	235 000
Subject to mandatory redemption	50 000	
Long-Term Debt (page 27)	980 854	930 816
Total capitalization	2 110 255	1 902 456
Current Liabilities		
Long-term debt due within one year	75 000	
Trust demand notes	24 708	23 919
Commercial paper	25 500	6 000
Accounts payable	103 866	126 280
Accrued taxes	28 632	32 234
Accrued interest	33 948	3 963
Customers' deposits	1 483	1 496
	293 137	213 892
Other		
Deferred income taxes	234 879	194 251
Unamortized investment tax credits	159 432	123 779
Miscellaneous	11 174	7 710
	405 485	325 740
	$2 808 877	$2 342 088

statements of sources of funds used for utility plant additions

	1980	1979	1978
		(thousands)	
Funds Generated Internally			
Reinvested earnings			
Net income	**$122 687**	$122 [illegible]0	$ 87 708
Less cash dividends	**97 493**	79 997	67 476
	25 194	42 993	20 232
Depreciation	**67 960**	64 765	53 028
Deferred income taxes—net	**40 909**	29 053	33 328
Investment tax credit—net	**37 967**	42 297	34 140
Allowance for equity funds used during construction	**(43 963)**	(25 913)	(21 637)
	128 067	153 195	119 091
Funds [illegible]m Financing and Other Sources			
Common stock			
Public offering	**54 500**	49 140	51 460
Automatic dividend reinvestment and stock purchase plan	**19 917**	13 637	6 086
Employee stock purchase plan	**3 375**	2 130	1 124
Preferred stock	**50 000**	35 000	45 000
First mortgage bonds	**225 000**	55 000	100 000
Retirement of first mortgage bonds		(12 000)	
Net change in working capital and other items			
Temporary cash investments		55 500	(31 700)
Accounts receivable	**(1 743)**	4 084	(23 247)
Federal income tax refunds	**(14 250)**	6 823	(11 223)
Reimbursable nuclear project expenditures	**3 284**	(7 066)	16 795
Fuel and materials and supplies	**(27 655)**	(31 499)	(15 534)
Notes payable, less repayments	**20 289**	5 177	(108)
Accounts payable	**(17 157)**	29 490	28 262
Other items—net	**5 152**	2 146	2 990
	320 712	207 562	169 905
Allowance for equity funds used during construction	**43 963**	25 913	21 637
	$492 742	$386 670	$310 633
Utility Plant Additions			
Construction	**$487 099**	$364 196	$297 880
Nuclear fuel	**5 643**	22 474	12 753
	$492 742	$386 670	$310 633

The accompanying notes are an integral part of these financial statements.

cumulative preferred stock

	December 31 1980	1979
		(thousands)
Not subject to mandatory redemption		
Par value $25 per share—authorized 5,000,000 shares—outstanding		
800,000 shares, 4.32% Series	**$ 20 000**	$ 20 000
600,000 shares, 4.16% Series	**15 000**	15 000
Par value $100 per share—authorized 5,000,000 shares—outstanding		
150,000 shares, 3 1/2% Series	**15 000**	15 000
300,000 shares, 7.15% Series	**30 000**	30 000
350,000 shares, 9.44% Series	**35 000**	35 000
400,000 shares, 8.52% Series	**40 000**	40 000
450,000 shares, 8.38% Series	**45 000**	45 000
350,000 shares, 8.96% Series	**35 000**	35 000
	$235 000	$235 000
Subject to mandatory redemption		
500,000 shares, 9.60% Series	**$ 50 000**	

long-term debt

	December 31 1980	1979
		(thousands)
First Mortgage Bonds (Excluding $75 million due within one year)		
Series J, 3 3/8%, due July 1, 1982	**$ 25 000**	$ 25 000
Series K, 3 3/8%, due January 1, 1984	**25 000**	25 000
Series L, 4 7/8%, due October 1, 1987	**35 000**	35 000
Series M, 4 3/8%, due February 1, 1989	**25 000**	25 000
Series N, 4 3/4%, due August 1, 1990	**30 000**	30 000
Series P, 7 1/8%, due January 1, 1999	**40 000**	40 000
Series R, 7 5/8%, due January 1, 2001	**50 000**	50 000
Series S, 7%, due January 1, 2002	**50 000**	50 000
Series T, 8%, due February 1, 2004	**50 000**	50 000
Series U, 9 5/8%, due August 1, 1981		75 000
Series W, 9.60%, due August 1, 2005	**80 000**	80 000
Series Y, 7 5/8%, due January 1, 2007	**85 000**	85 000
Series Z, 8 1/8%, due October 1, 2007	**85 000**	85 000
Series AA, 8 7/8%, due October 1, 2008	**100 000**	100 000
Series BB, 6 5/8%, due March 1, 2004 (Pollution Control)	**5 000**	5 000
Series CC, 9 1/2%, due May 1, 1985	**50 000**	50 000
Series DD, 14%, due March 1, 1987	**100 000**	
Series EE, 12 1/8%, due September 1, 1990	**125 000**	
Total first mortgage bonds	**960 000**	810 000
Pollution Control Note, 5 3/4%, due December 15, 1989 to 2003	**22 000**	22 000
Unamortized premium and discount—net	**(1 146)**	(1 184)
Total	**$980 854**	$830 816

taxes charged to operating expenses

	1980	1979	1978
		(thousands)	
Federal and State Income			
Currently payable	**$ 7 795**	$ 19 552	$ 6 463
Refunds—investment tax credit carryback (Note 1(c))	**(18 650)**	(4 400)	(11 223)
Deferred—net	**40 909**	29 053	33 328
Investment tax credit—net	**37 967**	42 297	34 140
	68 021	86 502	62 708
State, Local and Other			
Real estate and personal property	**10 999**	18 197	15 405
Indiana gross income	**10 137**	10 296	8 418
Social security	**5 320**	4 241	3 288
Other	**630**	421	787
	27 086	33 155	27 898
Total taxes charged to operating expenses	**$95 107**	$119 657	$90 606
Taxes per dollar of operating revenue	**14.7¢**	19.0¢	16.8¢

notes to financial statements—annual report 1980

1. **Summary of Significant Accounting Policies:**

(a) Depreciation and Maintenance

The Company's provision for depreciation is determined by using the straight-line method applied to the cost of depreciable plant in service. The composite depreciation rate was increased from approximately 3.2% to 3.5% October 1978.

Maintenance and repairs of property units and renewals of minor items of property are charged to maintenance expense accounts except repairs of an insignificant amount charged to clearing accounts. The costs of renewals and betterments of units of property are charged to utility plant accounts and the original cost of depreciable units retired and cost of removal, less salvage recovered, are charged to accumulated depreciation.

(b) Allowance for Funds Used During Construction (AFUDC)

The Company's AFUDC rate for 1980, 1979 and 1978 was 9½%; the related income tax effects applicable to the capitalized interest component is recorded as deferred income tax expense.

(c) Federal and State Income Taxes

Income tax timing differences, due primarily to accelerated tax depreciation and deduction of certain utility plant costs capitalized per books, receive comprehensive income tax allocation treatment in determining the provision for taxes.

The Company is deferring investment tax credits and amortizing the accumulated balance over the useful lives of the property which gave rise to such credits. Investment tax credits generated in excess of the investment tax credit limitations established by law have been recorded as a refund of prior years' taxes. Unused portions will be carried forward to offset future years' tax liabilities as permitted by law.

The Company claimed an additional 1½% investment tax credit for the Investment Tax Credit Employee Stock Ownership Plan for the years 1979 and 1978. For the year 1980, approximately $.5 million will be claimed and $5.5 million will be carried forward to future years.

(d) Unamortized Debt Discount, Premium and Expense

Debt discount, premium and expense on outstanding long-term debt is being amortized over the lives of the respective issues.

notes to financial statements—continued

(e) Operating Revenues and Fuel Costs

The Company records revenues as billed to its customers on a cycle billing basis. Revenue is not recorded for energy delivered and unbilled at the end of each fiscal period.

Fuel cost charge factors are applicable to all of the Company's metered kwh sales. Fuel cost charge factors are based on estimated costs of fuel; as actual costs of fuel are determined, any differences are deferred and billed in subsequent months.

2. **Rates.** In September 1975, the Company filed with the Federal Energy Regulatory Commission (FERC) for increased rates applicable to its sale for resale customers. Interim rates, subject to refund, under this filing were in effect for the period March 31, 1976 through January 27, 1979. On June 25, 1980, the FERC issued an order authorizing a $5.1 million increase on an annual basis effective for the period February 24, 1976 through January 27, 1979 and ordering applicable refunds of $4.5 million.

In July 1978, the Company made a further filing for additional increased rates applicable to its sale for resale customers. Interim rates, subject to refund, under this filing were effective for the period January 28, 1979 through April 1980. On May 15, 1980, the FERC issued an order authorizing a $7.5 million increase on an annual basis and ordering applicable refunds of $5.6 million.

Under the above rate filings, refund amounts had been deferred and excluded from operating revenues and the income tax effects applicable thereto had been reflected in the respective periods.

In December 1980, the Company filed with the Public Service Commission of Indiana for increased rates applicable to its retail customers which, if approved, would produce approximately $119.6 million annually in increased operating revenues.

3. **Capital Stock.** As of December 31, 1980, 3,301,596 shares of common stock were reserved for issuance under the Automatic Dividend Reinvestment and Stock Purchase Plan (ADR), Employee Stock Purchase Plan (ESPP) and Investment Tax Credit Employee Stock Ownership Plan (ESOP).

The changes in common stock for 1980, 1979 and 1978 were as follows:

	Shares Issued			Amount		
	1980	1979	1978	**1980**	1979	1978
				(millions)		
Public Offering	**2.7**	2.0	2.0	**$56.4**	$50.5	$53.0
ADR	**1.1**	.6	.3	**20.8**	14.3	6.4
ESPP and ESOP	**.4**	.2	.1	**9.0**	6.9	3.8
	4.2	2.8	2.4	**$86.2**	$71.7	$63.2

On January 30, 1981, the Company sold 3.25 million additional shares of common stock through underwriters at a price to the public of $19.625 per share. Net proceeds of $61.3 million will be applied to the Company's construction program.

Charter provisions limit dividends on common stock to 75% of net income available therefor if the ratio of common stock equity to total capitalization of the Company is less than 25% and to 50% of such net income if such ratio is less than 20%. As of December 31, 1980, the ratio of common stock equity to total capitalization was 40.0%.

4. **Long-Term Debt.** On January 30, 1981, the Company sold $125 million principal amount of First Mortgage Bonds, Series FF, 14 3/4%, due February 1, 2011. Net proceeds of $122.0 million will be applied to the Company's construction program.

   The sinking fund requirements with respect to first mortgage bonds of the Company outstanding at December 31, 1980 aggregated (exclusive of redemption premium) $6.8 million payable on or prior to May 1 annually through 1982, $6.6 million in 1983 and $6.3 million in 1984 and 1985. The Company has met and expects to continue to meet future sinking fund requirements by certifying bondable property additions.

   First mortgage bond maturities are $75 million in 1981, $25 million in 1982, $25 million in 1984 and $50 million in 1985.

5. **Pension Plan.** The Company's non-contributory pension plan covers all employees meeting certain minimum age and service requirements. The unfunded actuarial liability of the pension plan amounted to $8.7 million at January 1, 1980 and is being funded over a period of twenty-five years. The Company's policy is to fund pension costs accrued, which amounted to $5.7 million in 1980, $4.6 million in 1979 and $3.9 million in 1978. In making the actuarial calculations, interest assumptions of 6% for 1980 and 5 1/2% for 1979 were used.

	January 1	
	1980	1979
	(millions)	
Actuarial present value of accumulated plan benefits		
Vested	**$51.5**	$45.4
Non-vested	**.5**	.5
	$52.0	$45.9
Plan assets available for benefits	**$63.4**	$57.1

6. **Short-Term Borrowings and Compensating Balances.** At December 31, 1980, the Company had lines of credit with fourteen commercial banks totalling $160 million. Interest on bank loans is at the prime commercial rate of such banks in effect from time to time. Arrangements have also been made for the sale of commercial paper which is supported by a portion of these lines of credit. Such lines of credit are subject to cancellation by either party upon notice. At December 31, 1980, $85 million of such lines of credit were on a fee basis and $75 million of these credit lines have informal arrangements with respect to maintaining average compensating bank balances which range from 10% of the line of credit, to 10% of the line of credit plus 10% of the amount borrowed. Compensating bank balances of $7.5 million were met with funds on deposit in such banks.

   The Company also has lines of credit with various banks within its service area aggregating approximately $11 million. Interest on such bank loans is at the prime commercial rate in effect from time to time. Compensating balances are not required in connection with these lines of credit.

notes to financial statements—continued

At December 31, 1980, the Company had trust demand note arrangements with two commercial banks in the amount of $25 million. Amounts borrowed are callable on demand and interest on borrowings is the current rate for certain directly placed, high quality commercial paper. There is no compensating balance requirement associated with these credit arrangements. The Company holds a portion of its previously mentioned bank lines of credit available to cover any call for payment.

For the years 1980 and 1979, the Company had trust demand notes, commercial paper and bank loans outstanding at various times as follows:

	Balance at Dec. 31*	Weighted Average Interest Rate at Dec. 31	Maximum Amount Outstanding at any Month End*	Average Amount Outstanding during the Year*	Weighted Average Interest Rate during the Year
1980					
Bank Loans			**$16.6**	**$ 2.2**	**13.7%**
Commercial Paper	**$25.5**	**18.2%**	**72.0**	**16.8**	**10.5**
Trust Demand Notes	**24.7**	**17.2**	**24.8**	**24.0**	**12.6**
1979					
Commercial Paper	$ 6.0	13.8%	$ 6.0	$ .1	13.8%
Trust Demand Notes	23.9	12.6	24.9	24.8	10.8

*millions

7. **Income Tax Expense.** Deferred income taxes (net) are due to timing differences between book and income tax deductions. For the years 1980, 1979 and 1978, deferred income tax expense arising from accelerated tax depreciation was $18.1 million, $17.5 million and $15.5 million, respectively; the balance results primarily from the timing of the deductions for tax purposes of certain utility plant costs capitalized for book purposes.

Total income tax expense, which includes applicable amounts in other income-net, aggregated $69.7 million, $88.6 million and $64.7 million for the years 1980, 1979 and 1978. The reconciliation between the effective rates and combined statutory federal and state income tax rates is as follows:

	1980	1979	1978
Effective income tax rates	**36.22%**	41.88%	42.46%
Equity component of AFUDC, which does not enter into the determination of taxable income	**10.88**	5.83	7.04
Other items—net	**.52**	(.09)	.06
Statutory federal and state income tax rates	**47.62%**	47.62%	49.56%

notes to financial statements - concluded

8. **Construction and Nuclear Fuel Commitments.** The Company estimates that $2.2 billion will be expended for construction purposes and $291.0 million for nuclear fuel for the period 1981-1984.

   The Company owns and will be entitled to 83% of the output of the two Marble Hill Nuclear Station units; the remaining 17% is owned by Wabash Valley Power Association, Inc. The ownership agreement between the Company and Wabash Valley Power Association, Inc. provides that each party shall be responsible for the financing of its ownership share of project costs. The Company's share of project costs to date, including nuclear fuel, is $844 million. Northern Indiana Public Service Company will purchase 10% of the capacity of Unit 1 from the Company from the date of commercial operation through September 30, 1987.

   A July 1980 study of the Marble Hill project revised the in-service dates from 1982 and 1984 to late 1986 and 1987, respectively. This same study estimated the Company's 83% ownership interest will cost $2.8 billion, compared with the previous estimate of $1.5 billion.

   Substantial progress has been made during 1980 toward the resumption of safety-related construction work. Most phases of the Nuclear Regulatory Commission's five-stage restart program issued on May 15, 1980 have been implemented. Authority to proceed with electrical and piping work has been received and final approvals for the resumption of other safety-related construction are expected early in 1981.

9. **Supplementary Information.** Lease rentals are less than one percent of electric operating revenues. The effect on the financial statements, if all financing leases had been capitalized, is not material.

10. **1980 and 1979 Quarterly Financial Data** (Unaudited).

Quarter Ended	Operating Revenues*	Operating Income*	Net Income*	Earnings Per Share
1980				
March 31	**$168.1**	**$ 39.0**	**$ 35.1**	**$1.00**
June 30	**146.0**	**30.4**	**26.8**	**.70**
September 30	**171.3**	**35.7**	**31.9**	**.83**
December 31	**160.3**	**32.6**	**28.9**	**.68**
Total	**$645.7**	**$137.7**	**$122.7**	**$3.21**
1979				
March 31	$174.4	$ 38.0	$ 33.1	$1.09
June 30	150.4	34.3	28.4	.89
September 30	152.7	36.2	30.1	.91
December 31	151.0	35.6	31.4	.90
Total	$628.5	$144.1	$123.0	$3.79

*millions

auditors' report

To the Board of Directors of
Public Service Company of Indiana, Inc.:

We have examined the balance sheets of Public Service Company of Indiana, Inc. (an Indiana corporation) as of December 31, 1980 and 1979, and the related statements of income, earnings invested in the business, and sources of funds used for utility plant additions 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.

In our opinion, the financial statements referred to above present fairly the financial position of Public Service Company of Indiana, Inc. as of December 31, 1980 and 1979, and the results of its operations and the sources of its funds used for utility plant additions 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.

Arthur Andersen & Co.

Indianapolis, Indiana,
January 26, 1981.

management's discussion and analysis of financial condition and results of operation

kwh sales and revenues

Total kwh sales increased 3.7% in 1980 compared with 4.9% in 1979 and 1.3% in 1978 and reflects continued growth in the number of customers, additional demand by wholesale customers in 1980 and a return to more normal usage in 1979 following the 1977-78 coal miners' strike. Sales growth has also been influenced by continuing energy conservation and a slowdown in industrial activity in 1979-80. Sales data for the periods were as follows:

	increase (decrease) over prior year		
	1980	1979	1978
Kwh Sales			
Domestic	6.0%	.7%	3.0%
Commercial	4.7	7.0	(5.2)
Industrial	(4.2)	8.2	1.8
Total Retail	1.2	5.3	.7
Sales for Resale	13.1	3.3	3.8
Total Sales	3.7%	4.9%	1.3%
Operating Revenues	2.7%	15.7%	14.3%

Revenue growth reflects increased kwh sales, current recovery of increased fuel costs and rate increases which were effective in 1978 and 1979.

fuel costs

Fuel costs per million BTU increased from 106.1¢ in 1978 to 107.2¢ in 1979 and to 116.7¢ in 1980. The cost per million BTU increased significantly in 1978 because of spot purchases of higher priced coal and increased use of oil-fired generation during the coal miners' strike in 1977-78. Increased costs in 1979 and 1980 reflect escalating fossil fuel prices and increased generation.

other power sales

With completion of the third and fourth units at the Gibson Station in 1978 and 1979, the Company became a seller of capacity to the Kentucky-Indiana Pool beginning in 1978; sales of capacity in reducing amounts will continue through March 31, 1982. Short-term power sales, due in large part to temporary capacity shortages of other electric utilities, have had a favorable impact on operating results.

taxes

Income tax expense and its components varied due to fluctuations in taxable income and investment tax credit provisions. While construction levels have produced increased investment tax credits for each of the years, 1980 reflects a decrease from 1979 due to the Company's inability to fully utilize applicable investment tax credits for the year. Unused investment tax credits will be carried forward to offset future years' tax liabilities. The decrease in state, local and other tax expense in 1980 reflects adjustments of real estate and personal property tax expense for prior years.

operation and maintenance

Other operation expenses have increased due to the effect of double-digit inflation on operating costs, customer growth, the addition of new generating units at the Gibson Station in 1978 and 1979 and additions to the Company's transmission and distribution systems. Increased maintenance expenses reflect the same factors.

earnings

The increase in the combined debt and equity portions of the Allowance for Funds Used During Construction (AFUDC) reflects the rising levels of construction work in progress at the Gibson and Marble Hill Stations.

Increases in interest charges and preferred dividends reflect the sale of additional securities to finance the Company's construction program. The increase in earnings per common share in 1979 was due primarily to additional revenues from rate increases which were effective in 1978 and 1979. Continuing inflation, increased interest expense and the increased number of common and preferred shares outstanding have reduced earnings per share in 1980.

rate increase

On December 8, 1980, a request for a retail rate increase of 23%, aggregating $120 million annually, was filed with the Public Service Commission of Indiana; action by the Indiana Commission is not expected until mid-1981. In addition, a request for increased sales for resale rates is expected to be filed with the Federal Energy Regulatory Commission by mid-1981; the amount of such increase has not been determined.

1981-1984 construction program and financing

The Company has a continuing program of major construction to provide facilities to meet expected load growth and to replace properties as they become obsolete. Plant additions and nuclear fuel in 1980 totalled $493 million compared with 1979's $387 million and $311 million in 1978. Construction and nuclear fuel expenditures for the period 1981-1984 are presently estimated as follows:

	construction	nuclear fuel	total
		(millions)	
1981	$ 591	$ 58	$ 649
1982	605	39	644
1983	507	90	597
1984	474	104	578
	$2 177	$291	$2 468

Of the funds required for construction and nuclear fuel during the 1981-1984 period, it is presently estimated that approximately $1.0 billion will be generated internally and approximately $1.5 billion will be provided through the sale of securities. During such period the Company will be required to refinance $125 million of first mortgage bonds which will mature prior to January 1, 1985, including $75 million maturing August 1, 1981.

general problems of the industry

The electric utility industry is experiencing problems such as obtaining adequate rate increases, financing large construction programs during inflationary periods, obtaining sufficient capital on reasonable terms, compliance with environmental regulations, high costs of fossil fuel, delays in licensing and constructing new facilities and effects of energy conservation. The severity of each of these problems varies among different companies and areas. While the Company considers its own experience to date in relation to these problems has been relatively favorable, there is no assurance that such problems will not adversely affect the Company in the future.

capital resources and liquidity

The principal sources of internal funds are provided by retained earnings (less the Allowance for Funds Used During Construction which is a non-cash item except for such amounts collected through rates), depreciation, deferred income taxes and investment tax credits.

Due to the size of the Company's construction program and the time frames for completion of Gibson Unit 5 and the two Marble Hill units (estimated in-service dates of 1982, 1986 and 1987, respectively), the percentage of net income represented by the non-cash portion of AFUDC will become increasingly larger. If adequate rate increases are not received on a timely basis, internal cash generation will decline and a larger proportion of capital from external sources will be required to finance the Company's construction program. Further, the ratings of the Company's senior securities, assigned by independent agencies, could be adversely affected and result in higher costs of capital.

The Company's 1981-1984 program will require substantial amounts of additional common stock financing. Virtually all issues of new common shares sold by the electric industry in 1980, including those of the Company, were made below book value. The continued sales of common stock below book value dilutes the present shareholders' investment and requires the sale of more shares of stock than would otherwise be required.

The Company's long-term capitalization ratio objectives are to maintain an even balance of debt and equity capital. The issuance and sale by the Company of preferred stock and first mortgage bonds are subject to compliance with earnings coverage requirements of its charter and the mortgage indenture. Depending on the level of the Company's earnings, the Company may be unable, in certain time periods, to meet these requirements and would be required in such circumstances to issue preference stock, debentures or other types of securities. The sale of such types of securities could require higher preferred dividends and interest rates.

Under short-term financing arrangements, the Company has authority from the Public Service Commission of Indiana to issue promissory notes payable in not less than 12, nor more than 24 months, from the date of issuance in amounts not exceeding $175 million outstanding at any one time prior to December 31, 1981. (See note 6 of "Notes to Financial Statements" for details of credit arrangements).

dividends

Dividends have been paid each year since the Company was formed in 1941 and have increased each year for twenty consecutive years.

It is the Company's belief that the regular payment to shareholders of a liberal portion of earnings available for common stock as dividends, as well as orderly increases in the dividend rate, is in the best interest of the Company, its shareholders and the public served.

While the Company cannot predict future dividend actions, it believes that the continuation of past dividend practices will be desirable in light of the Company's financing needs in the next several years.

inflation

The estimated effects of inflation on the Company's operations are presented on pages 39-41, "Supplementary Data on Changing Prices". The continued impact of inflation on operations, as well as on construction costs, will require periodic rate adjustments to maintain adequate earnings levels.

selected financial data

	1980	1979	1978	1977	1976
Operating revenues*	**$ 645.7**	$ 628.5	$ 538.4	$ 470.9	$ 397.7
Net income*	**122.7**	123.0	87.7	88.5	75.0
Common stock					
Earnings per share	**3.21**	3.79	2.92	3.28	3.01
Dividends paid per share	**2.44**	2.28	2.13	2.01	1.89⅓
Total assets*	**2 808.9**	2 342.1	2 044.4	1 724.5	1 457.7
Cumulative preferred stock subject to mandatory redemption*	**50.0**				
Long-term debt*	**1 057.0**	832.0	789.0	689.0	534.0

*millions

Supplementary Data on Changing Prices (Unaudited). The following supplementary data are provided in accordance with the requirements of the Financial Accounting Standards Board (FASB) Statement No. 33, Financial Reporting and Changing Prices, for the purpose of reporting certain information as to the effects of changing prices on the Company's operations. The Company's financial statements are prepared based on historical prices in effect when the transactions occurred; the FASB statement requires the statement of income and certain other information to be prepared on two additional bases: the constant dollar basis and the current cost basis. The data presented in the following statements should be viewed as an estimate of the effect of changing prices, rather than as a precise measure.

The constant dollar basis represents the restatement of historical costs to current-day price levels, utilizing the Consumer Price Index for All Urban Consumers (CPI).

The current cost basis represents the restatement of historical costs of net utility plant to current reproduction cost utilizing the Handy-Whitman Index of Public Utility Construction Costs.

Changing prices impact common stock equity in two ways. First, under ratemaking procedures prescribed by the regulatory commissions to which the Company is subject, only the original cost of utility plant is recoverable in revenues as depreciation. The cost of utility plant, determined on the constant dollar and/or current cost basis in excess of original cost, is not presently recoverable in rates as depreciation, nor as a deduction for income tax purposes, and is defined as a reduction to net recoverable cost.

Second, "monetary assets", such as cash and claims to cash, lose purchasing power during inflationary periods because monetary assets buy fewer goods and services as the general price level increases. Conversely, "monetary liabilities", such as long-term debt, gain because the liabilities will be repaid by dollars having less purchasing power. The net change in monetary assets and liabilities (which excludes utility plant, unamortized investment tax credits and common stock equity) is reflected as a gain (or loss) in purchasing power.

Operating revenues and other operating expenses (exclusive of depreciation) in the statement of income have not been restated since such amounts would not be materially different if determined on a constant dollar or current cost basis. The cost of fuel used in generation is not restated due to the current recovery of actual fuel costs through fuel cost charge factors or adjustments in basic rate schedules. Depreciation expense has been restated by applying current Company depreciation rates to the indexed utility plant amounts.

As shown on the accompanying five-year summary, earnings per share in 1980 and 1979 have been restated to reflect both the reduction due solely to the higher depreciation expense and to reflect the total impact of changing prices on common stock equity under the two bases.

supplementary data on changing prices - continued

statements of income

	For the Year Ended December 31, 1980		
	Historical Basis	Constant Dollar Basis (Based on CPI Index)	Current Cost Basis (Based on Current Reproduction Cost)
		(Average 1980 dollars) (millions)	
Operating Revenues	$645.7	$ 645.7	$ 645.7
Operating Expenses			
Fuel	276.0	276.0	276.0
Purchased power	(75.3)	(75.3)	(75.3)
Taxes	95.1	95.1	95.1
Other operation and maintenance	144.1	144.1	144.1
Depreciation	68.0	137.5	147.5
	507.9	577.4	587.4
Operating Income	137.8	68.3	58.3
Interest Charges (net of allowance for funds used during construction and other income - net)	15.1	15.1	15.1
Net Income	122.7	53.2	43.2
Dividends on Preferred Stock	22.1	22.1	22.1
Income Available for Common Stock	$100.6	$ 31.1	$ 21.1
Earnings per Common Share	$ 3.21	$ .99	$ .67
Other Impacts of Changing Prices			
Increase in current reproduction cost of net utility plant			$ 228.6
Less increase in net utility plant based on CPI index			420.3
Increase in CPI over current reproduction cost			(191.7)
Amount of restated utility plant costs over original cost not recoverable through rates (reduction to net recoverable cost)		$(212.9)	(11.2)
Gain due to repayment of debt with dollars of less purchasing power		168.9	168.9
Income Available for Common Stock (As Adjusted)		$ (12.9)	$ (12.9)
Earnings per Common Share (As Adjusted)		$ (.41)	$ (.41)

supplementary data on changing prices - concluded

The following summary is a five-year comparison of selected supplementary financial data (historical) which have been restated in average 1980 dollars (except actual data where indicated):

	Years Ended December 31				
	1980	1979	1978	1977	1976
			(millions)		
Operating revenues					
Actual	$645.7	$628.5	$538.4	$470.9	$397.7
As adjusted by CPI Index	$645.7	$713.8	$680.3	$640.6	$576.0
Constant dollar information (Based on CPI Index)					
Net income	$ 53.2	$ 82.3			
Earnings per common share					
As adjusted for additional depreciation	.99	2.26			
As adjusted for total impact on common stock equity	(.41)	.38			
Net assets (common stock equity) at year-end at net recoverable cost	803.7 1/	791.1			
Current cost information (Based on current reproduction cost)					
Net income	$ 43.2	$ 65.0			
Earnings per common share					
As adjusted for additional depreciation	.67	1.64			
As adjusted for total impact on common stock equity	(.41)	.38			
Increase in CPI Index over current reproduction cost—net utility plant	191.7	126.6			
Net assets (common stock equity) at year-end at net recoverable cost	803.7 1/	791.1			
General information					
Gain due to repayment of debt with dollars of less purchasing power	$168.9	$165.0			
Cash dividends declared per common share					
Actual	$ 2.44	$ 2.28	$ 2.13	$ 2.01	$ 1.89⅓
As adjusted by CPI Index	$ 2.44	$ 2.59	$ 2.69	$ 2.73	$ 2.74
Market price per common share at year-end					
Actual	$20.63	$23.38	$24.63	$28.25	$31.63
As adjusted by CPI Index	$20.63	$26.55	$31.12	$38.43	$45.80
Average CPI Index	246.9	217.4	195.4	181.5	170.5

1/ At December 31, 1980, the constant dollar and current cost bases of utility plant, net of accumulated depreciation, were $3,856.8 million and $3,788.7 million, respectively, compared with net original cost of utility plant of $2,556.4 million.

10 years of progress

		1980	1979
SALES AND CUSTOMERS	**KILOWATT-HOURS SOLD** (millions)		
	Domestic	5,049	4,763
	Commercial	3,450	3,295
	Industrial	6,029	6,291
	REMCs	2,769	2,288
	Municipals	1,517	1,502
	All Other	84	84
	Total	18,898	18,223
	OPERATING REVENUES (thousands)		
	Domestic	$ 218,199	$209,152
	Commercial	136,752	131,799
	Industrial	169,681	176,334
	REMCs	74,096	64,078
	Municipals	36,317	35,620
	All Other	10,643	11,555
	Total	$ 645,688	$628,538
	Average Price per Kilowatt-hour	3.39¢	3.41¢
	CUSTOMERS (annual averages)		
	Domestic	466,974	460,258
	Commercial	62,641	61,865
	Industrial	2,518	2,522
	REMCs (delivery points served)	121	116
	Municipals	43	43
	All Other	847	834
	Total	533,144	525,638
	Heating Customers (included above)	89,711	82,552
	DOMESTIC SERVICE (average per customer)		
	Annual Use (kilowatt-hours)	10,812	10,349
	Annual Revenue	$ 467.26	$ 454.42
	Price per Kilowatt-hour	4.32¢	4.39¢
ELECTRIC OPERATIONS	**KILOWATT-HOUR OUTPUT** (millions)		
	Generated (net)	23,938	23,690
	Purchased	(3,390)	(4,011)
	Total	20,548	19,679
	Losses and Company Use	1,650	1,456
	Total Sales	18,898	18,223
	SYSTEM GENERATING CAPABILITY (megawatts)		
	Owned	5,261	5,678
	Power Pool	(310)	(423)
	Total	4,951	5,255
	MAXIMUM SYSTEM DEMAND (megawatts)		
	Summer	3,896	3,598
	Winter	3,554	3,718
	FUEL COST—per million BTUs consumed	116.7¢	107.2¢
UTILITY PLANT	**CONSTRUCTED ADDITIONS** (thousands)	$ 487,099	$364,196
CAPITALIZATION (December 31)	**COMMON STOCK EQUITY** (thousands)*	$ 844,401	$736,640
	Dividends per Share	2.44	2.28
	Average Shares Outstanding	31,383	27,962
	Earnings per Share	$ 3.21	$ 3.79
	CUMULATIVE PREFERRED STOCK (thousands) (1980 includes $50 million subject to mandatory redemption)	$ 285,000	$235,000
	Dividends	21,680	16,634
	Average Dividend Rate	7.92%	7.56%
	LONG-TERM DEBT (thousands)	$1,057,000	$832,000
	Interest on Debt	79,556	61,620
	Average Interest Rate	8.77%	7.64%
EMPLOYEE DATA	**NUMBER OF EMPLOYEES** (at December 31)	4,868	4,351
	SALARIES, WAGES AND BENEFITS (thousands)	$ 115,136	$ 90,768

*Reflects 3-for-2 stock split in April 1976.

1978	1977	1976	1975	1974	1973	1972	1971	1970
4.731	4.568	4.136	4.068	3.657	3.632	3.323	3.090	2.885
3.080	3.248	3.025	2.924	2.617	2.653	2.439	2.237	2.060
5.813	5.711	5.279	4.602	4.986	5.136	4.693	4.282	4.081
2.216	2.147	1.805	1.582	1.555	1.189	1.353	1.546	1.621
1.454	1.389	1.204	1.146	989	892	790	707	632
76	83	83	82	81	78	84	78	79
7.370	17.146	15.537	14.404	13.885	13.580	12.682	11.940	11.358
4.771	$162.703	$141.897	$111.084	$ 93.962	$ 90.295	$ 81.194	$ 72.423	$ 68.669
1.344	103.700	90.031	72.628	60.687	59.083	52.239	44.537	41.334
8.796	126.469	105.077	77.115	70.170	67.190	58.880	49.315	46.451
2.268	44.905	33.656	23.204	19.503	12.994	15.235	13.295	13.702
1.221	25.329	19.416	15.186	11.335	8.673	8.911	7.110	6.357
0.023	7.805	7.665	6.681	5.205	5.130	4.786	3.878	3.651
8.423	$470.911	$397.742	$305.898	$260.862	$243.365	$221.245	$190.579	$180.164
3.07¢	2.73¢	2.54¢	2.10¢	1.86¢	1.78¢	1.73¢	1.58¢	1.57¢
1.491	442.674	435.512	429.186	423.663	415.772	406.591	397.497	390.170
1.039	60.131	59.359	58.600	57.204	55.953	56.072	53.902	53.004
2.514	2.495	2.461	2.451	2.438	2.437	2.440	2.424	2.413
115	112	108	102	98	96	96	151	167
43	44	44	44	44	44	44	45	45
827	836	836	839	820	805	828	822	807
6.029	506.282	498.320	491.222	484.267	475.107	465.071	454.841	446.606
2.315	61.812	53.164	46.460	39.708	32.837	27.813	23.726	20.535
0.478	10.319	9.497	9.479	8.631	8.736	8.173	7.774	7.395
09.25	$ 367.55	$ 325.82	$ 258.83	$ 221.79	$ 217.17	$ 199.69	$ 182.20	$ 176.00
3.91¢	3.56¢	3.43¢	2.73¢	2.57¢	2.49¢	2.44¢	2.34¢	2.38¢
9.276	20.012	18.698	16.002	14.579	14.977	14.051	12.425	11.564
(652)	(1.504)	(1.840)	(350)	492	(347)	(229)	526	825
8.624	18.508	16.858	15.652	15.071	14.630	13.822	12.951	12.389
1.254	1.362	1.326	1.248	1.186	1.050	1.140	1.011	1.031
7.370	17.146	15.532	14.404	13.885	13.580	12.682	11.940	11.358
5.028	4.378	4.378	3.730	3.239	3.254	3.254	2.655	2.699
(229)	183	(156)	93	361	30	(180)	156	(125)
4.799	4.561	4.222	3.823	3.600	3.284	3.074	2.811	2.574
3.381	3.320	2.922	2.924	2.706	2.751	2.514	2.372	2.167
3.676	3.388	3.138	2.845	2.567	2.430	2.326	2.167	2.173
06.1¢	80.2¢	65.6¢	52.1¢	38.8¢	30.0¢	28.8¢	25.5¢	23.6¢
7.880	$267.288	$209.392	$148.974	$160.661	$134.710	$ 91.681	$ 79.003	$ 78.402
4.707	$543.938	$462.427	$395.228	$343.157	$326.559	$274.054	$234.879	$230.399
2.13	2.01	1.89⅓	1.73⅓	1.66	1.55⅓	1.46⅔	1.44	1.41⅓
5.211	23.690	22.054	20.921	19.084	17.834	16.784	16.384	16.384
2.92	$ 3.28	$ 3.01	$ 2.33	$ 2.53	$ 2.43	$ 2.07	$ 1.71	$ 1.98
0.000	$155.000	$155.000	$115.000	$ 80.000	$ 80.000	$ 50.000	$ 50.000	$ 50.000
3.761	10.870	8.370	5.397	4.158	3.878	2.013	2.013	2.013
7.32%	7.01%	7.01%	6.49%	5.20%	5.20%	4.03%	4.03%	4.03%
9.000	$689.000	$534.000	$534.000	$502.000	$395.000	$395.000	$345.000	$295.000
2.131	44.491	37.068	33.161	26.226	21.704	21.519	17.992	13.566
7.46%	7.25%	6.94%	6.94%	6.15%	5.49%	5.49%	5.28%	4.68%
4.025	3.855	3.701	3.533	3.449	3.290	3.284	3.272	3.190
8.801	$ 69.330	$ 60.177	$ 52.684	$ 46.991	$ 42.618	$ 39.407	$ 36.295	$ 32.821

security markets and prices

The principal organized markets in which the Company's common stock is traded are:

The New York Stock Exchange
The Midwest Stock Exchange
The Pacific Stock Exchange

In addition the Company's common stock has unlisted trading privileges on the Cincinnati, Detroit and Philadelphia exchanges. All cumulative preferred stock is listed on the New York Stock Exchange and the 3 1/2%, 4.16% and 4.32% Series are also listed on the Midwest Stock Exchange.

Company bonds issued since 1969 have been listed for trading on the New York Stock Exchange.

The following table shows the quarterly high and low sale prices of the Company's common stock on the composite tape and dividends paid for the past two years.

	1980			1979		
	high	low	dividend	high	low	dividend
first	$23 3/4	$17 5/8	$.58	$25 5/8	$24 1/2	$.54
second	24 5/8	19	.62	27	24 1/8	.58
third	24 1/2	20	.62	26 3/8	24	.58
fourth	22	19	.62	25 1/4	22	.58

automatic dividend reinvestment and stock purchase plan

Under the Company's continuing Automatic Dividend Reinvestment And Stock Purchase Plan, common and preferred shareholders of record may reinvest quarterly dividends to purchase additional shares of common stock at a 5% discount from the applicable market price. The Plan also allows for optional cash payments of up to $25,000 per quarter to purchase additional shares of common stock at 100% of market value; amounts over $25,000 are subject to Company approval. No commissions are charged on stock purchases under the Plan. The Prospectus describing the Plan and an enrollment form are available to interested shareholders upon request to Shareholder Relations.

Stock Transfer Agents and Registrars

*Continental Illinois National Bank and Trust Company of Chicago
30 North LaSalle Street, Chicago 60693

*Bradford Trust Company
2 Broadway, New York 10004

*Effective March 1, 1981, these agents are authorized to serve in the dual capacity of stock transfer agent and registrar.

Dividend Disbursing Office

Shareholder Relations
Public Service Indiana
1000 East Main Street
Plainfield, Indiana 46168

Toll Free Telephone Numbers:
Indiana 800-382-1174
Other States 800-428-4337

The annual meeting of shareholders will be held in Plainfield, Indiana, on April 6, 1981. Shareholders of record at the close of business on February 17, 1981 will be entitled to vote at the meeting. Formal notice, proxy statement and proxy form will be mailed about March 6.

This annual report and the financial statements contained herein are submitted for the general information of the shareholders of Public Service Company of Indiana, Inc., and are not intended for use in connection with any sale or purchase of, or any offer or solicitation of offers to buy or sell, any securities of the Company.

PUBLIC SERVICE INDIANA
1000 East Main Street
Plainfield, Indiana 46168

ARTHUR ANDERSEN & CO.

INDIANAPOLIS, INDIANA

To the Board of Directors of
Wabash Valley Power Association, Inc.:

We have examined the balance sheets of WABASH VALLEY POWER ASSOCIATION, INC. (an Indiana not-for-profit corporation) as of December 31, 1980, and 1979, and the related statements of revenues and expenses, patronage capital and sources of funds used for utility plant additions for the years then ended. 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.

In our opinion, the financial statements referred to above present fairly the financial position of Wabash Valley Power Association, Inc. as of December 31, 1980, and 1979, and the results of its operations and the sources of its funds used for utility plant additions for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

January 30, 1981.

A S S E T S	1980	1979
UTILITY PLANT (Notes 2 and 3):		
In service, at original cost	$ 120	$ 120
Less- Accumulated depreciation	1,958,409	1,274,477
ge capital	1,958,529	1,274,597
Construction work in progress-		
Marble Hill Nuclear Station		
Nuclear fuel		
Headquarters building		
Load Management system		
Transmission system	167,067,000	100,123,000
4)	2,750,000	-
	171,775,529	101,397,597
CURRENT ASSETS:		
Cash		
Temporary cash investments		
Headquarters building bond construction fund	100,000	-
Accounts receivable-		
Power	6,863,831	6,952,472
Other	111,647	132,242
Unbilled fuel cost refund	-	209,487
Prepayments	4,849,511	8,003,081
Total current assets	176,447	-
	311,536	230,101
	12,412,972	15,527,383
OTHER:		
Deferred charges		
Other investments		
	$184,188,501	$115,924,980

WABASH VALLEY POWER ASSOCIATION, INC.

STATEMENTS OF REVENUES AND EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 1980 AND 1979

	1980	1979
OPERATING REVENUES (Notes 1, 2 and 5)	$78,661,739	$76,286,222
OPERATING EXPENSES:		
Purchased power (Notes 2 and 5)	77,083,262	74,439,930
Administrative and general	965,545	908,666
Depreciation (Note 2)	15,139	8,234
Total operating expenses	78,063,946	75,356,830
ELECTRIC OPERATING MARGIN	597,763	929,392
INTEREST EXPENSE:		
Interest on long-term debt	12,939,229	6,715,272
Interest charged to construction - credit	(12,939,229)	(6,715,272)
Total interest expense	-	-
NET OPERATING MARGIN	597,763	929,392
NONOPERATING MARGIN - Interest income, net	85,729	104,526
PATRONAGE CAPITAL ALLOCATIONS	440	950
NET MARGIN	$ 683,932	$ 1,034,868

The accompanying notes are an integral part of these statements.

WABASH VALLEY POWER ASSOCIATION, INC.

STATEMENTS OF PATRONAGE CAPITAL

FOR THE YEARS ENDED DECEMBER 31, 1980 AND 1979

	1980	1979
BALANCE, beginning of year	$1,274,477	$ 239,609
Net margin	683,932	1,034,868
BALANCE, end of year (Note 4)	$1,958,409	$1,274,477

The accompanying notes are an integral part of these statements.

WABASH VALLEY POWER ASSOCIATION, INC.

STATEMENTS OF SOURCES OF FUNDS USED FOR UTILITY PLANT ADDITIONS

FOR THE YEARS ENDED DECEMBER 31, 1980 AND 1979

	1980	1979
FUNDS GENERATED INTERNALLY:		
Net margin	$ 683,932	$ 1,034,868
Depreciation	15,139	8,234
Amortization	204,734	25,868
	903,805	1,068,970
FUNDS FROM DEBT FINANCING AND OTHER SOURCES:		
Long-term debt	69,694,000	42,167,000
Net change in working capital and other items-		
Deferred charges and other investments	(732,327)	(598,058)
Cash	(1,224)	29,551
Temporary cash investments	522,000	(398,000)
Headquarters building bond construction fund	(1,284,503)	-
Accounts receivable	(76,707)	(1,368,162)
Unbilled fuel cost	11,139	(33,538)
Prepayments	(1,508)	(1,386)
Notes payable	100,000	-
Accounts payable	(318,723)	1,425,976
Unbilled construction costs payable	(3,153,570)	6,994,348
Headquarters building construction retainages payable	176,447	-
Accrued liabilities	81,435	201,940
	$65,920,264	$49,494,641
ADDITIONS TO UTILITY PLANT AND CONSTRUCTION WORK IN PROGRESS	$65,920,264	$49,494,641

The accompanying notes are an integral part of these statements.

WABASH VALLEY POWER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1980 AND 1979

1. NATURE OF OPERATIONS

Wabash Valley Power Association, Inc. is an association of 24 member Rural Electric Membership Cooperatives. In January 1978, the Association received a certificate of convenience and necessity from the Public Service Commission of Indiana authorizing it, among other things, to be the power supplier and to conduct related activities for its members. All of the Association's operating revenues are derived from sales to members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The Association maintains its accounting records substantially in accordance with the Uniform System of Accounts of the Rural Electrification Administration.

b. Utility Plant

Construction costs include allocations for payroll related costs and administrative and general expenses as well as interest on borrowed funds used during construction (based on actual construction interest incurred).

c. Depreciation

The Association provides depreciation on utility property on a straight-line basis over the estimated service lives of the depreciable property. Depreciation rates are 10% for office furniture and equipment and 20% for automobiles.

d. Federal Income Taxes

The Association is exempt from Federal and state income taxes pursuant to the provisions of Section 501(c)(12) of the Internal Revenue Code.

e. Pension Plan

Certain employees of the Association are members of and contribute to a pension plan administered by Indiana Statewide Rural Electric Cooperative, Inc. The Association's pension expense was $10,223 for the year ended December 31, 1980 and $6,293 for the year ended December 31, 1979.

f. Operating Revenue and Purchased Power

The Association records sales and purchases of power from suppliers based on billing dates prior to the end of each month. Revenue and purchased power expense are not recorded for energy unbilled at the end of each month.

3. CONSTRUCTION COMMITMENT

The Association has a 17% ownership interest in the Marble Hill Nuclear Station, which is being constructed by Public Service Company of Indiana, Inc. (PSI). The ownership agreement between the Association and PSI provides that each party shall be responsible for the financing of its ownership share of project costs.

A July 1980 study by a nuclear consulting firm, revised the in-service dates for Units 1 and 2 of the Marble Hill Project from 1982 and 1984 to late 1986 and 1987, respectively. The Association estimates its total costs of the Marble Hill Project to be approximately $801 million. The amount of the original Marble Hill loan request and the previous estimate of Marble Hill costs was approximately $361 million.

Substantial progress has been made during 1980 toward the resumption of safety-related construction work. Most phases of the Nuclear Regulatory Commission's five-stage restart program issued on May 15, 1980 have been implemented. Authority to proceed with electrical and piping work has been received by PSI, and final aprovals for the resumption of other safety-related construction is expected early in 1981.

4. LONG-TERM DEBT

Mortgage notes are payable to the Federal Financing Bank with interest rates ranging from 8.418% to 15.09%. The notes have maturities through December 2014, interest payable quarterly, with quarterly principal payments commencing in 1985. Under the terms of the loan agreement, unadvanced loan funds of $193,6[illegible]7,000 are currently available to the Association to cover future expenditures on the Marble Hill Nuclear Station Project. The Rural Electrification Administration (REA) of the U.S. Department of Agriculture has guaranteed payment of this loan. The Association has applied for, and is currently awaiting approval from the REA for the additional loan funds needed to finance the estimated increased cost of this project as discused in Note 3.

Under terms of the mortgage agreement, the Association is restricted from making distributions of patronage capital so long as the Association's equity is less than 40% of total assets. As of December 31, 1980, equity was approximately 1% of total assets.

Financing for construction of a headquarters building was obtained through the issuance of City of Indianapolis Economic Development Revenue Bonds at a rate of 8.875%, interest payable semi-annually, with semi-annual principal payments from November, 1981 through May, 2010. Payment is guaranteed by the National Rural Utilities Cooperative Finance Corporation.

The notes and the bonds are secured by all property of the Association including its 17% interest in the Marble Hill Nuclear Station.

5. RATES

The Association is presently being charged rates by one of its power suppliers which are subject to retroactive decrease based on final disposition of a pending rate increase request by the Federal Energy Regulatory Commission (FERC). Refunds, if any, will be passed on to the member REMC's and will be reflected in the financial statements as reductions in revenues and purchased power. These refunds will not impact the Association's operating margin.

6. LINE OF CREDIT

The Association has a short-term line of credit available in the amount of $12,000,000, which may be used for general corporate purposes as determined by the Board of Directors. Borrowings bear interest at the prevailing bank prime commercial rate. Borrowings of $100,000 were outstanding at December 31, 1980 under this line.

7. LEASE COMMITMENTS

Future rental commitments under existing leases are not significant. Total rental expense was $35,798 and $21,372 for the years 1980 and 1979, respectively.