American Electric Power
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Mr. Robert W. Kehres
Director, Regulatory Affairs Division and
Acting Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way, Suite 7
Lansing, Michigan 48911

July 31, 2003

Dear Mr. Kehres:

Re: MPSC Case No. U-12133

Enclosed for filing in the above-referenced matter are the original and four copies of Indiana Michigan Power Company's (I&M), d/b/a American Electric Power, application for ex parte approval of its plan for disposition of funds collected pursuant to the Customers Have Options in Choosing Electricity Advisory Council program and new Rider GPS (Green Power Service). I&M's application was also submitted to the Commission through the MPSC's electronic filing system.

In addition, enclosed are two extra copies of the application that I would appreciate being file-stamped and returned to me in the enclosed self-addressed, stamped envelope.

Please contact me at (260) 425-2119 with any questions regarding I&M's filing.

Sincerely,

Kent D. Curry
Director of Regulatory Services

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Enclosures

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the proposal of the CHOICE ADVISORY COUNCIL for a statewide customer education program and other related matters.	)))))	Case No. U-12133

APPLICATION OF INDIANA MICHIGAN POWER COMPANY

Indiana Michigan Power Company (I&M or Company), authorized to do business in Michigan as American Electric Power, applies to the Michigan Public Service Commission (MPSC or Commission) for ex parte approval of its plan for disposition of funds collected pursuant to the Customers Have Options in Choosing Electricity (CHOICE) Advisory Council program and new Rider GPS (Green Power Service). In support of this application, I&M represents the following:

1. I&M is a wholly-owned subsidiary of American Electric Power Company, Inc. I&M is a corporation organized and existing under the laws of the State of Indiana with its principal offices located at One Summit Square in the City of Fort Wayne, Indiana. I&M has the corporate power and authority to engage in, among other things, generating, transmitting, distributing, and selling electric energy within the State of Michigan and within the State of Indiana.

2. I&M's electric system is a completely integrated and interconnected entity and is operated as a single utility. I&M's service area is located in southwestern Michigan and northern and eastern Indiana. I&M provides electric service to approximately 123,250 retail electric customers in the State of Michigan.

3. I&M's electric business in the State of Michigan is subject to the jurisdiction of the Commission pursuant to 1909 PA 106, as amended, MCL 460.551 et seq.; 1909 PA 300, as amended, MCL 462.2 et seq.; 1919 PA 419, as amended, MCL 460.51 et seq.; and 1939 PA 3, as amended, MCL 460.1 et seq.

4. Pursuant to its statutory authority, the Commission is authorized to grant ex parte approval of matters applied for by a public utility that will result in no increase in the cost of service to its customers.

Case History

5. On June 5, 1997, the MPSC issued an Order in Case No. U-11290 initiating a restructuring of Michigan’s electric industry to permit customers to choose their electric supplier. The Order also directed the Commission Staff to consult with interested parties and report to the Commission regarding new customer information programs to inform customers of choice. The Staff issued a report entitled "Customer Focus Issues and Recommendations" and initiated the voluntary working group "CHOICE." The CHOICE Advisory Council was established so interested parties could develop an education program to assist customers in making informed decisions regarding their electric supplier of choice.

6. The MPSC issued an additional Order in Case No. U-11290, dated March 8, 1999, that directed the CHOICE Advisory Council to submit a proposal for a statewide customer education program to inform and educate consumers on electric industry restructuring. The CHOICE Advisory Council filed its proposal for a statewide education program on June 3, 1999.

7. On September 14, 1999, the MPSC initiated a separate proceeding in Case No. U-12133 to consider the proposal of the CHOICE Advisory Council for a

statewide customer education program. During the next several months, numerous documents and a contested settlement agreement were filed and hearings were held.

8. On June 3, 2000, the Governor signed into law 2000 Public Act 141, which became effective June 5, 2000. Subsection 10r(2) of the Act provided that before January 1, 2002, the Commission would establish a funding mechanism for electric utilities and alternative electric suppliers to carry out an educational program for customers regarding customer choice.

9. On June 19, 2000, the MPSC reopened Case No. U-12133 to address the effects of 2000 PA 141 on the CHOICE Advisory Council's statewide customer education program proposal.

10. On December 27, 2000, a Proposal for Decision (PFD) was issued recommending the Commission approve the provisions of the proposed settlement agreement, except for the proposed per meter surcharge methodology. On March 7, 2001, the Commission determined that it was appropriate to reopen the settlement to allow the parties to reach agreement on some limited revisions in response to changes in circumstances.

11. A new settlement agreement was submitted on April 27, 2001, that superseded the earlier settlement. The new settlement provided two alternatives, a combined electric and gas program or an electric-only program. On July 25, 2001, the Commission ordered each gas utility to file a statement within 30 days that confirmed or declined to confirm its participation in the combined electric and gas CHOICE program outlined in the proposal attached to the April 27, 2001, settlement. The Order also acknowledged that the time was not ripe to undertake a mass media campaign and other closely coordinated activities. In addition, the Commission requested that it be

consulted periodically regarding the campaign timetable and apprised when an appropriate launch date was determined.

12. On October 11, 2001, the Commission approved the settlement agreement for the electric-only statewide customer choice education program. The electric-only program resulted in a surcharge of 18 cents per meter/per month that I&M implemented beginning with the January 2002 billing month.

13. On August 20, 2002, the Commission further ordered that the customer education program should commence for commercial electric customers and that utilities and contractors, within two months, would enter into a contract that would permit implementation of customer education programs to accomplish specific purposes identified in the Order.

14. On April 17, 2003, the Commission ordered the Michigan Electric & Gas Association (MEGA) companies, which include I&M, to prospectively suspend as soon as practicable the cost recovery mechanism previously reviewed and approved by the July 25 and October 11, 2001, orders in Case No. U-12133. The April 17 order also required the MEGA companies to file a report by August 1, 2003, reconciling the amounts collected and expensed in 2003 and identifying the total amount collected since January 2002. The MEGA companies were also directed to file an application, simultaneously with the report, to propose how the collections could be used to promote green power or how to refund any unexpended funds to their customers.

<u>Summary of Collections and Disbursements</u>

15. I&M commenced collecting from its customers the 18 cents per meter per month CHOICE education surcharge effective with the beginning of the January 2002 billing month and suspended the surcharge at the end of the May 2003 billing month.

For customers who were customers for the entire collection period, the 17-month surcharge amounted to $3.06. In total, I&M collected $374,220.30 during the surcharge period and no CHOICE program disbursements were made. I&M filed its 2002 reconciliation report on March 28, 2003, and is filing its 2003 reconciliation report on August 1, 2003.

I&M's Proposal

16. Proposed Rider GPS. I&M's generation portfolio includes green power resources in the form of six hydroelectric plants, with a collective capability of 16 MW, on the St. Joseph River. Four of the plants are located in Michigan at Berrien Springs, Buchanan, Constantine, and Mottville, and two are located in Indiana at Elkhart and Twin Branch (Mishawaka). Constantine, the first of the present fleet, began operation in 1903, although the history of hydroelectric generation on the St. Joseph River by I&M and its predecessor and affiliated companies can be traced back to 1882 in South Bend, Indiana. All of I&M's customers benefit each and every month from the green power produced by the six hydroelectric plants and I&M's base rates and power supply cost recovery (PSCR) factors that reflect this existing low-cost renewable resource.

17. Nonetheless, I&M recognizes that some customers may be interested in supporting the purchase of additional quantities of green power and in the development of additional green power resources. With this Application, I&M proposes for Commission approval Rider GPS (Attachment 1). The proposed rider is a premium service offering whereby customers who voluntarily participate can choose a desired level of participation in acquiring and supporting renewable solar, wind, geothermal, biomass, including waste-to-energy and landfill gas, or hydropower (exclusive of existing hydropower generation owned by the Company) resources. Under the

proposed rider, customers may purchase green power blocks for a specific price per block. I&M anticipates that the green power blocks will be available in increments of 50 or 100 kilowatt-hours (kWh). The monthly rate per block will be a fixed addition to a participating customer's monthly standard rate schedule bill for an initial period of one year, terminable upon 30 days' notice.

18. Through a Request for Proposals (RFP), issued following approval of Rider GPS by the Commission, I&M will seek to procure the most cost efficient green power or green tags. Based upon participation rates of other utility green power offerings, and with a Michigan retail peak demand of approximately 600 MW, the Company would expect to issue its request for 3 to 12 MW of green resources. To acquire the most cost efficient renewable resources, I&M plans to review all bids, including any received from qualified facilities (QF) or Company affiliates, regardless of geographic location. Ultimately, the Company's ability to serve customers under Rider GPS is dependent upon the procurement of reliable renewable resources at costs that are reasonable relative to I&M's incremental fuel cost and recoverable by the Company.

19. The size of the Rider GPS blocks will be determined from the results of the RFP. The GP block monthly rate, which will also not be known until the results of the RFP are known, will reflect the Company's "as delivered" cost of the green power purchase, less I&M's incremental fuel cost, plus educational and enrollment expenses. This monthly rate will be charged for each block of green power purchased regardless of the customer's actual consumption and in addition to all monthly charges billed under the customer's standard rate schedule. The Rider GPS rate may be subject to change from time to time to adjust for increases or decreases in costs, including changes in the cost to purchase renewable resources. The cost of green power purchased but not

recovered through the Rider GPS rate from participating customers will be recovered through the Company's PSCR clause. If the total of all kWh under Rider GPS contracts equals or exceeds the renewable resources purchased by the Company, the Company is not obligated to acquire additional renewable resources, which will limit customer cost exposure through the PSCR clause.

20. Contracts, for an initial period of not less than one year, will remain in effect thereafter until either the customer or Company gives at least 30 days' notice to the other that it intends to discontinue service under the terms of the rider. If the monthly rate under the rider is increased during the initial one-year term, a customer may discontinue service under the rider with 30 days' notice to the Company.

21. <u>Proposed Green Power Education/Promotion</u>. The Company will provide educational materials to its customers and enroll and process applicants for Rider GPS. Based upon the expected "start-up" costs to issue two educational bill inserts to its customers and to modify its website to educate customers about green power and enroll Rider GPS applicants, I&M proposes to retain $40,000 of CHOICE funds to cover these costs of promoting its new green power offering. "Continuing" promotional costs, expected to be modest in amount, will be included in the determination of the GP block monthly rate. A schedule of Rider GPS start-up educational/promotional costs is provided as Attachment 2 to this Application.

22. <u>Proposed Refund of CHOICE Education Funds</u>. I&M proposes to prospectively refund, with interest, the remaining amount collected under the customer education surcharge through a one-time bill credit in the first full billing month practicable following Commission authorization. The derivation of the total amount to be refunded with interest on a per customer basis is shown on Attachment 3. The per

customer credit of $2.78 will be applied to the bills of all refund month customers served on a metered consumption tariff. Refunding to metered-service customers is consistent with the methodology previously approved for the collection of the customer education funds and a prospective refund avoids the significant costs involved in administering a historical refund. Further, the modest refund amount does not warrant the cost of a historical refund. By refunding a fixed amount to metered-service customers, the number of which does not vary significantly from month to month, any over or under refund of the CHOICE education funds would be expected to be de minimus and therefore not subject to further collection or refund.

Request for Relief

Because this Application does not request an increase in any existing rate, will not result in an increase in the cost of service to I&M's existing customers, and proposes a new optional premium service that is not expected to otherwise adversely affect any of I&M's customers in a material way, I&M requests the Commission accept for filing and approve by ex parte order the Company's proposal for disposition of CHOICE Advisory Council program funds and new Rider GPS. The size of the Rider GPS blocks will be determined from the results of the RFP. The GP block monthly rate, also determined from the results of the RFP, will reflect the Company's "as delivered" cost of the green power purchase, less I&M's incremental fuel cost, plus a modest amount for educational and enrollment expenses. To any extent that the cost of green power purchased but not recovered through the Rider GPS rate from participating customers would be proposed for recovery through the Company's PSCR clause, the Commission would have the opportunity to review such costs in the context of future PSCR proceedings. The timely approval of I&M's request will allow I&M to promptly and efficiently refund the CHOICE education funds to customers and provide start-up funding for the promotion of Rider GPS, I&M's new green power offering.

WHEREFORE, I&M respectfully requests that the Commission:

1. Accept this Application for filing.
2. Promptly make such investigation and give such notice as it may deem necessary or advisable in the circumstances.
3. Promptly issue an order giving ex parte approval of the Company's proposal for disposition of CHOICE Advisory Council program funds and new optional premium service Rider GPS and requiring the filing of conforming Rider GPS tariff sheets within 30 days following the completion of a green power RFP.
4. Consider this request on an expedited basis.
5. Grant such other and further relief as may be lawful, necessary, and proper.

Respectfully submitted,

INDIANA MICHIGAN POWER COMPANY

By Kent D. Curry

Kent D. Curry
Director of Regulatory Services

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VERIFICATION

STATE OF INDIANA)
) SS
COUNTY OF ALLEN)

Kent D. Curry being first duly sworn, deposes and says that he is Director of Regulatory Services of Indiana Michigan Power Company, an Indiana corporation, authorized to do business in Michigan as American Electric Power; that he is duly authorized to and has executed the foregoing application for and on behalf of Indiana Michigan Power Company; that he has read the same and knows the contents thereof, and that the same is true to the best of his knowledge and belief.

Kent D. Curry
Kent D. Curry

Subscribed and sworn to before me
this 31st day of July, 2003.

Sharon A. Briggs

SHARON A. [illegible] Notary Public
R[illegible] Indiana
My Commission [illegible] 2007

Attachment 1

RIDER GPS
(Green Power Service)

Availability of Service

Available to customers taking service under the Company's standard rate schedules who prefer to support the purchase and development of electricity generated by renewable resources. For the purposes of this Rider, renewable resources means energy generated using solar, wind, geothermal, biomass, including waste-to-energy and landfill gas, or hydropower (exclusive of existing hydropower generation owned by the Company) resources.

Participation in this program is subject to the Company's ability to procure renewable resources, which, in the Company's opinion, are reliable and reasonably priced. The Company reserves the right to limit the total amount of power provided to customers under this Rider to X,XXX,XXX kWh. If the total of all kWh under contract under this Rider equals or exceeds the renewable resources purchased by the Company, the Company is not obligated to acquire additional renewable resources.

Conditions of Service

Customers shall contract to purchase a specific number of fixed kWh blocks (GP blocks) each month, where each GP block equals XXX kWh. Customers may contract for a minimum of one (1) and a maximum of 400 GP blocks per month. The Company may, at its option, require a written agreement for service under this Rider.

Monthly Rate (Tariff Code ___)

Monthly charges for energy, and demand where applicable, to serve the customer's total load shall be determined according to the Company's standard rate schedule under which the customer takes service. The customer shall also pay the following rate for each GP block under contract regardless of the customer's actual energy consumption. The rate is subject to change from time to time to adjust for increases or decreases in costs, including changes in the cost to purchase renewable resources.

Charge ($ per GP block): $ X.XX

Term of Contract

Contracts will be required for an initial period of not less than one (1) year and shall remain in effect thereafter until either party shall give at least 30 days' notice to the other to discontinue service under the terms of this Rider. In the event that the monthly rate under this Rider is increased during the initial one-year term, a customer may discontinue service under this Rider upon giving the Company at least 30 days' notice.

Special Terms and Conditions

This Rider is subject to the Company's Standard Terms and Conditions of Service and all provisions of the standard rate schedule under which the customer takes service, including all payment provisions. The Company may deny or terminate service under this rider to customers delinquent in payment to the Company.

Service under this Rider provides for the generation or purchase of renewable energy by the Company.

Attachment 2

Indiana Michigan Power Company

Start-Up Educational/Promotional Costs for Green Power and New Rider GPS

Description	Amount
Design, duplicate, and distribute to all 123,250 retail customers two educational/promotional bill inserts regarding green power and new Rider GPS at $5,000 each	$10,000
Modify the Company’s website to provide educational/ promotional information regarding green power and new Rider GPS and to efficiently enroll and process applications for the rider	30,000
Total start-up educational/promotional costs for green power and new Rider GPS	$40,000

Attachment 3

Indiana Michigan Power Company - d/b/a American Electric Power
Customer Choice Education Surcharge Rider
Reconciliation of Revenues and Expenses
January 2002 - June 2003

(1) Month	(2) Beginning Balance $	(3) Interest Rate %	(4) Interest $	(5) Customer Education Surcharge Rider Revenue $	(6) Ending Balance $	(7) Customer Education Expenses Allocated to AEP $	(8) Total Revenue/Interest less Expenses $
January 2002				21,363.16	21,363.16	0.00	
February	21,363.16	2.99%	53.23	21,962.67	43,379.06	0.00	
March	43,379.06	2.51%	90.73	21,954.52	65,424.31	0.00	
April	65,424.31	2.47%	134.67	21,555.97	87,114.95	0.00	
May	87,114.95	2.43%	176.41	22,099.87	109,391.23	0.00	
June	109,391.23	2.33%	212.40	22,002.59	131,606.22	0.00	
July	131,606.22	2.25%	246.76	21,997.19	153,850.17	0.00	
August	153,850.17	2.23%	285.90	22,044.04	176,180.11	0.00	
September	176,180.11	2.22%	325.93	22,093.45	198,599.49	0.00	
October	198,599.49	2.23%	369.06	22,081.21	221,049.76	0.00	
November	221,049.76	2.07%	381.31	22,048.74	243,479.81	0.00	
December 2002	243,479.81	2.07%	420.00	22,125.28	266,025.09	0.00	
Total 2002			2,696.40	263,328.69		0.00	
January 2002	266,025.09	2.09%	463.33	22,175.23	288,663.65	0.00	
February	288,663.65	2.74%	659.12	22,175.23	311,498.00	0.00	
March	311,498.00	2.74%	711.25	22,163.84	334,373.09	0.00	
April	334,373.09	2.40%	668.75	22,182.77	357,224.61	0.00	
May	357,224.61	1.30%	386.99	22,185.92	379,797.52	0.00	
June	379,797.52	1.99%	629.83	8.62	380,435.97	0.00	
July	380,435.97	1.99%	630.89	0.00	381,066.86	0.00	
August	381,066.86	1.99%	631.94	0.00	381,698.80	0.00	
September	381,698.80	1.99%	632.98	0.00	382,331.78	0.00	
						0.00	
Total 2003			5,415.08	110,891.61		0.00	
Total			8,111.48	374,220.30	382,331.78	0.00	382,331.78
Rider GPS (Green Power Service) Education Expense							40,000.00
Total to be Refunded							342,331.78
Number of Meters subject to Customer Education Rider							123,250
Refund Per Customer							$2.78

Notes:
The Customer Education Surcharge Rider was prospectively suspended effective
with the June 2003 billing month in accordance with the April 17, 2003 Order in Case No. U-12133.

Assumes refund will be made during the October 2003 billing month.

Interest rate for July - September 2003 estimated based on June 2003 rate.