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July 13, 2001

Dorothy Wideman
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
Lansing, Michigan 48911

HAND DELIVERY
(e-file)

Re: Indiana Michigan Power Company for Approvals in Connection with 2000 PA 142, Section 10v, MPSC Case No. U-12780
International Transmission Company, Consumers Energy Company, and Great Lakes Energy Cooperative, MPSC Case No. U-12781

Dear Ms. Wideman:

Enclosed for filing is an original and four (4) copies of the Reply Brief of Indiana Michigan Power Company. Also enclosed is an original Proof of Service. An electronic version of this is also being filed.

Very truly yours,

LOOMIS, EWERT, PARSLEY,
DAVIS & GOTTING, P.C.

Ronald W. Bloomberg

Ronald W. Bloomberg

RWB/blp
enclosure

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S T A T E   O F   M I C H I G A N

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of **INDIANA MICHIGAN POWER COMPANY**, **d/b/a AMERICAN ELECTRIC POWER,** for certain approvals in connection with 2000 PA 141 Section 10v.	Case No. U-12780
In the matter of the application of **INTERNATIONAL TRANSMISSION COMPANY,** **CONSUMERS ENERGY COMPANY,** and **GREAT LAKES ENERGY COOPERATIVE** for approvals in connection with 2000 PA 141 Section 10v. /	Case No. U-12781

REPLY BRIEF OF INDIANA MICHIGAN POWER COMPANY

On June 29, 2001, initial briefs were filed by the Michigan Public Service Commission Staff ("Staff"), Consumers Energy Company ("Consumers"), The Detroit Edison Company ("Detroit Edison"), Indiana Michigan Power Company d/b/a American Electric Power ("AEP"), International Transmission Company ("ITC"), The Association of Businesses Advocating Tariff Equity ("ABATE"), Energy Michigan, Inc. ("Energy Michigan") and PG&E National Energy Group ("PG&E"). This Reply Brief of AEP is filed in response to the positions asserted by others in their initial briefs.

I. Reply to Staff - The Public Interest Would Be Better Served By Issuing An Order Providing Guidance for Future §10v Retail Rate Recovery Proceedings.

Staff's initial brief, page 4, recommends that the Commission issue an order simply noting that the utilities had all stipulated to the Joint Report (Exhibits A-3 and A-5) and closing these proceedings. However, as evidenced by the initial briefs filed by the parties, there are several issues outstanding among the parties and various procedural and scheduling matters related to rate recovery to be addressed. The orderly progression of the implementation of §10v, including the recovery of costs from benefitting customers, and the public interest would be better served by taking this opportunity to address these matters in its order in these cases, rather than simply closing the dockets. Accordingly, AEP requests that the Commission not simply order these matters closed, but take appropriate action to provide for the orderly implementation of §10(v). See Section III, below.

II. The Joint Plan Satisfies the Requirements of Section 10(v).

Consumers Energy, Detroit Edison, IT, AEP, PG&E, ABATE and Staff all stated and/or requested that the Commission find that the Joint Plan satisfies the requirements of §10v. No party presented any evidence or argument that the actions proposed to be taken and facilities proposed to be constructed by AEP in the Joint Plan did not meet the requirements of §10v.[1] Therefore, the Commission should find that the Joint Plan satisfies the requirements of §10v.

III. The Commission Should Order that the Costs of the Projects Be Accounted for as a Regulatory Asset until the Ratemaking Treatment of Them Is Resolved, Set a Schedule for the Filing of Applications to Recover Unrecovered Costs Through Retail Rates, and Establish the Basic Framework for Such Proceedings.

ABATE, Consumers and PG&E all urge the Commission to order that the costs of the projects set forth in the Joint Plan be accounted for as a regulatory asset pending a determination as to their recovery through rates. AEP concurs in this request. No party opposed this position in their initial brief. Unless the Commission provides for recovery through retail rates of these costs contemporaneously with their incurrence, the Commission should authorize each utility to account

[1] Energy Michigan's brief, page 4, argues that the improvements on the MECS/OH interface not count towards the 2000 MW requirement unless there is a 1-for-1 reduction in firm reservations on the MECS southern interface. As noted in Detroit Edison's brief, page 6, Energy Michigan's concern is not with the adequacy of the facilities constructed but with the actions of out-of-state utilities. See 3 Tr 127-128. Transmission providers can not cancel or release firm transmission reservations on the southern interface. (3 Tr 149) Energy Michigan's concern does not provide any basis for finding that the Joint Plan does not meet the requirements of §10v.

for them as a regulatory asset.

The parties put forth a variety of positions and arguments regarding the scheduling of proceedings to address the recovery through rates of the costs of the Joint Plan. Consumers Energy argues that the Commission should in its order in this case establish the timing and mechanism for rate recovery.

Various parties oppose that position on the basis that: (i) the costs in the Joint Plan are only estimates; (ii) issues regarding the recovery of costs though FERC transmission rates are outstanding; and (iii) one should assure that Michigan customers benefit from these projects before any recovery is allowed. AEP proposed that in its Initial Brief an application for recovery of the costs through retail rates be filed within 90 days after FERC had taken final action on AEP's request for transmission rates to recover the cost of the second Dumont transformer. ABATE suggests a filing date of June 1, 2003. Detroit Energy recommends a December 31, 2003 filing date. ITC argues for a December 31, 2004 filing date. The selection of these filing dates may be influenced by the retail rate freeze imposed by §10d of 1999 PA 141. However, AEP is not subject to such rate freeze.

AEP requests that the application(s) for retail rate recovery be filed shortly after FERC has finally resolved the extent to which the recovery of the costs of the second Dumont transformer is to be provided in FERC transmission rates. Intergenerational rate equity supports a filing date which facilitates recovery of costs from benefitting customers no later than when commercial operation commences. June 5, 2002 is a suitable proxy for such date. Thus, the proceedings should be scheduled with the objective of an initial final order[2] by, or as soon after, June 5, 2002 as is

[2]No matter when the proceedings are scheduled to start, AEP anticipates that any rate adjustment will be subject to further adjustments and reconciliations.

reasonably possible. If implementation of rate adjustments for Consumers and Detroit Edison must be deferred thereafter due to §10d, the impact of such delay can reasonably be accounted for.

In its Initial Brief, AEP requested that the Commission order in this case set forth procedures which would preserve the opportunity to recover the costs of the §10v improvements from all benefitting customers, even those that may happen to be located in the service territory of a utility other than the utility which made the specific improvement. For example, it is clear from the record that the second Dumont transformer was included in the Joint Plan to support the infrastructure needed to foster competition throughout the lower peninsula. As such, the customers of Consumers and Detroit Edison will benefit from the improvement and should contribute to its costs. In this regard, the Commission should order either that the initial cost recovery proceedings for all utilities be consolidated for hearing or that AEP provide appropriate notice of the hearing to allow recovery from all benefitting customers.

If the Commission determines in its order issues of rate design, AEP concurs with the position of Consumers and Detroit Edison that the costs be recovered by uniform ¢/kWh surcharges. See the testimony of Mr. Ruhl (3 Tr 155, 162-163).

Energy Michigan's Brief, pp 4-7, argues that the Commission should not authorize any recovery from Michigan retail customers unless and until the improvements actually increase the amount of transmission sinking into Michigan. This position is contrary to the provisions of §10v requiring, without any such condition, that the Commission provide for the recovery of the approved costs. Section 10v expressly states those limitations on cost recovery that the Legislature intended (e.g., not recovered through FERC transmission rates, must be reasonably and prudently incurred). Section 10v does not contain any provision stating the condition precedent Energy Michigan recommends. The absence of such a condition implies its exclusion. See Johnson v Marks, 224

Mich App 356; 568 NW2d 689 (1997). The Commission should reject Energy Michigan's proposal.

IV. The Various Proposals of Intervenors Designed to Increase the Likelihood that the Increased Available Transmission Capacity Will Actually Result in an Increase in Transmission Sinking in Michigan Are Unnecessary and Contrary to FERC Regulations.

ABATE's Brief, pp 7-8, and Energy Michigan's Brief, p 8, suggest that the Commission require the simultaneous posting by the applicants on OASIS (or their respective web sites) at a specific time of day of the increases, by year, in the transmission capacity available on each transmission path into the lower peninsula. As noted in Mr. Sparks' rebuttal testimony, each transmission provider already posts on a monthly basis pertinent information on its OASIS node. (3 Tr 143) AEP's position on ABATE's suggestion is that any requirement for simultaneous posting raises more issues (e.g., delays posting for interim improvements and changes) than it resolves and should not be ordered.

ABATE's Brief, p 8, and Energy Michigan's Brief, page 8, also request that the Commission require applicants to create an "open season," possibly in the form of an auction for the receipt of transmission service requests. Mr. Dauphinais acknowledged that such action would require an amendment to each utility's OATT. Furthermore, such an approach is contrary to FERC's policy of allocating transmission capacity on a "first-come/first-served" basis. (3 Tr 144) ABATE's request in this regard should be denied.

Energy Michigan's Brief, p 8, suggests that the Commission require, as a condition precedent for the improvements to qualify for rate recovery, that offers of transmission capacity be amended in the future in various respects (e.g., remove restrictions as to rollover rights, offer onset, and delivery areas). As stated above, imposition of such a condition precedent to cost recovery is contrary to the provisions of §10v. Furthermore, the request is beyond the Commission's jurisdiction as the Commission has no jurisdiction over interstate transmission. More importantly, placing such restrictions on the transmission provider's flexibility to structure various aspects of transmission transactions will likely have the effect of limiting the providers ability to maximize full utilization of the increase in available transmission capacity as contemplated by §10v. For all these reasons, Energy Michigan's suggestion should not be adopted.

Some witnesses took various positions on other matters in their pre-filed testimony, which positions the parties have not pursued in their initial briefs. Since the parties did not pursue such request in their initial briefs, AEP has not replied to them in this Reply Brief.

RELIEF REQUESTED

Wherefore, Indiana Michigan Power Company d/b/a/ American Electric Power respectfully requests that the Michigan Public Service Commission:

(1) Approve the Joint Plan as meeting the requirement of § 10v;

(2) Authorize the costs of the second Dumont transformer, to the extent not recovered through FERC transmission rates, to be accounted for as a regulatory asset, and recovered from all retail customers throughout the lower peninsula of Michigan benefitting from the installation thereof;

(3) Order that Indiana Michigan Power Company file, no later than ninety (90) days after the final action by the Federal Energy Regulatory Commission on Indiana Michigan Power Company's request for transmission rates to recover the cost of the second Dumont transformer, an application with the Michigan Public Service Commission to recover from benefitting customers all reasonable and prudent costs of the second Dumont transformer not recovered through FERC transmission rates;

(4) Order that the rate recovery proceedings for Consumers and Detroit Edison be

conducted on a consolidated basis with AEP's recovery proceeding; and

(5) Order such other relief as is just and reasonable.

Respectfully submitted,

INDIANA MICHIGAN POWER COMPANY

Dated: July 13, 2001

Ronald W. Bloomberg

By: One of Its Attorneys
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BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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PROOF OF SERVICE

Ellie Soper employed at Loomis, Ewert, Parsley, Davis & Gotting, P.C. being duly sworn affirms that on this 13th day of July, 2001, she served a copy of the Initial Brief of Indiana Michigan Power Company upon the following persons on the attached service list via first-class mail and e-mail.

Ellie Soper

Ellie Soper

Subscribed and sworn to before me on this 13th day of July, 2001.

Edith Loomis

Edith Loomis, Notary Public
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