STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF)	
AEP INDIANA MICHIGAN)	
TRANSMISSION COMPANY, INC. FOR)	
EXPEDITED CONSIDERATION OF A)	
REQUEST FOR ALL NECESSARY)	CAUSE NO. 44980
AUTHORITY IN CONNECTION WITH AN)	
ADDITIONAL \$75,000,000 IN FINANCING)	
AUTHORITY FOR 2017 INVOLVING THE)	
ISSUANCE OF SECURED OR)	
UNSECURED PROMISSORY NOTES OF)	
ONE OR MORE NEW SERIES IN 2017)	

INDIANA MICHIGAN POWER COMPANY AND

AEP INDIANA MICHIGAN TRANSMISSION COMPANY, INC.

INVESTMENT, OPERATIONS AND BENEFITS REPORT

JULY 2, 2018

FILED July 5, 2018 INDIANA UTILITY REGULATORY COMMISSION

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INTRODUCTION

AEP Indiana Michigan Transmission Company, Inc. ("IM Transco") is a wholly-owned subsidiary of AEP Transmission Company, LLC, which is a wholly-owned subsidiary of AEP Transmission Holding Company, LLC ("AEPHoldco"), which is a wholly-owned subsidiary of American Electric Power Company, Inc. ("AEP"). IM Transco is a corporation organized and existing under the laws of the State of Indiana, with its principal office at 1 Riverside Plaza, Columbus, Ohio. IM Transco was created to be a transmission-only public utility in an effort to help alleviate Indiana Michigan Power Company's ("I&M") capital constraints. Unlike I&M, IM Transco does not provide retail services to customers within Indiana. Rather, IM Transco is focused only on providing wholesale transmission service. IM Transco's transmission service is subject to regulatory oversight by the Federal Energy Regulatory Commission ("FERC"). Specifically, PJM Interconnection, LLC ("PJM") bills Load Serving Entities ("LSEs") within PJM, including the AEP companies, municipalities, electric cooperatives and other LSEs, for IM Transco's transmission service based on FERC-approved tariffs.

IM Transco has the ability to pursue certain transmission-only projects in Indiana without being limited by the funding levels available within I&M. Furthermore, the operation of IM Transco relieves I&M of the burden of incurring debt and equity financing for those projects, and preserves debt issuance capacity for other needs. IM Transco also helps the reliability of the generation and distribution systems because the capital demands of mandated transmission projects may limit the amount of available capital for other needed investments by I&M, including generation and distribution projects.

Accordingly, I&M and IM Transco filed their Joint Petition with the Indiana Utility Regulatory Commission ("Commission") on March 1, 2011 initiating Cause No. 44000 to approve IM Transco's status as a transmission-only public utility in Indiana. On November 2,

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IM TRANSCO Investment, Operations and Benefits Report – Cause No. 44980 2011, the Commission issued an order in Cause No. 44000 approving a Settlement Agreement between the Joint Petitioners and the Indiana Office of Utility Consumer Counselor ("OUCC"). Pursuant to that Settlement Agreement and Order in Cause No. 44000, IM Transco was required to submit annual reports summarizing the investment, operations, and benefits of IM Transco's transmission projects, for five years. Subsequently, in this Cause 44980, the OUCC proposed, IM Transco did not oppose, and the Commission approved, a requirement that IM Transco continue to submit annual reports summarizing the investment, operations, and benefits of IM Transco's transmission projects for two additional years – one for 2016, by December 31, 2017; and one for 2017, by July 1, 2018. This report is the required report for 2017, submitted in accordance with the Commission's Order in Cause No. 44980.

REPORTING REQUIREMENTS

2(a) For IM Transco's transmission projects that began construction in the last calendar year:

- *i) project description and purpose;*
- *ii) type and scope of project;*
- *iii) projected capital cost and operation and maintenance ("O&M") expense;*
- *iv)* description of the amount and percentage of Smart Grid technologies, if any;
- *v) key project target dates;*
- vi) any other alternatives considered; and

vii) a description of the application of the Transco Project Selection Guidelines ("PSG") for the various project components of the transmission project. In other words, an explanation of why the project components that are to be funded and owned by IM Transco qualified under the PSG and why any other project components did not qualify under the PSG. For example, in the case of a hypothetical complete line rebuild, the new line component would qualify for the Transco under section 2.3.2 of the PSG (Facility Replacement). But, there may also be some limited work to existing substations required as part of the project which may not qualify under the PSG and would be funded by I&M. The final result is a clearly identifiable differentiation of assets: IM Transco would own the complete new line and I&M would continue to own all of the substation assets. IM TRANSCO Investment, Operations and Benefits Report – Cause No. 44980

See Exhibit 2(a) for details regarding IM Transco's transmission projects that began construction in 2017.

2(b) For IM Transco projects completed in the last calendar year, the total capital cost and O&M expense of the project.

The estimated total capital costs for the projects completed in 2017 are listed below. These values may increase due to trailing charges.

	Total Capital Cost	Total O&M
Indiana Projects	(millions)	(millions)
Various Area Improvements	\$233.9	\$ -
Station Additions and Improvements	\$147.3	\$ -
	Total Capital Cost	Total O&M
Michigan Projects	(millions)	(millions)
Various Area Improvements	\$ 74.2	\$ -
Station Additions and Improvements	\$ 2.5	\$ -

The estimated total capital costs for the projects completed as part of programs in 2017 are listed below. These values may increase due to trailing charges. The program costs included in section 2(b) are also included in section 2(c) below.

Indiana Projects	Total Capital Cost (millions)	Total O&M (millions)
Telecom Program	\$ 14.0	\$ -
Circuit Breaker Replacement Programs	\$ 9.6	\$ -
Transco Line Rebuild Programs	\$ 38.6	\$ -
Transco Spare and Replacement Equipment Programs	\$ 26.7	\$ -
	Total Capital Cost	Total O&M
Michigan Projects	(millions)	(millions)
Telecom Program	\$ 0.2	\$ -

2(c) For IM Transco projects that were ongoing as of December 31 of the last calendar year, the estimated completion percentage as of December 31 of the last calendar year as well as the total capital cost and O&M expense incurred to that date. This information for IM Transco will also be split to separately show projects in Indiana and Michigan.

IM Transco projects that were ongoing in Indiana as of December 31, 2017 are shown in the table below.

to (mi	Date	to Date	Percent
(mi	11'		
(llions)	(millions)	Complete
\$	5.7	-	55.2%
\$	81.0	-	84.5%
\$	46.3	-	77.9%
\$	0.5	-	64.7%
\$	33.6	-	56.8%
\$	84.0	-	62.0%
\$	251.2	-	
	(mi \$ \$ \$ \$ \$ \$ \$	(millions) \$ 5.7 \$ 81.0 \$ 46.3 \$ 0.5 \$ 33.6 \$ 84.0 \$ 251.2	(millions) (millions) \$ 5.7 - \$ 81.0 - \$ 46.3 - \$ 0.5 - \$ 33.6 - \$ 84.0 - \$ 251.2 -

IM Transco projects that were ongoing in Michigan as of December 31, 2017 are shown in the table below.

	Capital Life	e O&M Life	e Estimated
	to Date	to Date	Percent
Project Description	(millions)	(millions)	Complete
Various Area Improvements	\$ 52.9	\$ -	65.7%
Station Addition and Improvements	\$ 3.8	\$ -	96.1%
Transco Line Rebuild Programs	\$ 4.3	\$ -	65.7%
Total	\$ 61.0	\$ -	

2(d) Miles of transmission, by voltage level, owned by each of the subsidiary companies of AEP Transmission Company LLC ("AEP Transco"), including IM Transco, at the end of the last calendar year.

The miles of transmission owned by each of the AEP Transco subsidiary companies at the end of 2017 is shown, by voltage, in the table below. The data is derived from the information on page 422 of each AEP Transco's 2017 FERC Form 1.

Transco	<u>Under 138 kV</u>	<u>138 kV</u>	<u>345 kV</u>	<u>765k</u>	<u>Total</u>
AEP Ohio Transmission Company, Inc.	323	304	91	0	718
AEP Indiana Michigan Transmission Company, Inc.	164	120	32	15	332
AEP Oklahoma Transmission Company, Inc.	198	398	95	0	691
AEP Appalachian Transmission Company, Inc.	0	0	0	0	0
AEP West Virginia Transmission Company, Inc.	16	95	1	0	112
AEP Southwestern Transmission Company, Inc.	0	0	0	0	0
AEP Kentucky Transmission Company, Inc.	0	0	0	0	0
AEP West Virginia Transmission Company, Inc. AEP Southwestern Transmission Company, Inc. AEP Kentucky Transmission Company, Inc.	16 0 0	95 0 0	1 0 0	0 0 0	112 0 0

2(e) Actual annual investment by each AEP Transco subsidiary company at the end of the last calendar year.

The 2017 annual change in gross utility plant for each of the approved AEP Transco subsidiary companies is shown in the table below. The data is derived from the information on page 110 Line 4 of each AEP Transco's 2017 FERC Form 1. It is calculated as the difference between the current year end balance and the prior year end balance.

Transco	Inv (m	estment illions)	
AEP Ohio Transmission Company, Inc.	\$	651.7	
AEP Oklahoma Transmission Company, Inc.	\$	178.0	
AEP Indiana Michigan Transmission Company, Inc.	\$	541.3	
AEP Appalachian Transmission Company, Inc.	\$	18.4	
AEP West Virginia Transmission Company, Inc.	\$	333.4	
AEP Kentucky Transmission Company, Inc.	\$	17.8	
AEP Southwestern Transmission Company, Inc.	\$	0.0	

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2(f) IM Transco will provide analysis that compares the total AEP transmission system total capital cost and O&M expense per line mile of transmission to the peer group in the attached Exhibit 1. This analysis will include a specific description of the calculation methodologies and source of all data. IM Transco will notify the OUCC if the peer group changes over time due to acquisition, consolidation and data availability. IM Transco will comply with reasonable requests by the OUCC to include additional peer companies in the analysis for which data is publicly available.

See Exhibit 2(f) for a comparison of AEP transmission system capital and O&M per line mile to peer group.

2(g) Copy of the latest AEPTCo Project Selection Guidelines.

See Exhibit 2(g) for AEPTCo's latest Project Selection Guidelines.

2(*h*) Changes in IM Transco's corporate structure in the past calendar year.

During 2017, no changes were made to IM Transco's ownership.

The following individuals were elected to serve as officers and / or directors of IM Transco during calendar year 2017.

Name	Position	Effective
Thomas, Toby L.	Director	01/01/2017
Llende, James X.	Vice President - Tax	11/17/2017
Gregory, Diana L.	Assistant Controller	07/20/2017

2(i) Long term debt issuances by AEP Transco or any of the AEP Transco subsidiary companies, including IM Transco, made in the last calendar year including information comparing the cost of debt and underlying spread versus the comparable US Treasury bond to those of any issuance, within thirty (30) days before or after the date of Transco's issuance, by other vertically integrated utility companies within one credit rating level up or down of I&M, as defined by Moody's and S&P.

See Exhibit 2(i) for details regarding AEP Transmission Company, LLC's Long Term Debt Issuance in 2017.

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2(j)A listing of IM Transco's planned projects in Indiana for the current year. Each project will be designated as a Baseline Upgrade, Network Upgrade, Direct Connection Upgrade, Supplemental Upgrade, or Non-RTO Project, as defined in the 2010 PJM Regional Transmission Expansion Plan. This planned project listing represents AEP's best available information at that time, is subject to change, and does not represent a guarantee of the final project list.

Project Description	Designation
Dequine-Meadow Lake 345 kV	Baseline Upgrade
Dragoon-Kline Improvements	Baseline Upgrade
Eugene-Dequine-Meadow Lake Upgrade	Baseline Upgrade
Hartford City Area Improvement	Baseline Upgrade
Western FortWayne Improvements	Baseline Upgrade
Notre Dame Service Upgrade	Direct Connection Upgrade
Greentown 765 kV Station Purchase	Non-RTO
Van Buren Station Rebuild	Non-RTO
Colfax-Drewry's Line Project	Supplemental Upgrade
Community Energy Wind X1-020	Supplemental Upgrade
Elkhart Network Improvements	Supplemental Upgrade
Fogwell Station: GM Fort Wayne	Supplemental Upgrade
Limberlost 69 kV Station	Supplemental Upgrade
Madison Station Rehab	Supplemental Upgrade
North Portland - Rebuild Station	Supplemental Upgrade
Olive to Bosserman Improvement	Supplemental Upgrade
SDI Service Enhancements	Supplemental Upgrade
Southern Muncie Improvements	Supplemental Upgrade
Whitaker station rebuild	Supplemental Upgrade

2(k)A description of the practices taken to provide for the lowest reasonable cost consistent with industry practices and operational requirements, including any use of competitive bidding practices.

AEP uses numerous practices to ensure it receives the lowest reasonable cost for all projects, including those for IM Transco. AEP is one of the largest owners and builders of transmission facilities in the United States. AEP's size allows it to leverages its "economies of scale" resulting in low cost pricing of material and labor. AEP has a highly centralized transmission model that delivers standardization of equipment, materials, and processes. These highly standardized designs are not only more efficient to design and construct, but they also provide AEP with considerable negotiating leverage with our suppliers and service providers.

American Electric Power Service Corporation ("AEPSC") provides engineering and design services to IM Transco at cost. AEPSC incorporates industry standards that have proven to be effective and cost efficient into our designs. These standards IM TRANSCO Investment, Operations and Benefits Report – Cause No. 44980

ensure projects are designed and constructed consistently across the AEP system and within IM Transco. This consistency reduces the cost associated with the design process, the purchase of materials, and the subsequent construction of the projects. Facilities are also designed to minimize on-going operation and maintenance ("O&M") expenses. For example, constructing transmission poles out of steel instead of wood reduces future O&M expenditures.

The combination of large volume and standard material affords AEP, and thereby IM Transco, benefits that may not be available to smaller utilities. Material purchases are aggregated under blanket contracts and competitively bid to ensure IM Transco obtains quality material at the best price. These multi-year blanket contracts provide stable pricing and help to ensure the availability of materials and equipment over the duration of the construction of transmission projects and programs. Service contracts are also competitively bid.

AEP uses a variety of methods to secure contract labor. AEP requested bids for bundled project portfolios as well as for individual projects. Projects were bid using unit pricing as well as lump sum. The variety of projects attracts large and small transmission contractors to submit bids. The varied methods allowed AEP to select the best approach for pricing a given project. The volume of work along with competitive bidding methods result in lower costs to projects.

To assure AEP obtains the lowest reasonable costs, AEP's procurement department routinely reviews the strategies and resulting pricing of the various material and labor contracts.

2(1) A copy of the most recently available Independent Auditors' Report for IM Transco.

See Exhibit 2(1) for IM Transco's most recent Auditors' Report.

EXHIBIT 2(a)

2a - I&M Transco Projects began construction in 2017 ⁽¹⁾								
DESCRIPTION AND SCOPE	PROJECT PURPOSE & TYPE	ALTERNATIVES CONSIDERED	PROJECT START DATE	PROJECTED IN-SERVICE- DATE (2)	IM TRANSCO PROJECTED CAPITAL COST ESTIMATE (in millions)	IM TRANSCO PROJECTED O&M COST ESTIMATE	PROJECT SELECTION GUIDELINES APPLICABILITY	SMART GRID TECHNOLOGY
College Corner Station Rebuild: Rebuild the station with breaker and half scheme. Remote end relay support at four stations (Tanners Creek, Richmond, Modoc, & Delaware)needed. Line and structure work to accommodate new station location.	Reliability	Due to the age and the need for increased reliability in the area, no alternatives have been identified.Leaving the old equipment at Colege Corner tation which is a very important I&M station is not desirable.	7/2017	5/2018	\$8.6		3.2.3	No
Gravel PR 138 kV httpgstoin: Construct a new 138/124 V station, Mint, to replace Gravel Pit station. Construct two station 28 kV lines: approved Pit station to distinct future time 34 SV lines. Gravel Pit station in addition, retire Gravel Pit station. Retire Bowman Creek 34 SV switch. De-nergiae (or tetrie) sections of the Jackson Road – New Carlisle 138 kV line.	Reliability	Due to the age and the need for increased reliability in the area, no alternatives have been identified that would remediate the customer concerns within a desirable timeframe or cost.	1/2017	4/2019	\$14.6		3.2, 3.3	No
Jackson Road - Marshall Rebuild: Rebuild and convert Jackson Road - Marshall 34.5 kV circuit to 69 kV (13 miles), Replace the existing Jackson Road 138/J45 kV transformer with a J36/69/4.5 kV transformer. Convert AEP's Quinn station to 69 kV operation. Retire AEP's Lapaz station.	Reliability	Rebuild Jackson Road – Marshall 34.5 kV line to 69 kV. Construct a new 69 kV Lapaz – Gravel Pit line. Build a new Gravel Pit – Jackson Road 69 kV line. Build two new 69 kV stations.	10/2017	5/2019	\$31.5		3.3, 3.2	No
Vicksburg and Schoolcraft Improvement: Rebuild Schoolcraft 69 kV station as Kalamazoo 69 kV station in the clear. Kalamazoo station will have a breake and half configuration with (6) 69 kV CBs. (2) 69/12 kV transformers, a 12 kV bus with associated feeders and a 14.4 MVAR cap bank.	r Reliability	Alternate #1: Construct a new eleven mile long 69 kV line between Moore Park and Vicksburg Stations. Alternate #2: Rebuild Vicksburg-Schoolcraft line (five miles).	5/2017	1/2019	\$20.5		3.2, 3.3	No

Excludes project related costs incurred by Indiana Michigan Power Company.
The projected in-service dates represent the in-service date of the last component. Some project components may go into service prior to the date indicated.

Project Selection Guidelines: 3.2.1 Greenfield Project 3.2.2 Facility additions should be included in Transcos. 3.2.3 The replacement of an entire existing facility should be included in Transco. 3.2.4 Replacements of components should be included in Transco.

EXHIBIT 2(f)

Plant In-Service Additions per Line Mile Transmission Investment Comparison



Average Annual Plant In-Service Additions \$/Line Mile 2013-2017



O&M Expense per Line Mile Transmission O&M Expense Cost Comparison



Average Annual O&M Expense \$/Line Mile 2013-2017



Plant In-Service Additions per line mile Data and Assumptions



		2013	2014	2015	2016	2017	Average
AEE	Ameren Corp	40,073	54,041	54,451	153,609	108,474	82,130
AEP	American Electric Power Co Inc	30,951	44,117	49,337	61,217	63,835	49,891
AES	AES Corp (The)	6,062	8,371	13,178	28,507	1,166	11,457
BRK	Berkshire Hathaway Inc	28,789	11,350	29,718	26,004	13,072	21,787
D	Dominion Energy Inc	111,456	147,006	166,922	141,711	72,249	127,869
DUK	Duke Energy Corp	30,487	21,752	22,631	22,146	35,396	26,482
EIX	Edison International	172,105	106,683	100,955	86,132	52,587	103,692
ES	Eversource Energy	202,465	123,345	172,664	184,321	162,068	168,973
ETR	Entergy Corp	26,410	28,454	13,710	61,272	50,177	36,005
EXC	Exelon Corp	49,071	90,743	71,005	89,232	85,566	77,123
FE	FirstEnergy Corp	19,811	50,332	52,879	40,466	40,482	40,794
ITC	ITC Holdings Corp	57,047	50,986	43,629	59,039	55,356	53,211
NEE	NextEra Energy Inc	23,850	42,596	50,566	65,748	52,504	47,053
NGG	National Grid Plc	33,770	29,931	39,566	40,493	27,039	34,160
PEG	Public Service Enterprise Group Inc	711,874	1,171,528	1,000,327	909,833	710,323	900,777
PGE	PG&E Corp	44,073	40,138	42,365	58,223	37,778	44,515
POM	Pepco Holdings Inc	53,507	67,940	100,190	102,000	171,556	99,039
PPL	PPL Corp	45,866	61,328	113,969	69,234	96,056	77,291
SO	Southern Co	33,980	37,287	41,383	31,351	18,475	32,495
WEC	WEC Energy Group Inc	34,254	32,982	29,021	31,412	35,005	32,535
XEL	Xcel Energy Inc	31,464	64,416	55,818	28,906	22,699	40,661

Key Assumptions:

- Data from Ventyx Energy Velocity FERC Form 1 Database.
- Transmission Plant Additions represents incremental annual gross capital investment in transmission assets .
- Line miles represent FERC transmission pole miles.

O&M Expense per Line Mile Data and Assumptions



		2013	2014	2015	2016	2017	Average
AEE	Ameren Corp	8,173	9,000	9,678	10,512	10,369	9,546
AEP	American Electric Power Co Inc	4,361	8,289	7,227	7,732	5,215	6,565
AES	AES Corp (The)	6,047	6,665	5,837	9,417	12,473	8,088
BRK	Berkshire Hathaway Inc	5,140	6,777	5,751	6,289	6,343	6,060
D	Dominion Energy Inc	9,584	10,906	24,411	25,571	10,023	16,099
DUK	Duke Energy Corp	7,656	7,548	7,141	7,434	7,732	7,502
EIX	Edison International	23,085	17,086	23,034	17,546	17,207	19,592
ES	Eversource Energy	28,119	27,038	23,844	27,602	30,673	27,455
ETR	Entergy Corp	7,897	10,562	6,390	8,770	9,346	8,593
EXC	Exelon Corp	45,483	46,018	55,941	61,783	62,933	54,432
FE	FirstEnergy Corp	5,860	7,683	8,159	6,666	10,705	7,815
ITC	ITC Holdings Corp	7,891	7,857	8,151	11,638	11,400	9,388
NEE	NextEra Energy Inc	8,811	8,156	8,536	7,839	11,412	8,951
NGG	National Grid Plc	14,252	13,810	13,273	10,948	12,522	12,961
PEG	Public Service Enterprise Group Inc	57,213	53,356	52,204	59,751	58,458	56,196
PGE	PG&E Corp	11,393	12,543	12,775	15,465	15,587	13,553
POM	l Pepco Holdings Inc	18,389	18,794	21,776	24,807	24,338	21,621
PPL	PPL Corp	9,591	8,982	9,583	9,243	9,002	9,280
SO	Southern Co	10,980	13,079	11,711	14,301	7,386	11,491
WEC	WEC Energy Group Inc	12,561	13,066	13,028	13,498	13,401	13,111
XEL	Xcel Energy Inc	13,747	13,206	12,805	14,522	15,157	13,887

Key Assumptions:

• Data from Ventyx Energy Velocity FERC Form 1 Database.

• Transmission Plant Additions represents incremental annual gross capital investment in transmission assets .

• Line miles represent FERC transmission pole miles.

EXHIBIT 2(g)



AEP Transmission LLC (AEPTCo)

Project Selection Guideline

November 19, 2009

REVISION HISTORY

Rev.	Description of Change(s)	Prepared or Revised By	Date	Approved
1				
2				

Note: This document has been prepared by, and is the property of, American Electric Power Company, Inc. This document may be modified by AEP.							
	AEPTCo Project Selection Guideline						
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AMERICAN® ELECTRIC POWER	Richard Reinaker	Power Company, Inc	Kev. 0	Page 1 of 9			

DOCUMENT CONTROL

Preparation

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Approved by:	Bernie Pasternack	Managing Director, TASP

Review Cycle

Quarterly	Semi-annual	Annual	As Needed
			Х

Release

VERSION	DATE RELEASED	FILE NAME	CHANGE NOTICE	REMARKS



Distribution List

NAME(S)	DEPARTMENT	TITLE



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1.0 **<u>PURPOSE</u>**

This document provides guidance to AEP Transmission personnel in determining how capital will be allocated between the AEP operating companies ("OPCO") and AEP Transmission Company subsidiaries ("AEPTCo subsidiaries") regarding the construction of new transmission assets. These guidelines are to be used by employees within the AEP Transmission business unit in determining what Projects or Project Components should be developed by the AEPTCo subsidiaries. All personnel

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participating in the planning, identification and approvals of new AEP Transmission assets must be familiar with and utilize these guidelines.

2.0 ROLES & RESPONSIBILITIES

There are several groups involved with identifying AEP Transmission system needs. The following highlights the roles and responsibilities of the Transmission departments responsible for evaluating system needs:

2.1 Transmission Planning (TP)

- Identify transmission system needs.
- Propose projects and system upgrades.
- Provide recommendations to TAP with respect to development of project or system upgrade.
- Provide detailed information with respect to the need for the given project or system upgrade including Regional Transmission Organization identified projects.

2.2 Transmission Asset Engineering (TAE)

- Identify asset replacement / rehab needs for transmission assets.
- Propose projects and system upgrades.
- Provide recommendations to TAP with respect to development of project or system upgrade.
- Provide detailed information with respect to the need for the given project or system upgrade.

2.3 Transmission Asset Performance (TAP)

- Collect lists of project and system upgrade information from TP and TAE groups.
- Review the detail provided by TP and TAE, and determines whether the project or upgrade meets the requirements of this guideline.
- Prepare documentation necessary for financial approvals and prepare budget projections as requested by Transmission Budgeting Planning &Analysis (TBP&A) group.

3.0 **PROJECT SELECTION PROCESS**

For the purposes of this document the following definitions apply:

"Assets" are defined as electric equipment, lines, stations that are designated as Transmission pursuant to FERC Form 1 general ledger account.

"Upgrades" are defined as modifications to existing Transmission Assets.

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"Facility" is defined as an entire substation or line between two stations.

"Component" refers to a section or sections of line between two stations and new equipment within a station.

"Project" is defined as a combination of Facilities and Components needed to meet a given system need and included together for financial approval. A Project may include both OPCO and/or AEPTCo assets.

This document has been developed to assist AEP Transmission personnel in determining what Facilities and/or Components should be developed by an AEPTCo subsidiary. Any Facilities or Components that do not meet these guidelines would be developed to the respective AEP Operating Company.

This process recognizes that there may be a need for variances between states, due to state statutory requirements or regulatory precedents. Accordingly, discretion must be exercised by TAP in making such determinations. Known state specific considerations are identified in Appendix A.

3.1 AEPTCo Ownership Eligibility

The following general principles would apply for eligibility as AEPTCo assets:

- Assets that provide a Transmission function (assigned to a Transmission FERC Form 1 general ledger account number) may be eligible for inclusion in an AEPTCo subsidiary if such assets meet the criteria specified in these PSG. No facilities that are classified as Distribution or Generation can be developed by AEPTCo.
 - Transmission Assets designed and operated at voltages of 23 kV or higher in the PJM region and 69 kV or higher in the SPP region are considered Transmission assets. (Currently AEPTCo has no plan to own Texas SPP transmission assets).
 - For a power transformer to qualify as an AEPTCo asset, both primary and secondary transformer voltages must meet the above voltage criteria and the transformer must provide a Transmission function. This restriction does not apply to auxiliary or station service transformers in a station.
 - AEPTCo will build/own only those facilities (Transmission Facilities) that may be recovered from Transmission Service Customers through the RTO's FERC-approved OATT, either through a rate of general applicability or by direct assignment to transmission customers.
 - Transmission assets within a Distribution station that are part of a network qualify as AEPTCo assets.



3.2 AEPTCo Project Categories

Projects and components that may be developed by an AEPTCo company are categorized as follows:

3.2.1 Greenfield

Greenfield facilities are defined as new transmission assets that do not require replacement or modification of existing facilities or components.

- Development of new transmission Facilities.
- Transmission assets within a new Distribution or Generation station that is part of the transmission network. This would require a clear demarcation between Transmission and Distribution or Generation assets at the facility.
- New property or rights-of-way acquired for new transmission facilities.

3.2.2 Facility Additions

Facility additions are defined as new transmission components installed at existing AEP Operating Company-owned Transmission or Distribution facilities.

- New Transmission equipment additions such as circuit breakers, transformers, shunt or series reactors, capacitor banks, etc. and ancillary equipment directly related to the new Transmission equipment additions.
- May include the retirement of certain existing AEP Operating Company Transmission components, as necessary, to allow for the installation of the new AEPTCo facilities.
- The addition of new AEPTCo line facilities on existing AEP Operating Company towers/poles (e.g. conductors/insulators being installed on vacant tower position).

3.2.3 Facility Replacement

Facility Upgrades are defined as the replacement of an entire existing AEP Operating Company-owned facilities with new AEPTCo-owned facilities.

- Complete replacement of an AEP Operating Company-owned transmission line facility or transmission station facility with a new AEPTCo-owned station or line facility. Retirement of the AEP Operating Company facility is required.
- AEPTCo at cost may lease or purchase the rights-of-way and property easements from the affected AEP Operating Company (consistent with state legal/regulatory requirements).



3.2.4 Component Replacement

Component replacement is defined as an apportioned replacement of an existing AEP Operating Company-owned Transmission facility or replacement of component(s) within a Transmission facility.

- Major Extra High Voltage (EHV) equipment replacements may be included in AEPTCo.
- All component replacement projects must be evaluated on a case-by-case basis.

3.2.5 Spare/Mobile Equipment

Spare/mobile equipment is defined as purchases of major Transmission equipment as capitalized spares or mobiles.

- Mobile transformers must have Transmission operating voltages at the high and low side for this category.
- Major spare equipment such as transformers and circuit breakers may be purchased to support existing AEPTCo assets.

3.3 Other Considerations

- All assets owned by AEPTCo subsidiaries must be clearly distinguishable from assets owned by AEP Operating Companies.
- Components developed by AEPTCo are intended to be large projects that are readily identifiable and discernable to AEP Service employees and personnel.
- A project should be greater than \$500,000 to be considered for development by an AEPTCo subsidiary. Exceptions to this assumption must be approved by TAP.
- Reimbursable projects or projects involving contributions in aid of construction (CIAC) should follow the guideline for determination of AEPTCo versus AEP Operating Company ownership.
- Projects that have not yet been place in service but have been previously approved through the AEP financial approval process may be considered for AEPTCo on a case-by-case basis. This provision is transitional and shall self terminate after January 01, 2011.
- Projects or components that require upgrades to AEPTCo facilities or are directly interconnected to AEPTCo facilities shall be developed by AEPTCo.



3.4 Records Management

- Accounting procedures will comply with all regulatory, GAAP, and FERC Uniform System of Accounts standards.
- Internal controls will be designed to meet AEP standards.
- Assets owned by applicable AEPTCo subsidiary or AEP Operating Company do not change the applicable RTO definition of Transmission or Distribution.
- FERC accounting designations distinguishing Transmission and Distribution equipment must be adhered to in all situations.

3.5 Financial Authorization & Documentation

- Authorization for funding must utilize the same process for both AEPTCo and Operating Company assets.
- TAP shall prepare and route all projects for financial approval, clearly specifying which assets will be owned and operated by AEPTCo. Individual project approvals may include approvals of both Operating Company and AEPTCo assets, as long as all work associated with the project is clearly discernable between the Operating Company and AEPTCo.

3.6 Related Procedures & Guidelines

• Not applicable.



EXHIBIT 2(i)

IM Transco Annual Compliance Filing 2017 Long-term Debt Issuance

On September 25, 2017, AEP Transmission Company, LLC ("AEP Transco") priced a total of \$625 million Senior Unsecured Notes to the public bond market in a 144A format with SEC registration rights. The debt was issued in two series and proceeds were received on September 28, 2017.

- Series D: \$125 million 3.10% Senior Unsecured Notes due December 1, 2026
- Series H: \$500 million 3.75% Senior Unsecured Notes due December 1, 2047

Immediately following the receipt of proceeds of the AEP Transco debt issuance, AEP Ohio Transmission Company, Inc., AEP Indiana Michigan Transmission Company, Inc., AEP Oklahoma Transmission Company, Inc., AEP West Virginia Transmission Company, Inc. and AEP Kentucky Transmission Company, Inc. issued promissory notes to AEP Transco. AEP Indiana Michigan Transmission Company, Inc. ("IM Transco") was forced to issue their promissory notes to AEP Transco on two separate dates (September 28 and October 5, 2017) due to insufficient available financing authority at the initial funding date of September 28th. The promissory notes were issued at cost, effectively delivering long-term debt proceeds from AEP Transco to the individual transmission companies.

IM Transco borrowed, in aggregate, \$172 million of net long-term debt from AEP Transco:

- Tranche D: \$34 million 3.10% Senior Unsecured Notes due December 1, 2026
- Tranche H: \$138 million 3.75% Senior Unsecured Notes due December 1, 2047

Indiana Michigan Power Company ("I&M") was rated Baa1 and A- at the time of issuance by Moody's and Standard & Poor's, respectively. During the 30 days preceding and following the AEP Transco issuance on September 28, 2017, seven vertically integrated utility companies, within one rating level up or down of I&M's bond ratings, issued long-term debt.

- On September 5, 2017, Pennsylvania Electric Co. issued \$300 million of 11-year Senior Unsecured Notes at a coupon of 3.25% based on a credit spread of 1.18% over the benchmark 10-year U.S. Treasury. Pennsylvania Electric Co. was rated Baa1 (same as I&M) by Moody's and BBB- (two levels lower than I&M) by Standard and Poor's.
- On September 6, 2017, Arizona Public Service Co. issued \$300 million of 10-year Senior Unsecured Notes at a coupon of 2.95% based on a credit spread of 0.85% over the benchmark 10-year U.S. Treasury. Arizona Public Service Co. was rated A2 (two levels higher than I&M) by Moody's and A- (same as I&M) by Standard and Poor's.
- On September 11, 2017, Virginia Electric and Power Company issued \$200 million of 6-year Senior Unsecured Notes at a coupon of 2.75% in a reopening of existing senior notes outstanding at the Company. This coupon represented a credit spread of 0.70% over the benchmark 5-year U.S. Treasury. Virginia Electric Power Company also issued \$550 million of 30-year Senior Unsecured Notes at a coupon of 3.80% based on a credit spread of 1.10% over the benchmark 30-year U.S. Treasury. Virginia Electric Power Company was rated A2 (two levels higher than I&M) by Moody's and BBB+ (one level lower than I&M) by Standard and Poor's.

- On September 13, 2017, Washington Gas Light Co. issued \$200 million of 29-year Senior Unsecured Notes at a coupon of 3.796% in a reopening of existing senior notes outstanding at the Company. This coupon was based on a credit spread of 1.10% over the benchmark 30-year U.S. Treasury. Washington Gas Light Co. was rated A1 (three levels higher than I&M) by Moody's and A (one level higher than I&M) by Standard and Poor's.
- On September 19, 2017, AEP Texas issued \$400 million of 5-year Senior Unsecured Notes at a coupon of 2.40% based on a credit spread of 0.60% over the benchmark 5-year U.S. Treasury. AEP Texas also issued \$300 million of 30-year Senior Unsecured Notes at a coupon of 3.80% based on a credit spread of 1.05% over the benchmark 30-year U.S. Treasury. AEP Texas was rated Baa1 (same as I&M) by Moody's and A- (same as I&M) by Standard and Poor's.
- On October 2, 2017, NSTAR Electric Co. issued \$350 million of 10-year Senior Unsecured Notes at a coupon of 3.20% in a reopening of existing senior notes outstanding at the Company. This coupon was based on a credit spread of 0.72% over the benchmark 10-year U.S. Treasury. NSTAR Electric Co. was rated A2 (two levels higher than I&M) by Moody's and A (one level higher than I&M) by Standard and Poor's.
- On October 2, 2017, Wisconsin Power and Light Co. issued \$300 million of 10-year Senior Unsecured Notes at a coupon of 3.05% based on a credit spread of 0.75% over the benchmark 10-year U.S. Treasury. Wisconsin Power and Light Co. was rated A2 (two levels higher than I&M) by Moody's and A (one level higher than I&M) by Standard and Poor's.

EXHIBIT 2(I)

To the Board of Directors and Management of AEP Indiana Michigan Transmission Company, Inc.

We have audited the accompanying financial statements of AEP Indiana Michigan Transmission Company, Inc., which comprise the balance sheet as of December 31, 2017, and the related statements of income, of retained earnings, and of cash flows for the year then ended, included on pages 110 through 123 of the accompanying Federal Energy Regulatory Commission Form 1.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AEP Indiana Michigan Transmission Company, Inc. as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases described in Note 1.

Other Matter

The financial statements of the Company as of December 31, 2016 and for the year then ended were audited by other auditors whose report, dated April 13, 2017, expressed an unmodified opinion on those statements.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements are prepared by AEP Indiana Michigan Transmission Company, Inc. on the basis of the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Federal Energy Regulatory Commission. Our opinion is not modified with respect to this matter.

Restriction of Use

This report is intended solely for the information and use of the board of directors and management of AEP Indiana Michigan Transmission Company, Inc. and for filing with the Federal Energy Regulatory Commission and is not intended to be and should not be used by anyone other than these specified parties or for any other purpose.

Procwaterhouse Coopers LIP

Columbus, Ohio April 11, 2018

CERTIFICATE OF SERVICE

The undersigned, an attorney for Petitioner, certifies that on the 5th day of July, 2018, a copy of the foregoing Investment, Operations and Benefits Report was electronically served upon the following counsel:

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