

Board of Public Utilities

Special Meeting Agenda

Thursday, December 18, 2014
9:00 a.m., DPW Conference Room, 1199 8th Avenue



City of South Haven

1. Call to Order
2. Roll Call
3. Approval of Agenda
4. Acceptance of Minutes for the Record – November 24, 2014
5. Interested Citizens in the Audience Will be Heard on Items Not on the Agenda

NEW BUSINESS

6. Board will be requested to approve a recommendation to City Council to approve the Amended and Restated Cost-Based Formula Rate Agreement for Full Requirements Electric Service with Indiana Michigan Power Company.
7. Board will be requested to approve a recommendation to City Council to award the following contracts for Core City Secondary Upgrade – Phase II:
 - A. Extend the contract with Kent Power, Inc. of Kent City, Michigan for Core City Secondary Upgrades – Phase II. Labor and materials to be provided are defined in the contract documents prepared by GRP Engineering.
 - B. Award the contract for professional services for community outreach and communication to Abonmarche in the amount of \$33,500.
 - C. Award the contract for preconstruction videotaping services for the Core City Secondary Project to Structures, Inc. in the not-to-exceed amount of \$18,923.
8. Next meeting is scheduled for Monday, January 26, 2015 at 4:00 pm in the DPW Conference Room, 1199 8th Avenue, South Haven, Michigan.
9. Director's Comments
10. Board Member Comments
11. Adjourn

RESPECTFULLY SUBMITTED,

Roger Huff, P.E.
Public Works Director

South Haven Department of Public Works is Barrier-free and the City of South Haven will provide the necessary reasonable auxiliary aids and services for persons with disabilities, such as signers for the hearing impaired and audio tapes of printed materials being considered at the meeting to individuals with disabilities at the meeting upon seven (7) days notice to the South Haven City Clerk. Individuals with disabilities requiring services should contact the City Clerk by writing or calling South Haven City Hall at (269) 637-0750.

Board of Public Utilities

Regular Meeting Minutes

Monday, November 24, 2014
4:00 p.m., DPW Conference Room
1199 8th Avenue



City of South Haven

1. Call to Order by Stickland at 4:00 p.m.

2. Roll Call

Present: Burr, Henry (arrived at 4:15), Overhiser (ex-officio), Roberts, Rose (ex-officio, arrived at 4:15) Stein (ex-officio), Stickland, Winkel

Absent: None

3. Approval of Agenda

Motion by Burr, second by Roberts to approve the November 24, 2014 Agenda as presented.

All in favor. Motion carried.

4. Approval of Minutes – October 27, 2014 Regular Meeting Minutes

Motion by Winkel, second by Roberts to approve the October 27, 2014 Regular Meeting Minutes with the following corrections:

- Near the bottom of page 2, add “per year” after \$27,255.
- In the second paragraph on page 3, change \$147.468 to \$147,468.
- In the second paragraph on page 3, change next lowest to second lowest.
- In the second paragraph under item 13 on page 3, change the word “tax” to “cash”.

All in favor. Motion carried.

5. Interested Citizens in the Audience Will be Heard on Items Not on the Agenda

None at this time.

REPORTS

6. Cost of Energy from Indiana-Michigan Power Company (AEP)

- A. 2014 Billings – All Charges
- B. 2013 Billings – All Charges

Burr noted minimal increase in cost of purchased power per kWh year to year (2013 to 2014).

7. Financial Reports

- A. Electric Fund – Financial Report for period ending October 31, 2014
Hochstedler noted that the Capital Outlay budget now includes all work approved to date by the Board and Council.
Hochstedler noted the addition of the undesignated reserves to the financial reports.
- B. Electric Fund – Review of Percentage Billed
Burr requested Hochstedler to review the unbilled sales year to date as it appears higher than the prior two year average.
- C. Water Fund – Financial Report for period ending October 31, 2014
Hochstedler noted that unreserved cash in the Water Fund is \$417,059.
- D. Water Fund – Review of Percentage Billed
Burr requested information related to the maximum daily flow at the Water Filtration Plant in relation to intake capacity.
- E. Sewer Fund – Financial Report for period ending October 31, 2014
Hochstedler noted that unreserved cash in the Sewer Fund is \$333,226.

8. Unresolved Issues Report

Fund reserves have now been added to the monthly financial reports.

NEW BUSINESS

9. Board will be requested to award a contract for Phoenix Road Substation Relay Control Panel, Bid 2014-11 to Harlo Corporation in the amount of \$29,116.00.

Motion by Roberts, second by Henry to award Bid 2014-11 to Harlo Corporation in the amount of \$29,116.00.

All in favor. Motion carried.

10. Board will be requested to establish a schedule for Regular Meeting Dates for the 2015 Calendar Year.

Motion by Roberts, second by Winkel to approve the schedule for Regular Meeting Dates for the 2015 Calendar Year.

All in favor. Motion carried.

11. Public Works Director Comments

There is no regular scheduled meeting during the month of December 2014. A special meeting will be scheduled only if needed to address an unforeseen issue.

Township customer complaint regarding summer sewer credits. Customer desires extension of summer sewer credit for irrigation water used in September. September usage is billed in October and no credit is typically given.

12. Board Member Comments

Henry complimented Kent Power on work for the Core City Secondary Project, Phase I.

13. Adjourn

Motion by Winkel, second by Roberts to adjourn at 5:05 p.m.

All in favor. Motion carried.

RESPECTFULLY SUBMITTED,



Larry Halberstadt, PE
City Engineer



City of South Haven

Agenda Item #6

Amendment of Cost-Based Formula Rate Agreement for Full Requirements Electric Service

Background Information:

The City of South Haven is currently party to a Cost-Based Formula Rate Agreement for Full Requirements Electric Service with Indiana Michigan Power Company (the Agreement). The City entered into this Agreement effective July 1, 2006.

At their March 31, 2014 regular meeting, the Board reviewed and approved a minor change to Agreement. The modification that was approved would reduce the notice period for termination of the contract from 7 years to 4 years. Council subsequently passed Resolution 2014-14 at their April 7, 2014 regular meeting, affirming the decision of the Board. Subsequent to Council action, staff obtained a signed version of FERC Rate Schedule 108 and sent this to Lisa Gast at Duncan, Weinberg, Genzer & Pembroke, PC.

The reason for the contract change is described in the attached letter from Lisa Gast. Over the past 6 months, Lisa Gast has been working with the legal staff from American Electric Power Company (the parent to Indiana Michigan Power Company) to file the new Rate Schedule with the Federal Energy Regulatory Commission (FERC). In 2010, FERC changed the requirements for amending an existing contract to require the use of the etariff system. This process is described as being arduous, with the possibility of errors occurring and the need for multiple revisions.

In an effort to avoid the etariff process, AEP is proposing to file appropriate documents with FERC to terminate the current Agreement. Immediately upon termination of the current Agreement, Indiana Michigan Power Company would begin providing service under the Amended and Restated Cost-Based Formula Rate Agreement for Full Requirements Electric Service (the Amended Agreement). The termination of the current Agreement is anticipated to occur on January 31, 2015 at 11:59:59 pm (EST), pending approval of the Board and City Council. Section 205 of the Federal Power Act permits AEP to treat the Amended Agreement as a service agreement under the Company's market-based rate tariff authority. This agreement does not need to be filed with FERC provided that the individual customer specific rates defined in the contract are reported in quarterly reports known as EQRs. Thus, the complex etariff process can be avoided.

It should be noted that the City of Dowagiac Full Requirements Agreement is a service agreement that was entered into under AEP's market-based rate authority and is not filed with FERC. Thus, there is precedent for this type of agreement.

The only change in the Amended Agreement is the reduction in the notice period for termination of the agreement. The cost of providing service will continue to be calculated in the same manner as it has been since 2006. In addition, billing will continue on a monthly basis. Thus, staff does not anticipate any cost impact to City of South Haven electric customers due to this modification.

Recommendation:

The Board is requested to pass a motion recommending that Council approve the Amended and Restated Cost-Based Formula Rate Agreement for Full Requirements Electric Service with Indiana Michigan Power Company. Council's approval will take the form of a resolution authorizing the Mayor to execute the Amended Agreement on behalf of the City.

Attachments:

Cost-Based Formula Rate Agreement
Letter from Duncan, Weinberg, Genzer & Pembroke, PC
Amended and Restated Cost-Based Formula Rate Agreement
Appendices B & C to Amended Agreement
Draft Resolution 2015-xx



Legal Department

American Electric Power
1 Riverside Plaza
Columbus, OH 43215
AEP.com

June 2, 2006

Robert G. Stickland, P.E.
Director of Public Works
City of South Haven, Michigan
539 Phoenix St.
South Haven, Michigan 49090-1499

James R. Bacha
Assistant General Counsel -
Regulatory Services
(614) 716-1615 (P)
(614) 716-2950 (F)
jrbacha@aep.com

Bob -
Dear Mr. Stickland:

Indiana Michigan Power Company looks forward to providing service to the City of South Haven pursuant to our new Cost-Based Formula Rate Agreement for Full Requirements Electric Service. An executed copy of the Agreement is attached for your records. Also enclosed is a copy of the required FERC Filing. You will be advised when the FERC accepts the Agreement for filing.

Sincerely,

A handwritten signature in black ink that reads "J. Bacha".

James R. Bacha

JRB:mjl

Enclosures

cc: Kent D. Curry-without enclosures
Vincent E. Findley-without enclosures

**COST-BASED FORMULA RATE
AGREEMENT FOR
FULL REQUIREMENTS ELECTRIC SERVICE**

DATED AS OF MAY 24, 2006

BY AND BETWEEN

INDIANA MICHIGAN POWER COMPANY

AND

THE CITY OF SOUTH HAVEN, MICHIGAN

**Issued by: Marsha P. Ryan-President
Indiana Michigan Power Company**

Issued on: May 26, 2006

Effective: July 1, 2006

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COST-BASED FORMULA RATE
AGREEMENT FOR FULL REQUIREMENTS ELECTRIC SERVICE

This AGREEMENT is dated as of May 24/2006 ("Effective Date") and is by and between the Indiana Michigan Power Company (hereinafter referred to as "Company"), and the City of South Haven, Michigan ("Customer") (Company and Customer each individually referred to herein as a "Party," or collectively, the "Parties").

RECITALS

WHEREAS, Company is a corporation organized and existing under the laws of the State of Indiana, with its principal place of business at One Summit Square, 110 East Wayne Street, Fort Wayne, Indiana, 46802, and owns and operates facilities for the generation, transmission and distribution of electric power and energy in the States of Indiana and Michigan; and

WHEREAS, Customer is a municipal corporation chartered and existing under and by virtue of the laws of the State of Michigan, with its principal place of business at 539 Phoenix Street, South Haven, Michigan, 49090-1499; and

WHEREAS, Company is an electric utility subsidiary of American Electric Power Company, Inc. ("AEP"), is part of the integrated AEP System, and is a signator to various agreements with one or more AEP subsidiaries; and

WHEREAS, Customer desires to purchase Full Requirements Electric Service from Company to meet Customer's Retail Load; and

WHEREAS, Company has proposed to supply Full Requirements Electric Service to Customer, subject to the terms and conditions set forth herein; and

WHEREAS, the Parties have met numerous times to develop a cost-based formula rate for Full Requirements Electric Service.

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained, the Parties hereby agree that this Agreement, together with the Appendices attached hereto and Related Documents, sets forth the terms under which Company will supply Full Requirements Electric Service to Customer, during the Delivery Period; constitutes the entire agreement between the Parties relating to Full Requirements Electric Service at cost-based rates; and supersedes any other agreements, written or oral (including without limitation any preliminary term sheet), between the Parties concerning this subject matter.

Issued by: **Marsha P. Ryan-President**
Indiana Michigan Power Company
Issued on: **May 26, 2006**

Effective: **July 1, 2006**



ARTICLE 1: DEFINITIONS

The following words and terms shall be understood to have the following meanings when used in this Agreement or in any associated documents entered into in conjunction with this Agreement, unless a different meaning is plainly required by the context. This Agreement includes certain capitalized terms that are not explicitly defined herein. Such capitalized terms shall have the meanings specified in the "Related Documents," as the same are in effect from time to time, which meanings are incorporated herein by reference and made a part hereof. In the event of any inconsistency between a definition contained herein and a definition contained in "Related Documents," the definition in this Agreement shall control for purposes of this Agreement. Certain other definitions as required appear in subsequent parts of this Agreement.

- 1.1 **AEP Interconnection Agreement** means the agreement on file at FERC, commonly referred to as the AEP Pool Agreement, that regulates the inter-company charges and credits for capacity and energy among the following AEP Operating Companies: Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company and Ohio Power Company.
- 1.2 **AEP Operating Companies** means the electric utility subsidiaries of AEP, consisting of Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company, Southwest Electric Power Company and Public Service Company of Oklahoma. "AEP Operating Companies" may include fewer than all of the listed companies, or may include the American Electric Power Service Corporation ("AEPSC"), where the context requires such interpretation.
- 1.3 **Affiliate** means, with respect to any person or corporation, any other person or corporation (other than an individual) that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such person or corporation. For this purpose, "control" means the direct or indirect ownership of fifty percent (50%) or more of the outstanding capital stock or other equity interests having ordinary voting power.
- 1.4 **Agreement** means this Cost-Based Formula Rate Agreement for Full Requirements Electric Service, including the Appendices and Related Documents, as amended, modified or supplemented from time to time.
- 1.5 **Ancillary Services** means the following services related to the Full Requirements Electric Service to be supplied under the terms of this Agreement to the Delivery Points: those services set forth in the OATT schedules and any supplemental or revised tariffs or schedules adopted by the Transmission Provider, including, without limitation, Scheduling, System Control and Dispatch Service; Transmission Owners Scheduling, System Control and

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Dispatch Service; Reactive Supply and Voltage Control from Generation Sources Service; Regulation and Frequency Response Service; Energy Imbalance Service; Operating Reserve-Spinning Reserve Service; Operating Reserve-Supplemental Reserve Service; and Black Start Service (as each of those services is defined in the OATT).

- 1.6 Billing Period** means the calendar month which shall be the standard period for all payments and metering measurements under this Agreement, unless otherwise specifically required by the Transmission Provider or the entity providing meter reading services.
- 1.7 Business Day** means a day ending at 5:00 p.m. Eastern Prevailing Time, other than Saturday, Sunday and any day which is a legal holiday or a day designated as a holiday by the North American Electric Reliability Council; provided, that, with respect to any payment due hereunder, or any other obligation of Company or Customer, a "Business Day" means a day ending at 5:00 p.m. Eastern Prevailing Time, other than Saturday, Sunday and any day which is a legal holiday or a day on which banking institutions in Michigan and/or Columbus, Ohio are authorized by law to close; and, provided, further, that with respect to any notices for scheduling to be delivered pursuant to any Section hereof, a "Business Day" shall be a day other than Saturday, Sunday and any day which is a legal holiday or a day designated as a holiday by the Transmission Provider.
- 1.8 Calendar Year** means a twelve-consecutive-month period commencing at the start of hour ending ("HE") 0100 on January 1 and ending at the conclusion of HE 2400 on December 31.
- 1.9 Claims** means all third party claims or actions, threatened or filed and, whether groundless, false, fraudulent or otherwise, that directly or indirectly relate to the subject matter of this Agreement, and the resulting losses, damages, expenses, reasonable attorneys' fees and court costs, whether incurred by settlement or otherwise, and whether such claims or actions are threatened or filed prior to or after the termination of this Agreement.
- 1.10 Confidential Information** means such information as the Parties agree shall remain confidential. Notwithstanding the foregoing, the following shall not constitute Confidential Information:
- a. Information which was already in a Party's possession prior to its receipt from another Party and not subject to a requirement of confidentiality;
 - b. Information which is obtained from a third person who, insofar as is known to the Party, is not prohibited from transmitting the information to the Party by a contractual, legal or fiduciary obligation to the Party; and

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- c. Information which is or becomes publicly available through no fault of the Party.
- 1.11 **Contract Year** means a twelve-consecutive-month period beginning at the start of HE 0100 on June 1 and ending at the conclusion of HE 2400 on May 31 of the subsequent Calendar Year.
- 1.12 **Credit Rating** means, with respect to any entity, the rating then assigned to such entity's unsecured, senior long-term debt obligations or its long-term revenue bonds (not supported by third party credit enhancements) or if such entity does not have a rating for its senior unsecured long-term debt or its long-term revenue bonds, then the rating, if any, then assigned to such entity as an issuer rating by S&P and/or Moody's.
- 1.13 **Defaulting Party** means the Party who has caused an Event of Default.
- 1.14 **Delivery Period** means the period defined in Section 2.2 of this Agreement.
- 1.15 **Delivery Points** mean the point or points designated on Appendix A, to which Company will deliver and at which Customer will accept Firm Energy.
- 1.16 **Early Termination Date** is the date selected by the Non-Defaulting Party to terminate this Agreement in accordance with Section 7.2 herein.
- 1.17 **Eastern Prevailing Time** means the prevailing time in Columbus, Ohio.
- 1.18 **Energy** means three-phase, 60-cycle alternating current electric energy, expressed in KWwhs.
- 1.19 **Event of Default** means those events by the Defaulting Party, as set forth in Article 7 of this Agreement, which give the Non-Defaulting Party the right to terminate this Agreement or exercise other remedies available under this Agreement or at law or in equity.
- 1.20 **FERC** means the Federal Energy Regulatory Commission.
- 1.21 **Firm Energy** means Energy that Company is required by this Agreement to sell and deliver and that Customer is required by this Agreement to purchase and receive, in each case without curtailment or interruption except as provided in Sections 8.1 and 8.2 hereof, unless relieved of their respective obligations without liability by Force Majeure, but in the case of Force Majeure only to the extent that, and for the period during which, either Party's performance is prevented by Force Majeure. Firm Energy shall be provided in accordance with the Transmission Provider's FERC-approved tariffs, Market Rules and Procedures.

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- 1.22 Force Majeure** means an event or circumstance, subject to the limitations set forth below, that prevents one Party from performing its obligations under this Agreement, which event or circumstance was not anticipated as of the Effective Date of this Agreement, which is not within the reasonable control of, or the result of the negligence of, the Claiming Party, and which, by the exercise of due diligence, the Claiming Party is unable to overcome or avoid or cause to be avoided. Force Majeure shall not be based on (i) the loss of any load by Customer; (ii) Customer's inability economically to use or resell the Full Requirements Electric Service contracted for hereunder; (iii) the loss or failure of Company's Generation Resources; or (iv) Company's ability to resell the Full Requirements Electric Service at a price greater than the pricing set forth herein.
- 1.23 Full Requirements Electric Service** means the supply of Firm Energy Company is required to supply to the Customer at the Delivery Points, as the same may fluctuate in real time to serve Customer's Retail Load, together with all associated generation-related services as more fully described in Article 3 and Appendix C of this Agreement.
- 1.24 Generation Resource** means the generation assets owned by Company, which, as of the Effective Date of this Agreement, consist of the Donald C. Cook Nuclear Plant (Units 1 and 2), the Rockport Plant (Units 1 and 2), the Tanners Creek Plant (Units 1 through 4), and various hydroelectric facilities; the Company's share of any jointly-owned units; long-term capacity purchases by the Company; and all generating plants of co-generators, qualifying facilities, and independent power producers that are not owned by the Company, but that produce electric power and sell it to the Company. The individual elements of Generation Resources are expected to change during the Term of this Agreement, but the Company shall maintain sufficient Generation Resources to meet reliably its load obligations as a public utility during the Term of this Agreement.
- 1.25 Good Utility Practice** means any of the practices, methods, techniques and standards (including the practices, methods, techniques and standards approved by a significant portion of the electric power generation industry, the Transmission Provider and/or NERC) that, in the exercise of reasonable judgment in light of the facts known or that should reasonably have been known at the time a decision was made and having due regard for, among other things, contractual obligations, applicable laws and equipment manufacturer's recommendations, could have been expected to accomplish the desired result in a manner consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method, technique or standard to the exclusion of all others, but rather

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to be a range of possible practices, methods, techniques or standards within which I&M shall conduct its activities under this Agreement.

- 1.26 KW means kilowatt.
- 1.27 KWh means kilowatt-hour.
- 1.28 **Letter(s) of Credit** means one or more irrevocable, transferable standby letters of credit issued by a U.S. commercial bank or a foreign bank with a U.S. branch with such bank having a Credit Rating of at least A- from S&P or A3 from Moody's, in a form and from a bank acceptable to the Company. Costs of a Letter of Credit shall be borne by the applicant for such Letter of Credit.
- 1.29 **Load Serving Entity** means any entity (or the duly designated agent of such an entity), (i) serving end-users within the Transmission Provider's transmission service area, and (ii) that has been granted the authority or has an obligation pursuant to state or local law, regulation or franchise to sell electric energy to end-users located within the Transmission Provider's transmission service area.
- 1.30 **Losses** means any transmission loss, transformation loss, sub-transmission and/or distribution losses incurred in providing Full Requirements Electric Service hereunder; provided, however, that Losses shall only include losses incurred between the sources of Energy and the Delivery Points. In no case shall Losses include losses that may be incurred from the Delivery Points to the ultimate retail customers.
- 1.31 **Market Rules and Procedures** means the market rules, manuals and procedures adopted by the Transmission Provider, as may be amended from time to time, and as administered by the Transmission Provider to govern operations within the Transmission Provider's transmission service area.
- 1.32 **Monthly Charges** means the monthly charges set out in Article 4 of this Agreement.
- 1.33 **Moody's** means Moody's Investors Service, Inc. and its successors.
- 1.34 MW means Megawatt.
- 1.35 MWh means Megawatt-hour.
- 1.36 NERC means the North American Electric Reliability Council.
- 1.37 **Network Integration Transmission Service** or NITS means firm transmission service as set forth in the Transmission Provider's OATT that provides for delivery of Firm Energy to the Delivery Points.

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- 1.38 **Non-Defaulting Party** means the Party that has not caused an Event of Default.
- 1.39 **Normal Load Growth** means the future projected load growth, as measured by Customer's hourly peak demand, in the current Contract Year, predicted by the method below that yields the higher value: (a) the maximum annual peak demand over a 60 minute interval in any of the previous three (3) Contract Years times 1.04; or (b) the maximum annual peak demand over a 60 minute interval in any of the previous three (3) Contract Years plus five thousand (5,000) kilowatts. Load growth that occurs as a result of Customer annexing territory that Company serves at retail shall not be treated as load growth for purposes of this definition, but such annexed load shall be served under this Agreement.
- 1.40 **OATT** means the Transmission Provider's Open Access Transmission Tariff on file at FERC.
- 1.41 **Performance Assurance** means collateral in the form of either cash, Letter(s) of Credit, or other security acceptable to the Company.
- 1.42 **PJM** means PJM Interconnection, LLC.
- 1.43 **Related Documents** means, either collectively or individually, the Interconnection and Local Delivery Services Agreement, the PJM Open Access Transmission Tariff, the PJM Operating Agreement, the PJM Reliability Agreement, the PJM West Reliability Agreement, and any other applicable PJM Market Rules And Procedures.
- 1.44 **Retail Load** means Energy metered at the Delivery Points to meet the requirements of Customer's end use customers (including Customer's own end use for such things as street lighting and municipal buildings) located within the franchised service territory that Customer has a statutory or contractual right or obligation to serve.
- 1.45 **S&P** means Standard & Poor's Rating Group (a division of McGraw-Hill, Inc.).
- 1.46 **Term** is defined in Section 2.1 of this Agreement.
- 1.47 **Transmission Provider** means the entity or entities transmitting or transporting the Firm Energy, and responsible for providing Ancillary Services associated with the delivery of Full Requirements Electric Service, from the Generation Resources to the Delivery Points. The Transmission Provider as of the Effective Date of this Agreement is PJM.

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Indiana Michigan Power Company
Issued on: **May 26, 2006**

Effective: **July 1, 2006**



ARTICLE 2: TERM, SERVICE AND DELIVERY PROVISIONS

- 2.1 **Term.** The Term of this Agreement shall begin as of the Effective Date and extend through and include the end of the Delivery Period. Whenever the Term of this Agreement ends, the applicable provisions of this Agreement shall continue in effect for one year in accordance with Article 16.11, Survival, or by their own terms, or to the extent necessary to provide for final accounting, billing (including any "true-up" billing provided for in this Agreement), billing adjustments, resolution of any billing disputes, realization of any collateral or other security, set-off, final payments, or payments pertaining to liability and indemnification obligations arising from acts or events that occurred in connection with this Agreement during the Term.
- 2.2 **Delivery Period.**
- (a) The Delivery Period shall commence on **July 1, 2006**, and extend through **May 31, 2026**, from HE 0100 through 2400 Eastern Prevailing Time, unless (i) this Agreement is canceled earlier in accordance with Sections 2.2(b) or 2.2(c) hereof, in which event the Delivery Period shall end as of 2400 Eastern Prevailing Time on the date the notice provided for in Sections 2.2(b) or 2.2(c) becomes effective; or (ii) an Early Termination Date becomes effective in accordance with the provisions of Article 7 of this Agreement, in which event the Delivery Period shall end as of 2400 Eastern Prevailing Time on the Early Termination Date.
- (b) Customer may cancel this Agreement prior to the end of the Delivery Period, effective on May 31, 2019, or on May 31 of any year thereafter through 2025, by delivering to Company not less than **seven (7)** years prior to June 1 of any of those years, written notice of Customer's intention to cancel this Agreement. For example, providing notice of cancellation before June 1, **2019** shall terminate this Agreement as of May 31, 2019.
- (c) With six (6) months advance written notice, either Party may cancel this Agreement, prior to the end of the Delivery Period, if a Material Impact occurs as a result of any of the following:
- (i) The sale, transfer or permanent shut-down of Cook Unit 1, Cook Unit 2, or the Company's net share of Rockport Unit 1 or Rockport Unit 2, determined as of the Effective Date of this Agreement;
- (ii) A merger or consolidation of the Company with another entity, the acquisition of the Company by another entity, a change of control of the Company pursuant to which an entity acquires 50% or more of the voting stock of the Company, or the acquisition of another entity by the Company; or
- (iii) A change in the AEP Interconnection Agreement.

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Material Impact means an increase of at least thirty-five percent (35%) in Company's annual costs per MWh, as determined pursuant to Appendix B, from one Calendar Year to the next Calendar Year.

- (d) Any notice given under Section 2.2(b) or 2.2(c) of this Agreement, for any reason, shall irrevocably terminate or cancel forever both this Agreement and any obligation on the Company's part to provide service to Customer under this Agreement. Customer further expressly acknowledges and agrees that the Customer waives any and all rights to raise in any forum a claim that the Company must provide service to Customer on the basis of
- (i) any terms or provisions of this Agreement, once this Agreement is terminated or cancelled;
 - (ii) any previous agreements between the Customer and the Company, including, but not limited to, any previous electric service agreements, any settlement agreements resolving FERC proceedings or any settlement agreements resolving any state or federal court suits (including the antitrust suits filed by Customer and others in the U.S. District Court for the Northern District of Indiana in Docket Nos. 74-72, 75-210, 77-210, 79-43); or
 - (iii) any FERC tariffs or court orders in existence as of the Effective Date of this Agreement.

Customer expressly acknowledges that Customer also waives any right to request vacatur of the order of dismissal or to reinstitute proceedings in the antitrust suits filed in U.S. District Court for the Northern District of Indiana.

2.3 Planning.

- (a) The Parties understand and agree that, as a result of this Agreement, the Company will plan to provide Full Requirements Electric Service to Customer during the Term of this Agreement. In recognition of this fact, the Parties have entered into this long-term Agreement. In order for the Company to continue to plan to serve the Customer beyond the end of the Delivery Period, the Parties understand and agree that, absent a written mutual agreement to the contrary, the Parties will need to negotiate and execute a new agreement for a new delivery period extending beyond the last day of the Term of this Agreement, at least eight (8) years before the end of the Delivery Period.
- (b) At the end of the Term of this Agreement, the Company's obligation to serve Customer under this Agreement shall terminate, and Customer expressly acknowledges that the Customer waives any and all rights to raise in any forum a claim that the Company must provide service to Customer on the basis of:

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- (i) any terms or provisions of this Agreement;
- (ii) any previous agreements between the Customer and the Company, including, but not limited to, any previous electric service agreements, any settlement agreements resolving FERC proceedings or any settlement agreements resolving any state or federal court suits (including the antitrust suits filed by Customer and others in the U.S. District Court for the Northern District of Indiana in Docket Nos. 74-72, 75-210, 77-210, 79-43); or
- (iii) any FERC tariffs or court orders in existence as of the Effective Date of this Agreement.

Customer expressly acknowledges that Customer also waives any right to request vacatur of the order of dismissal or to reinstitute proceedings in the antitrust suits filed in U.S. District Court for the Northern District of Indiana.

- (c) In order to allow Company to plan to meet Customer's Retail Load, Customer agrees to provide the Company, by June 1 of each Calendar Year during the Term of this Agreement, a forecast of Customer's expected Retail Load for the following eight Calendar Years.

2.4 Delivery Points. The Delivery Points for the Full Requirements Electric Service to be provided hereunder are set forth on Appendix A. In coordination with the Transmission Provider, if necessary, and subject to the execution of any necessary agreements, the Parties may mutually agree to add or delete Delivery Points and to make other changes regarding Delivery Points. Consent to changes regarding Delivery Points shall not be unreasonably withheld. Whenever there is any change in Delivery Points, Appendix A hereto automatically shall be amended to reflect such change and, when necessary, be submitted to the FERC.

ARTICLE 3: SALE AND PURCHASE

3.1 Full Requirements Service.

- (a) During the Delivery Period, Company shall sell and deliver and Customer shall receive and purchase Full Requirements Electric Service sufficient to serve Customer's Retail Load, except as otherwise provided herein. As a provider of Full Requirements Electric Service, Company is solely responsible for satisfying all requirements and paying all costs incurred or to be incurred to provide Full Requirements Service, and Customer shall pay for such Full Requirements Electric Service as provided in Article 4 of this Agreement. Full Requirements Electric Service includes all generation-related services and schedules associated with Full

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Requirements Electric Service, as more fully identified in Appendix C of this Agreement.

- (b) Appendix C, delineating the respective cost responsibilities of Company and Customer for generation-related and transmission-related services and schedules, respectively, is based upon the current PJM Operating Agreement and PJM OATT, and reflects the Company's current accounting for generation-related services and schedules, which are collected through the cost of service formulas set forth in Appendix B hereto. As either (i) schedules and services are added, deleted or changed in those agreements and tariffs of the Transmission Provider or in other documents governing the provision of and charges for services required in connection with Full Requirements Electric Service, or (ii) the accounting for such charges is changed, the Parties shall negotiate in good faith to determine, consistent with the principles underlying Appendix C, which new or changed schedules and services are predominantly generation-related and therefore shall be included in Full Requirements Electric Service and which are predominantly transmission-related and therefore shall be the responsibility of Customer. Appendices B and C shall automatically be amended, in a prompt manner, to incorporate such changes, as are mutually agreed by the Parties, and, when necessary, submitted to the FERC. The Parties shall cooperate in good faith to ensure that, irrespective of changes in the mechanisms for recovery of costs by the Transmission Provider and changes in accounting, the respective cost responsibilities of Company and Customer shall remain governed by this Agreement. In no event shall the costs of a particular service or schedule associated with Full Requirements Electric Service be recovered twice from Customer through its inclusion both in the costs used to derive the Full Requirements Electric Service unit rates pursuant to Appendix B and also in the costs in Appendix C for which Customer is responsible.
- (c) Company understands that the Customer's Retail Load may change from time to time. Except as specifically provided herein, at no time during the Delivery Period shall Customer use either (i) newly constructed or purchased generation resources, or (ii) new power purchase agreements, to reduce Customer's Retail Load. Company is responsible for Full Requirements Electric Service regardless of changes in Retail Load arising from daily fluctuations, increased or decreased usage, extreme weather and/or similar events; provided, however, that the Parties agree that this Agreement does not obligate the Company to sell to Customer, or the Customer to purchase from Company, at the rates set forth herein, Full Requirements Electric Service for any additions to Retail Load that exceed Normal Load Growth.
- (d) To the extent that Customer's Retail Load grows at a rate in excess of Normal Load Growth, Company and Customer agree to meet to discuss whether such excess Retail Load could be served under this Agreement, or whether changes could be made to this Agreement to address how Customer's Retail Load that exceeds Normal Load Growth can be met under this Agreement; provided however, neither Party shall be

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required to accept a change with which it, in its sole judgment, disagrees. If the Parties do not agree how Customer's Retail Load that exceeds Normal Load Growth can be met under this Agreement, then Customer shall have the right to find alternate supplies to serve such excess Retail Load, including the use of New Generation in accordance with this Article. With appropriate compensation, Company will cooperate with Customer with respect to the integration of such alternative supplies into the total supply of Customer.

- (e) If, during the Term of this Agreement, one or both units of Company's Cook Nuclear Plant experiences an outage that is anticipated to extend longer than three (3) months, and the Parties agree in writing that a reduction in Customer's Full Requirements Electric Service would be mutually beneficial, then Customer may reduce Customer's Full Requirements Electric Service for the duration of the outage.

3.2 Transmission Service, Ancillary Services and Local Facilities Service.

- (a) Commencing simultaneously with the Delivery Period and ending no later than the end of the Term of this Agreement, Company shall arrange for Network Integration Transmission Service ("NITS") and Ancillary Services for Customer's Retail Load and shall be responsible during the Delivery Period for the provision of all such services. Customer shall be responsible for paying all NITS and any other related Transmission Provider charges (including but not limited to, administrative fees that the Company incurs but does not record on its books in generation-related accounts) as identified on Appendix C. Beginning July 1, 2006, and throughout the Term of this Agreement, Customer agrees to reimburse the Company for all NITS and any other related Transmission Provider charges that the Company incurs on the Customer's behalf, as well as for all charges for Ancillary Services the Company incurs but does not record on its books in generation-related accounts. These charges shall be billed by Company to Customer using the same rates and billing determinants that would be used by the Transmission Provider to bill Customer if Customer were separately billed by the Transmission Provider. Company agrees not to oppose the Customer's right to initiate or participate in any FERC proceeding regarding PJM or NITS charges. In no event shall the costs of a particular service or schedule associated with Full Requirements Electric Service be recovered twice from Customer through its inclusion both in the costs used to derive the Full Requirements Electric Service unit rates pursuant to Appendix B and also in the costs in Appendix C for which Customer is responsible.
- (b) Prior to the beginning of the Delivery Period, Customer agrees to execute, and during the Term of this Agreement Customer agrees to maintain, an Interconnection and Local Delivery Service Agreement with the Company. Beginning July 1, 2006, and throughout the Term of this Agreement, Customer further agrees to pay all charges related to the Interconnection and Local Delivery Service Agreement to Company, or to the Transmission Provider acting as a billing and collections agent for the AEP

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Operating Companies, if the Customer, Company and Transmission Provider so agree. The services provided under the Interconnection and Local Delivery Service Agreement are sometimes referred to in this Agreement as "Local Facilities Service."

3.3 Existing Generation. As of the Effective Date of this Agreement, Customer has no existing generating facilities behind the meters that will measure Customer's Billing Demand and Billing Energy under this Agreement.

3.4 New Generation.

- (a) Subject to all applicable interconnection and siting requirements, and any other applicable requirements, Customer may, at any time after the Effective Date of this Agreement, construct, behind the Company's meters, new generating facilities, including but not limited to, generation facilities to provide backup, standby or emergency power ("New Generation"). The output of any New Generation shall be separately metered to allow Company to determine Customer's total Retail Load unaffected by New Generation. Unless Customer designates a New Generation facility "Load Serving Generation" pursuant to the process set forth in Section 3.4(b) of this Agreement, New Generation shall be deemed to be "Non-Load Serving Generation" and shall be subject to the provisions of Section 3.4(c) of this Agreement.
- (b) If the following conditions are met, then New Generation built by Customer after the Effective Date of this Agreement may be used to serve up to, and including, ten percent (10%) of Customer's maximum demand established since the beginning of the Delivery Period ("Load Serving Generation"):
- (i) Customer shall provide Company with no less than two (2) years' advance written notice of the in-service date of any Load Serving Generation it intends to build;
 - (ii) Any Load Serving Generation built by Customer shall be capable of producing sufficient capacity and energy to serve the amount of Retail Load, not to exceed ten percent (10%) of Customer's maximum demand established since the beginning of the Delivery Period, that Customer designates to be served by the Load Serving Generation ("Load Responsibility Percentage");
 - (iii) Customer's Load Responsibility Percentage shall be determined, to the nearest one tenth of one percent (0.1%), as of the in-service date specified by Customer in the notice provided under Section 3.4(b)(i), as the lower of (a) the amount specified by Customer (not to exceed the nameplate rating of the Load Serving Generation) as a percentage of Customer's maximum demand established since the beginning of the Delivery Period; or (b) 10%;

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- (iv) Once Customer provides Company with written notice of its intention to build Load Serving Generation, then, as of the in-service date specified in Customer's notice, Customer shall be responsible for serving the Load Responsibility Percentage determined in accordance with Section 3.4(b)(iii), but not future load growth. Consequently, Customer's Load Responsibility Percentage will be adjusted to the nearest one tenth of one percent (0.1%), on an annual basis two (2) months prior to the beginning of the next Contract Year, in accordance with the following example: Customer builds Load Serving Generation with a five (5) MW nameplate rating at a time when its maximum demand is one hundred (100) MWs. Customer's Load Responsibility Percentage is five percent (5%). Over the next year, Customer's monthly maximum peak demand grows to one hundred ten (110) MWs. The Load Responsibility Percentage shall be adjusted to four and five tenths percent (4.5%) calculated by dividing five (5) MWs by one hundred ten (110) MWs;
- (v) Beginning on the in-service date specified in Customer's notice of its intention to build Load Serving Generation, regardless of the actual in-service date of the Load Serving Generation, Customer shall be responsible for serving the Load Responsibility Percentage of its Retail Load (*i.e.* "gross" load) in each hour throughout the remaining Term of this Agreement, and Company shall no longer have any obligation to serve that Load Responsibility Percentage of Customer's Retail Load under this Agreement. If Customer is unable to supply its Load Responsibility Percentage of its Retail Load from its Load Serving Generation, Customer shall supply such load from other sources, including the market. With appropriate compensation, Company will cooperate with Customer with respect to the integration of such other sources into the total supply of Customer; and
- (vi) Beginning on the in-service date specified in Customer's notice of its intention to build Load Serving Generation, the grant of any and all rights, interests and obligations to Company to supply the Load Responsibility Percentage of Customer's Retail Load under this Agreement shall cease, and Company and Customer shall cooperate, in advance, to make all necessary filings with the Transmission Provider and to perform all other acts necessary to transfer all rights, interests and obligations associated with the Load Responsibility Percentage back to Customer.
- (c) Any New Generation built by Customer after the Effective Date of this Agreement that is not designated as Load Serving Generation under Section 3.4(b) shall be deemed to be non-load serving generation ("Non-Load Serving Generation"). So long as adequate metering is maintained on the Non-Load Serving Generation to measure hourly metered output in KWh, Customer may run its Non-Load Serving

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Generation at any time during the Delivery Period; provided, however, that Non-Load Serving Generation shall not reduce Retail Load or the amount of Full Requirements Electric Service that Customer is obligated to purchase from Company under this Agreement. The metered output of Customer's Non-Load Serving Generation shall be added to the Customer's metered load to determine Customer's Billing Demand and Billing Energy (total Retail Load). The Parties agree that the sole compensation that Customer shall receive from Company for running Non-Load Serving Generation built to provide backup, standby or emergency power shall be a credit netted against Customer's Monthly Bill calculated by taking an amount equal to (i) the metered KWh, as measured each hour by the metering on the Non-Load Serving Generation during the preceding month, adjusted for losses, times (ii) the Real-Time Locational Marginal Price ("LMP") in the AEP Load Zone ("AEP Zonal LMP") for each such hour less the PJM Balancing Operating Reserve charges for such hour. Customer may sell energy and/or capacity from other Non-Load Serving Generation (i.e. Non-Load Serving Generation that was not built to provide backup, standby and/or emergency power) into PJM, in accordance with applicable Market Rules and Procedures, or under a bilateral agreement with Company or a third party.

3.5 Qualifying Facility Purchases.

- (a) So long as Customer is receiving Full Requirements Electric Service from Company, Company shall be obligated to purchase the electrical output from any duly licensed and properly operating Qualifying Facility connected to Customer, but only so long as Company has such obligation pursuant to the Public Utility Regulatory Policies Act of 1978, as amended ("PURPA"). The definition of Qualifying Facility shall be as contained in PURPA and the FPA.
- (b) Company shall apply the monthly billing amounts set forth in Article 4 to the combined Full Requirements Electric Service supplied by Company and the amounts delivered by the Qualifying Facility to the Customer. If Customer pays the Qualifying Facility directly for such energy, Company shall provide a credit equal to Company's avoided cost rate at the rate that Company would have paid to the Qualifying Facility if Company had directly purchased the Qualifying Facility output.
- (c) Customer agrees that Customer will not, directly or indirectly, engage in any activity to encourage or promote the construction or installation of a Qualifying Facility, except as otherwise required by or necessary to comply with applicable law, and shall not itself install, purchase or operate a Qualifying Facility during the Term of this Agreement.
- (d) Customer shall notify Company of the proposed connection of any Qualifying Facility to Customer's system. Notification shall be in writing as soon as practical, but at least ninety (90) days prior to the connection of the Qualifying Facility.

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3.6 Retail Choice.

- (a) The Parties expressly recognize that retail choice may occur in Customer's service area during the Term of this Agreement. In order to enable Customer to compete to retain existing customers, in the event retail choice is mandated in Customer's service area, by state or federal statutes, regulations, or regulatory agencies, or in the event other power suppliers plan to make a direct connection to one or more retail customers of Customer, the Parties agree as follows: If retail choice is available to a customer or an aggregated group of customers or a potential customer of Customer, Customer may negotiate a price with Company for the retention of such customer or group of customers, or to obtain new customers; provided, however, that if Customer and Company are unable to agree upon a price that retains or acquires such customer(s), then Customer may seek to obtain an alternate source of power supply, including the use of New Generation, which Company shall have the right of last refusal to match within one (1) Business Day of being officially notified by Customer. Such alternate source of power can only be made available to that specific customer or aggregated groups of customers for the defined period of the contract for alternate power supply and shall not be made available to other Retail Load of Customer or to displace other purchases.
- (b) "Mandated by state or federal statutes, regulations or regulatory agencies" includes the following scenarios: (i) state or federal statutes or regulations or regulatory agencies provide for retail choice by Customer's Retail Load as part of a larger retail choice program (in either a pilot program or permanent program), or (ii) Customer is exempt from such state or federal statutes or regulations, but retail customers of Customer, by vote or other legally enforceable right, require that Customer offer them the same provisions and rights contained in a statewide retail choice program.

3.7 Renewable Portfolio Standards.

- (a) During the Term of this Agreement, if the Company is required, as a result of federal or state laws, rules or regulations, to meet the requirements of any renewable portfolio standards, the Company agrees to meet those requirements with regard to Customer's Retail Load. In no event shall the Company be obligated to meet any renewable portfolio standards imposed upon or enacted by Customer that are more stringent than those standards that the Company is required to meet.
- (b) In the event that Customer, but not Company, is required, as a result of federal or state laws, rules or regulations, to meet the requirements of any renewable portfolio standards, the Company and Customer agree to meet and discuss how such requirements are to be met.

ARTICLE 4: MONTHLY RATES AND BILLING

4.1 General Principles Regarding Monthly Charges for Full Requirements Electric Service. The Monthly Charges for Full Requirements Electric Service supplied to Customer by Company hereunder during the Delivery Period of this Agreement shall include a Generation Demand Charge, a Generation Energy Charge (collectively, the "Generation Demand and Generation Energy Charges"), and a Generation Fuel Charge, all calculated in accordance with the terms of this Article and subject to all other terms and conditions contained in this Agreement. For each Calendar Year, the Generation Demand and Generation Energy Charges for which Customer is ultimately responsible shall be determined using data from Company's FERC Form 1 for that Calendar Year and the Return on Common Equity from December of the preceding Calendar Year as specified in Section 4.6(b). Because of the time lag in availability of the FERC Form 1 data, Generation Demand and Generation Energy Charges will initially be assessed based on estimated monthly rates, and a "true-up" will subsequently be conducted for each Calendar Year, as provided in Section 4.3 hereof. The Generation Energy Charge shall exclude fuel-related costs. All fuel-related costs shall be recovered through the Generation Fuel Charge, which shall be "trued up" to more current actual fuel-related costs by means of the Fuel Adjustment Charge set forth in Section 4.5 hereof. The monthly rates used to calculate the Generation Demand Charge, Generation Energy Charge and Generation Fuel Charge for Full Requirements Electric Service shall be determined pursuant to the cost-of-service formulas set forth in Appendix B hereto. These formulas will be used for both estimated and actual ("trued-up") rates and charges.

4.2 Estimated Generation Demand, Generation Energy, and Generation Fuel Charges. Estimated monthly rates shall be developed for each Contract Year. The estimated monthly rates used to calculate the Generation Demand Charge, Generation Energy Charge and Generation Fuel Charge shall be determined annually by the Company, pursuant to Appendix B, prior to the 31st day of May; be provided to the Customer, for its review by June 1; and be made effective as of June 1 (*i.e.*, at the commencement of each Contract Year). The estimated monthly rates in effect during each Contract Year shall be based upon the cost incurred in providing Full Requirements Electric Service for the most recent Calendar Year for which FERC Form 1 data is available. Customer shall have the rights set forth in Section 4.4 of this Agreement regarding the calculation of these estimated monthly rates and the resulting estimated Monthly Charges.

For example, in Calendar Year 2007, for the first five months the estimated monthly rates used to bill Customer will be based upon Calendar Year 2005 FERC Form 1 data (and will be the same as the estimated monthly rates used in the latter portion of Calendar Year 2006); beginning on June 1, 2007, the estimated monthly rates will be based upon Calendar Year 2006 FERC Form 1 data (and will remain in effect for the remainder of the 2007-2008 Contract Year); and all charges based on these estimated rates for Calendar Year 2007 will be subject to "true-up" of the Generation Demand Rate and Generation Energy Rate in 2008, pursuant to Section 4.3.

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- 4.3 **True-Up of Generation Demand and Generation Energy Charges.** Because the Generation Demand and Generation Energy Charges initially collected during a Calendar Year will be the product of estimated rates based on data from previous Calendar Years, the Generation Demand and Generation Energy Charges shall be adjusted (or "trued-up") based upon (i) FERC Form 1 cost data from that Calendar Year and (ii) the Return on Common Equity calculated using data from December of the previous Calendar Year as specified in Section 4.6(b). The true-up for Generation Demand and Generation Energy Charges shall be conducted by Company prior to May 31st of each Calendar Year once the FERC Form 1 data for the prior Calendar Year is available, and shall be accomplished by recalculating the sums due to Company from Customer for service provided during the prior Calendar Year. The difference between the sum of the Monthly Charges originally billed to Customer for service provided during the Calendar Year, based on the estimated monthly rates, and the sum of the Monthly Charges for which Customer is ultimately responsible shall be billed to Customer or credited to Customer, as appropriate, in twelve (12) equal monthly amounts beginning with the month of June of the year immediately following the Calendar Year for which the "true-up" is calculated, unless otherwise agreed by the Parties. The amount to be billed or credited for any such over-collections or under-collections will include interest determined in accordance with Section 35.19a of FERC's regulations, charged or applied from the date of original payment to the date when the over-collections or under-collections are paid or credited, but excluding the date paid or credited. Customer may unilaterally elect to prepay any amounts owed to Company, and Company may unilaterally elect to credit, in advance, any amounts due to Customer; and any such prepayments or advance credits shall be reflected in any interest calculations hereunder. Customer shall have the rights set forth in Section 4.4 of this Agreement regarding the calculation of the "trued-up" Monthly Charges.

For example, the "true-up" of Generation Demand and Generation Energy Charges initially collected for service provided during Calendar Year 2007 shall be conducted by Company by May 31, 2008. The "trued-up" charges shall be calculated using (i) 2007 FERC Form 1 cost data and (ii) the Return on Common Equity calculated using data from December, 2006. The difference between the sum of the Monthly Charges originally billed to Customer for service provided during 2007 (based on two different sets of estimated rates for portions of two Contract Years) and the sum of the "trued-up" Monthly Charges for Calendar Year 2007 will be divided into twelve (12) equal amounts and billed to Customer or credited to Customer, as appropriate and with interest, in invoices sent to Customer from July 2008 through June 2009, covering services provided during June 2008 through May 2009, unless otherwise agreed by the Parties or unless a full prepayment is made by Customer or a full advance credit is refunded by Company.

- 4.4 **Review Process.** Each time monthly rates are determined annually by the Company, whether to use in estimated billings to Customer during the upcoming Contract Year, or to "true up" the Generation Demand and Generation Energy Charges for the preceding Calendar Year, the following information shall be provided to Customer by Company on

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or before June 1: (i) the Company's FERC Form 1 Report; (ii) the calculation of the monthly rates; and (iii) workpapers showing the source of all data utilized in the calculation of the monthly rates and any other supporting documentation. The accuracy of the Company's calculations, as well as the data used in those calculations (including FERC Form 1 data) shall be subject to review and adjustment in accordance with the following procedure:

(a) Customer shall have until September 30 to review the information provided by the Company. During that time the Customer may ask the Company questions, but such questions shall be limited to determining if the Company properly applied the cost-of-service formulas in Appendix B; if the data used in Appendix B was proper; and if the Company's calculations were consistent with this Agreement. The Company shall respond to such questions within fifteen (15) Business Days.

(b) If the Company and Customer do not resolve any dispute as to the appropriateness of the data used by the Company or the application of the cost-of-service formulas in Appendix B by September 30, Customer may file a complaint at FERC regarding the accuracy of the Company's calculations or the data used in those calculations (including FERC Form 1 data), or both. The Parties agree that the complaint proceeding will be limited to determining if the Company properly applied the cost-of-service formulas in Appendix B; if the data used in Appendix B was proper; and if the Company's calculations were consistent with this Agreement. The Company agrees to bear the burden of proof regarding these matters in any such complaint proceeding. The refund obligation will extend for the entire Contract Year or Calendar Year that is the subject of review as a result of the complaint proceeding, with Company having no right to seek suspension of the refund effective date.

(c) The Monthly Charges being collected from Customer by Company under this Agreement shall be subject to adjustment until the latest of (i) September 30 of each year during the Term of this Agreement, if at such time, there has been no complaint filed at FERC under this Section; (ii) the final resolution of any complaint filed pursuant to this Section; or (iii) the day any required corrections have been made by the Company. The Company shall make any necessary corrections as soon as possible and shall make any adjustments to Customer's bill on the next monthly billing.

4.5 **Fuel Adjustment Charge.** Customer shall pay Company a monthly Fuel Adjustment Charge determined pursuant to the cost-of-service formulas set forth in Appendix B hereto. The base cost of fuel, expressed in dollars per KWh, to be used in the Fuel Adjustment Charge shall equal the then-applicable Generation Fuel Rate. Customer shall be billed a Fuel Adjustment Charge each month for the energy delivered in the preceding month based upon estimated fuel charges in excess of the Generation Fuel Rate or, if applicable, shall be credited for the amount by which the estimated fuel charges are lower than the Generation Fuel Rate. Any difference between the estimated fuel charges and

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the fuel charges based on actual fuel costs shall be billed or credited to Customer on the first bill rendered after such actual fuel costs have been determined. Company shall use reasonable diligence when estimating monthly fuel charges so as to avoid any significant difference between estimated and actual monthly fuel charges to Customer.

4.6 **Cost-of-Service Formulas.** The cost-of-service formulas set forth in Appendix B were designed, by mutual agreement, primarily to use the Company's FERC Form 1 costs. Certain costs that either are not reflected in the Company's FERC Form 1, or that the Parties agreed were not representative of the Company's costs, were determined by negotiation. The specific elements of the cost-of-service formulas set forth below were negotiated as an integrated and integral part of this Agreement:

- (a) For purposes of calculating the Company's rate base used in Appendix B, the Parties agree that the Company will include one hundred percent (100%) of its expenditures for Pollution Control Facilities and Fuel Conversion Facilities (as defined in Section 35.25 of the FERC's regulations) recorded on the Company's books and records as construction work in progress ("CWIP"), and fifty percent (50%) of its expenditures for all other CWIP.
- (b) The Return on Common Equity, which will be used to compute the composite cost of capital used in Appendix B, shall be determined annually by taking the average of the daily Moody's Long-Term Baa Corporate Bond Index for the month of December of the preceding year, and adding 535 basis points (5.35 percentage points). For estimated Monthly Charges, the composite cost of capital and estimated Monthly Charges shall be developed using the Appendix B formulas and data from the FERC Form 1 for the Calendar Year that ends with the same month of December as was used to determine the Return on Common Equity. (For example, by June 1, 2008, the composite cost of capital shall be determined using the Return on Common Equity from December, 2007 and other capital cost data from the FERC Form 1 for Calendar Year 2007. The resulting composite cost of capital shall be used in the Appendix B formulas together with other FERC Form 1 data for Calendar Year 2007 to determine the estimated Generation Demand and Generation Energy Charges and the Generation Fuel Rate for the Contract Year beginning June 1, 2008.) For true-ups of the Generation Demand and Generation Energy Charges, the FERC Form 1 data for the Calendar Year being trued up shall be used in conjunction with the Return on Common Equity from December of the prior Calendar Year. (For example, once 2008 FERC Form 1 data are available in 2009, such data shall be used to compute the 2008 composite cost of capital using the Return on Common Equity from December, 2007. That composite cost of capital will be used with other 2008 FERC Form 1 data to determine the trued-up Generation Demand and Generation Energy Charges for Calendar Year 2008.) So long as the Return on Common Equity computed pursuant to this Section 4.6(b) is neither lower than 9.0% nor higher than 18.0%, the Parties agree that the Return on Common Equity used to compute the composite cost of capital in Appendix B shall not be subject to change under Sections 205 or 206 of the

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Federal Power Act ("FPA"), absent the mutual written consent of the Parties. In the event that the Return on Common Equity produced as a result of the calculation provided for herein is either below 9.0% or above 18.0%, either Party may seek FERC review of the Return on Common Equity value under the "just and reasonable" standard of Sections 205 and 206 of the FPA.

- (c) The Company's Member Load Ratio share of net revenue from deliveries to non-associated companies by the AEP Operating Companies ("System Sales") shall be shared fifty percent (50%) by Customer and fifty percent (50%) by Company, with the Customer's share reducing the Company's total production cost as shown on Appendix B. For purposes of this Section 4.6(c), "net revenue" refers to the revenue in excess of the full cost of making such System Sales.
- (d) The Depreciation Expense used in Appendix B will be calculated using the depreciation rates that are approved from time to time by the Michigan Public Service Commission ("MPSC") to record depreciation in the Company's Michigan jurisdiction. These depreciation rates are subject to periodic change at such time as the Company has filed new depreciation rates with the MPSC and the MPSC allows the Company to begin recording depreciation expense based upon newly-approved depreciation rates.
- (e) The Nuclear Decommissioning expense used in Appendix B will initially be set at the total Company level of \$40 million. When the MPSC next authorizes a change in the level of Nuclear Decommissioning Expense for the Company's Michigan retail customers, the total Company level of Nuclear Decommissioning Expense used in Appendix B to calculate Customer's rates shall be reset as if the total Company level authorized by the MPSC were being collected from customers in all of the Company's regulatory jurisdictions. This provision in no way affects Customer's rights, if any, at FERC, regarding nuclear decommissioning expenses. The revenue collected from Customer, by means of the Monthly Charges in effect under this Agreement, includes a component sufficient to recover Customer's portion of Company's regulatory assets and unrecorded liabilities related to decommissioning.
- (f) The method set forth in Appendix B to allocate costs as production-related and/or transmission-related shall be used throughout the Term of this Agreement; provided, however, that, to the extent that any of the following circumstances occur during the Term of this Agreement, the Parties will meet and attempt to determine a mutually agreeable modification to Appendix B: (i) FERC determines in a rulemaking proceeding, or in a proceeding regarding the Company's costs to be included in the Transmission Provider's OATT, or it is agreed in a FERC-approved settlement of any such proceeding, that items currently included in Appendix B as production-related should be treated as transmission-related; or (ii) FERC determines in a rulemaking proceeding, or in a proceeding regarding the Company's costs to be included in the Transmission Provider's OATT, or it is agreed in a FERC-approved settlement of any

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such proceeding, that items currently excluded from Appendix B as transmission-related should be treated as production-related. If either or both of the circumstances in this Section 4.6(f) occurs and the Parties cannot agree upon a modification to Appendix B, then either Party may seek FERC review of Appendix B's treatment of the items addressed in such proceedings under the "just and reasonable" standard of Sections 205 and 206 of the FPA.

4.7 Billing Demand and Energy.

- (a) The monthly Billing Demand shall be the single highest 60-minute KW demand measured during the Billing Period, but not less than 400 KW.
- (b) The monthly Billing Energy shall be the total KWWhs of Firm Energy as measured during the Billing Period.

4.8 Determination of Monthly Bill. The Monthly Bill shall set forth charges for Full Requirements Electric Service, charges for Local Facilities Service, charges to reimburse costs incurred by Company on behalf of Customer in connection with Full Requirements Electric Service, and other charges associated with Full Requirements Electric Service. The Monthly Bill shall be the total of the following:

1. The product of the Generation Demand Rate and the Billing Demand; plus
2. The product of the Generation Energy Rate and the Billing Energy; plus
3. The product of the Generation Fuel Rate and the Billing Energy; plus
4. The product of the Fuel Adjustment Charge and the Billing Energy; plus
5. All applicable charges in accordance with the Interconnection and Local Delivery Service Agreement, to the extent not billed directly to the Customer by the Transmission Provider or otherwise; plus
6. All amounts due to Company for reimbursement of charges incurred by Company as the NITS customer for delivery of Full Requirements Electric Service in accordance with the OATT or related agreements for transmission-related schedules or services for which Customer is responsible pursuant to Section 3.2(a) and Appendix C hereto, to the extent that such charges are not included in Items 1 through 5 above; minus
7. All amounts due to Customer from Company pursuant to Sections 3.3, 3.4 and 3.5; plus

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8. Any applicable governmental taxes, fees and assessments attributable to Full Requirements Electric Service not included in any of the other elements of the Monthly Bill.
- 4.9 **Payment Date.** Customer shall pay Company any amounts due and payable hereunder on or before the later of the fifteenth (15th) day of each month, or the fifteenth (15th) day after receipt of invoice or, if such due date is not a Business Day, then on the next Business Day. All invoices shall be paid by electronic funds transfer, or by other mutually agreeable method(s), to the account designated by the Company. If all or any part of any amount due and payable pursuant to this Agreement shall remain unpaid thereafter, interest shall thereafter accrue and be payable to Company on such unpaid amount at a rate determined in accordance with Section 35.19a of FERC's regulations.
- 4.10 **Payment Netting.** Parties hereby agree that they shall discharge mutual debts and payment obligations due and owing to each other on the same date pursuant to this Agreement through netting, in which case all amounts owed by each Party to the other Party under this Agreement, interest, and payments or credits, shall be netted so that only the excess amount remaining due shall be paid by the Party who owes it. All amounts netted pursuant to Article Four shall not take into account or include any Performance Assurance or guaranty, which may be in effect to secure a Party's performance under this Agreement. If no mutual debts or payment obligations exist and only one Party owes a debt or obligation to the other during the monthly Billing Period, that Party shall pay such sum in full when due.
- 4.11 **Billing Disputes.** If a Party, in good faith, disputes an invoice, the disputing Party shall immediately notify the other Party of the basis for the dispute and pay the undisputed portion of such invoice no later than the due date; provided, however, with respect to any amounts the Company passed through from the Transmission Provider to the Customer pursuant to item 6 in Section 4.8 above, the full amount of the disputed bill shall be paid when due and any billing dispute shall be handled in accordance with the procedures set forth in the OATT. Upon resolution of the dispute, any required payment shall be made within five (5) Business Days of such resolution along with any interest accrued at the rate determined in accordance with Section 35.19a of the FERC's regulations from and including the due date to but excluding the date paid. Inadvertent overpayments shall be returned by the receiving Party or deducted at the option of the overpaying Party, in either case with interest accrued at the rate determined in accordance with Section 35.19a of the FERC's regulations until the date paid or deducted from and including the date of such overpayment to but excluding the date repaid or deducted by the Party receiving such overpayment.

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ARTICLE 5: TRANSMISSION PROVIDER IMPLEMENTATION

5.1 Implementation.

- (a) Company and Customer shall enter into, and file with the Transmission Provider and other applicable entities, all documents necessary for the Company and the Customer to fulfill their respective obligations to provide or take Full Requirements Electric Service.
- (b) The Parties recognize and agree that Company is deemed to be the Customer's Load Serving Entity for purposes of PJM and this Agreement. The Parties further recognize and agree that the Full Requirements Electric Service to be provided hereunder is a load obligation of the Company, for purposes of PJM and the AEP Interconnection Agreement, and that the Company assumes such load obligation as its own firm power commitment and shall retain all obligations and advantages accruing from meeting the load during the Term of this Agreement. At the end of this Agreement, the Customer shall become the Load Serving Entity and all obligations and advantages from being the Load Serving Entity shall revert to Customer.
- (c) Each Party shall provide the other Party access to information the other Party reasonably requests to facilitate the administration of this Agreement.

ARTICLE 6: CREDITWORTHINESS

6.1 Financial Information. If requested by a Party ("Party X"), the other Party ("Party Y") shall deliver (i) within one hundred fifty (150) days following the end of each fiscal year, a copy of the annual report containing audited consolidated financial statements for such fiscal year with respect to Party Y, and (ii) within 60 days after the end of each of its first three fiscal quarters of each fiscal year, a copy of the quarterly report containing unaudited consolidated financial statements for such fiscal quarter with respect to Party Y, to the extent that such reports are prepared in Party Y's ordinary course of business on such schedule. In all cases the statements shall be for the most recent accounting period and shall be prepared in accordance with generally accepted accounting principles; provided, however, that should any such statements not be available on a timely basis due to a delay in preparation or certification, such delay shall not be an Event of Default so long as Party Y diligently pursues the preparation, certification and delivery of the statements.

6.2 Credit Assurances.

- (a) Customer represents that Customer's Charter ("Charter") in effect as of the Effective Date of this Agreement, enables it to charge rates which, together with the other revenues, produce revenues sufficient to pay maintenance expenses, purchased power

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expenses, other operation expenses, debt service on its bonds, other indebtedness, liens and/or charges against its revenues. In connection with the foregoing representations, Company hereby acknowledges receipt of a copy of the relevant portions of Customer's Charter. Customer agrees to annually provide Company with a copy of the relevant portion of its Charter, by June 1 of each Calendar Year during the Term of this Agreement, if requested by Company. If, at any time during the Term of this Agreement there are any material changes to Customer's Charter, or the rates it charges thereunder, that cause the representations of Customer described above to cease to be substantially accurate, Customer further agrees to immediately notify Company, in writing. Regardless of whether Customer so notifies the Company, or provides a copy of the relevant portions of its Charter to Company annually, the Customer and Company agree that if there are any material changes to Customer's Charter, or the rates it charges thereunder, that cause the representations described above to cease to be substantially accurate, then, the following provisions shall immediately become operable with respect to Customer.

- (i) If at any time Company has reasonable grounds to believe that Customer's creditworthiness or performance under this Agreement has become unsatisfactory, Company may provide the Customer with written notice requesting Performance Assurance in an amount determined by Company in a commercially reasonable manner.
- (ii) Upon receipt of such notice the Customer shall have three (3) Business Days to remedy the situation by providing such Performance Assurance to the Company.
- (iii) In the event that the Customer fails to provide such Performance Assurance or other credit assurance acceptable to the Company within three (3) Business Days of receipt of notice, then an Event of Default under Article 7 shall be deemed to have occurred.

(b) Grant of Security Interest/Remedies.

- (i) To secure its obligations under this Agreement and only to the extent Customer delivers Performance Assurance hereunder, Customer (the "Pledgor") hereby grants to Company (the "Secured Party") a present and continuing security interest in, and lien on (and right of setoff against), and assignment of, all cash collateral and cash equivalent collateral and any and all proceeds resulting therefrom or the liquidation thereof, whether now or hereafter held by, on behalf of, or for the benefit of, the Secured Party, and Pledgor agrees to take such action as the Secured Party reasonably requires in order to perfect the Secured Party's first-priority security interest in, and lien on (and right of setoff against), such collateral

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and any and all proceeds resulting therefrom or from the liquidation thereof.

- (ii) Upon or any time after the occurrence or deemed occurrence and during the continuation of an Event of Default or an Early Termination Date by Customer, the Company may do any one or more of the following:
1. exercise any of the rights and remedies of Company with respect to all Performance Assurance, including any such rights and remedies under law then in effect;
 2. exercise its rights of setoff against any and all property of the Customer in the possession of the Company or its agent;
 3. draw on any outstanding Letter of Credit issued for its benefit; and
 4. liquidate all Performance Assurance then held by or for the benefit of Company free from any claim or right of any nature whatsoever of the Customer, including any equity or right of purchase or redemption by the Customer.
- (iii) The Company shall apply the proceeds of the collateral realized upon the exercise of any such rights or remedies to reduce the Customer's obligations under the Agreement (the Customer remaining liable for any amounts owing to the Company after such application), subject to the Company's obligation to return any surplus proceeds remaining after such obligations are satisfied in full.

(c) **Interest Rate on Cash Amounts Held as Collateral.** For Performance Assurance in the form of cash that is held by Company pursuant to this Article Six, the interest rate will be the Federal Funds Rate minus 0.25% as from time to time in effect. "Federal Funds Rate" means the rate, for the relevant determination date opposite the caption "Federal Funds (Effective)", as set forth in the weekly statistical release designated as H.15 (519), published by the Board of Governors of the Federal Reserve System. Such interest shall be calculated commencing on the date Performance Assurance in the form of cash is received by Company but excluding the earlier of: (i) the date Performance Assurance in the form of cash is returned to Customer; or (ii) the date Performance Assurance in the form of cash is applied to a Customer's obligations pursuant to Section 6.2(b).

(d) **Transfer of Interest Amount.** Customer shall invoice the Company monthly setting forth the calculation of the interest amount due, and the Company shall make payment thereof by the later of (i) the third Business Day of the first month after the last month to which such invoice relates; or (ii) the third Business Day after the day on which such invoice is received.

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ARTICLE 7: DEFAULT AND REMEDIES

- 7.1 **Events of Default.** Any one or more of the following shall constitute an "Event of Default" hereunder with respect to either Party (the "Defaulting Party"):
- (a) The failure to make, when due, any payment required pursuant to this Agreement (other than payments disputed under Article 4) if such failure is not remedied within five (5) Business Days after written notice;
 - (b) Any representation or warranty made by a Party herein is false or misleading in any material respect when made or when deemed made or repeated, if such failure is not remedied within thirty (30) Business Days after written notice;
 - (c) The failure by Customer to provide Performance Assurance to Company as required under Article 6;
 - (d) The failure to perform any material covenant or obligation set forth in this Agreement (except to the extent constituting a separate Event of Default as specified above, and except to the extent such Party's obligations to deliver or receive Firm Energy are modified by the provisions of Article 8), if such failure is not remedied within five (5) Business Days after written notice; or
 - (e) A Party: (i) files a petition or otherwise commences, authorizes or acquiesces in the commencement of a proceeding or cause of action under any bankruptcy, insolvency, reorganization or similar law, or has any such petition filed or commenced against it; (ii) makes an assignment or any general arrangement for the benefit of creditors; (iii) otherwise becomes bankrupt or insolvent (however evidenced); (iv) has a liquidator, administrator, receiver, trustee, conservator or similar official appointed with respect to it or any substantial portion of its property or assets; or (v) is generally unable to pay its debts as they fall due.
- 7.2 **Declaration of an Early Termination.** If an Event of Default with respect to a Defaulting Party shall have occurred and be continuing, the other Party (the "Non-Defaulting Party") shall have the right (i) to designate a day, no earlier than the day such notice is effective and no later than 20 days after such notice is effective, as an early termination date ("Early Termination Date"); (ii) withhold any payments due to the Defaulting Party under this Agreement; and (iii) suspend performance. The declaration of an Early Termination Date shall, as of the Early Termination Date, terminate this Agreement and any obligation on the Company's part to provide service to Customer, under this Agreement or any other agreement or rate schedule, on the basis of
- (i) any terms or provisions of this Agreement;
 - (ii) any previous agreements between the Customer and the Company, including, but not limited to, any previous electric service agreements, any settlement agreements resolving

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FERC proceedings, or any settlement agreements resolving any state or federal court suits (including the antitrust suits filed in the U.S. District Court for the Northern District of Indiana in Docket Nos. 74-72, 75-210, 77-210, 79-43); or

(iii) any FERC tariffs or court orders in existence as of the Effective Date of this Agreement.

Customer expressly acknowledges that Customer also waives any right to request vacatur of the order of dismissal or to reinstitute proceedings in the antitrust suits filed in U.S. District Court for the Northern District of Indiana in Docket Nos. 74-72, 75-210, 77-210, 79-43).

7.3 Suspension of Performance. Notwithstanding any other provision of this Agreement, if an Event of Default shall have occurred and be continuing, the Non-Defaulting Party, upon written notice to the Defaulting Party, shall have the right

- (a) to suspend performance under this Agreement; provided, however, in no event shall any such suspension continue for longer than fifteen (15) Business Days unless an Early Termination Date shall have been declared and notice thereof pursuant to Article 9 been given;
- (b) to exercise any remedy available at law, subject to the limitations set forth in Section 10.1 hereof, including the right to seek to recover direct damages before a court of competent jurisdiction, and, if the Defaulting Party is the Customer, Company's right to seek to recover its stranded costs at FERC in accordance with Section 35.26 of FERC's regulations; and

(c) to exercise any remedy available in equity.

7.4 Obligations At Expiration or Termination. Upon the termination or expiration of this Agreement, in addition to such rights and obligations enumerated elsewhere in this Agreement, the grant of any and all right and interest to Company to supply Full Requirements Electric Service under this Agreement shall cease. Customer and Company shall cooperate, in advance to the extent possible, to make all necessary filings with the Transmission Provider and to perform all other acts necessary to transfer all such rights and interests back to Customer in a timely manner.

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ARTICLE 8: CURTAILMENT, TEMPORARY INTERRUPTIONS AND FORCE MAJEURE

- 8.1 **Curtailment.** If there is a shortage of Energy requiring the curtailment of the Company's Firm Energy deliveries, then upon being notified by the Transmission Provider or the Company, Customer will institute procedures which will cause a corresponding curtailment of the use of Energy by its Retail Load. It is the express intention of this provision that any curtailment of Firm Energy shall fall equitably upon all firm loads served by the Company after, to the extent within the Company's control, the curtailment of its non-firm loads. If upon notification of a requirement to curtail, Customer fails to institute such procedures, Company shall be entitled to limit deliveries of Firm Energy to Customer in order to effectuate reductions in Energy deliveries, in the smallest amount that is operationally practical, equivalent to or greater than the reduction which would have been effected had Customer fulfilled its curtailment obligation hereunder during the period any shortage exists, and, in such event, Company shall not incur any liability to Customer in connection with any such action so taken by Company.
- 8.2 **Temporary Interruptions.** Company will use reasonable diligence in furnishing Firm Energy to Customer, but Company does not guarantee that the supply of Firm Energy furnished to Customer will be uninterrupted, or that voltage and frequency will be at all times constant. The Company will not unduly discriminate against the Customer, as among its retail and wholesale customers, when handling the impact of temporary interruptions. Temporary interruption of Firm Energy deliveries hereunder shall not constitute a breach of the obligations of Company under this Agreement, and Company shall not in any such case be liable to Customer for damages resulting from any such temporary interruptions of service.
- 8.3 **Force Majeure.** To the extent either Party is prevented by Force Majeure from carrying out, in whole or part, its obligations under this Agreement and such Party (the "Claiming Party") gives notice and details of the Force Majeure to the other Party as soon as practicable, then the Claiming Party shall be excused from the performance of its obligations with respect to this Agreement (other than the obligation to make payments then due or becoming due with respect to performance prior to the Force Majeure). The Claiming Party shall remedy the Force Majeure with all reasonable dispatch. The non-Claiming Party shall not be required to perform or resume performance of its obligations to the Claiming Party corresponding to the obligations of the Claiming Party excused by Force Majeure.
- 8.4 **Transmission Curtailment.** Neither Party may raise a claim of Force Majeure based in whole or in part on curtailment by the Transmission Provider unless (i) such Party has contracted for firm transmission with the Transmission Provider for the services to be delivered to or received at the Delivery Point; and (ii) such curtailment is due to "force majeure" or "uncontrollable force" or a similar term as defined under the Transmission Provider's tariff.

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ARTICLE 9: NOTICES, REPRESENTATIVES OF THE PARTIES

9.1 **Notices.** Any notice, demand, or request required or authorized by this Agreement to be given by one Party to another Party shall be in writing. Such notice shall be sent by facsimile, courier, personally delivered or mailed, postage prepaid, to the representative of the other Party designated in this Article 9. Any such notice, demand, or request shall be deemed to be given (i) when received by facsimile; (ii) when actually received if delivered by courier, overnight mail or personal delivery; or (iii) three (3) days after deposit in the United States mail, if sent by first class mail.

(a) Notices and other communications by Company to Customer shall be addressed to:

Dorothy Appleyard, Mayor
City of South Haven, Michigan
539 Phoenix Street
South Haven, Michigan 49090-1499
Phone: (269) 637-8087
Facsimile: (269) 637-5319

With a copy to:

Amanda Sleigh, City Clerk
City of South Haven, Michigan
539 Phoenix St.
South Haven, Michigan 49090-1499
Phone: (269) 637-0750
Facsimile: (269) 637-5319

Robert G. Stickland, P.E, Director of Public Works
City of South Haven, Michigan
1199 8th Avenue
South Haven, Michigan 49090-1499
Phone: (269) 637-0719
Facsimile: (269) 637-4778

(b) Notices and other communications by Customer to Company shall be addressed to:

President
Indiana Michigan Power Company
One Summit Square
Ft. Wayne, IN 46802
Phone: (260) 425-2355
Facsimile: (260) 425-2318

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Vice President – Energy Marketing
American Electric Power Service Corporation
155 W. Nationwide Blvd., Suite 500
Columbus, OH 43215
Phone: (614) 583-6408
Facsimile: (614) 583-1626

With a copy to:

Credit Risk Management
American Electric Power Service Corporation
155 W. Nationwide Blvd., Suite 400
Columbus, OH 43215
Phone: (614) 583-6728
Facsimile: (614) 583-1626

(c) Any Party may change its representative by written notice to the other Parties.

- 9.2. **Authority of Representative.** The Parties' representatives designated in Section 9.1 shall have full authority to act for their respective principals in all technical matters relating to the performance of this Agreement. The Parties' representatives shall not, however, have the authority to amend, modify or waive any provision of this Agreement unless they are authorized officers of their respective entities and such amendment, modification or waiver is made pursuant to Section 16.6.

ARTICLE 10: LIABILITY, INDEMNIFICATION, AND RELATIONSHIP OF PARTIES

- 10.1 **Limitation on Consequential, Incidental and Indirect Damages.** TO THE FULLEST EXTENT PERMITTED BY LAW, NEITHER CUSTOMER NOR COMPANY, NOR THEIR RESPECTIVE OFFICERS, DIRECTORS, AGENTS, EMPLOYEES, MEMBERS, PARENTS, SUBSIDIARIES OR AFFILIATES, SUCCESSORS OR ASSIGNS, OR THEIR RESPECTIVE OFFICERS, DIRECTORS, AGENTS, OR EMPLOYEES, SUCCESSORS, SUBSIDIARIES OR ASSIGNS, SHALL BE LIABLE TO THE OTHER PARTY OR THEIR RESPECTIVE MEMBERS, PARENTS, SUBSIDIARIES, AFFILIATES, OFFICERS, DIRECTORS, AGENTS, EMPLOYEES, SUCCESSORS OR ASSIGNS, FOR CLAIMS, SUITS, ACTIONS OR CAUSES OF ACTION FOR INCIDENTAL, INDIRECT, SPECIAL, PUNITIVE, MULTIPLE OR CONSEQUENTIAL DAMAGES CONNECTED WITH OR RESULTING FROM PERFORMANCE OR NON-PERFORMANCE OF THIS AGREEMENT, OR ANY ACTIONS UNDERTAKEN IN CONNECTION WITH OR RELATED TO THIS AGREEMENT, INCLUDING WITHOUT LIMITATION, ANY SUCH DAMAGES WHICH ARE BASED UPON CAUSES OF ACTION FOR BREACH OF CONTRACT, TORT (INCLUDING NEGLIGENCE AND MISREPRESENTATION), BREACH OF

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WARRANTY, STRICT LIABILITY, STATUTE, OPERATION OF LAW, UNDER ANY INDEMNITY PROVISION OR ANY OTHER THEORY OF RECOVERY. IF NO REMEDY OR MEASURE OF DAMAGES IS EXPRESSLY PROVIDED HEREIN, THE OBLIGOR'S LIABILITY SHALL BE LIMITED TO DIRECT DAMAGES ONLY, AND SUCH DIRECT DAMAGES SHALL BE THE SOLE AND EXCLUSIVE MEASURE OF DAMAGES AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. THE PROVISIONS OF THIS SECTION 10.1 SHALL APPLY REGARDLESS OF FAULT AND SHALL SURVIVE TERMINATION, CANCELLATION, SUSPENSION, COMPLETION OR EXPIRATION OF THIS AGREEMENT.

10.2 Indemnification.

- (a) To the extent permitted by law, each Party shall indemnify, defend and hold harmless the other Party from and against any Claims arising from or out of any event, circumstance, act or incident occurring or existing during the period when control and title to Full Requirements Electric Service is vested in such Party as provided in Section 10.3 of this Agreement.
- (b) Each Party shall indemnify, defend and hold harmless the other Party from and against any and all Claims for damages to any person or destruction of any property arising in any manner directly or indirectly by reason of the acts of such Party's authorized representatives while on the premises of the other Party under any rights of access provided herein.
- (c) Customer shall indemnify, defend and hold harmless the Company from and against any and all Claims for damages to any individual, firm or corporation constituting any part of Customer's Retail Load arising in any manner directly or indirectly by reason of a failure, interruption, curtailment, or deficiency in Company's supply of Full Requirements Electric Service.
- (d) Neither Party assumes any responsibility of any kind with respect to the construction, maintenance, or operation of the system or other property owned or used by the other Party. To the extent permitted by law, each Party agrees to indemnify, defend and hold harmless the other Party from any and all Claims for injuries to person or property by any person, firm or corporation in any way resulting from, growing out of, or arising in or in connection with the construction, maintenance or operation of the other Party's system or other property. The Customer further agrees to indemnify, defend and hold harmless the Company from any and all Claims for injuries to persons or property by any person, firm or corporation in any way resulting from, growing out of, or arising in or in connection with the use of, or contact with, Energy delivered hereunder after it is delivered to Customer and while it is flowing through the lines of Customer, or is being distributed by Customer, or is being used by Retail Load.

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- (e) If a Party intends to seek indemnification under this Section 10.2 from the other Party with respect to any Claim, the Party seeking indemnification shall give such other Party notice of such Claim within thirty (30) days of the commencement of, or actual knowledge of, such Claim, whichever is earlier. Such Party seeking indemnification shall have the right, at its sole cost and expense, to participate in the defense of any such Claim. The Party seeking indemnification shall not compromise or settle any such Claim without the prior consent of the other Party, which consent shall not be unreasonably withheld.

- 10.3 Title; Risk of Loss.** Title to and risk of loss related to the Full Requirements Electric Service provided hereunder shall transfer from Company to Customer at the Delivery Points. Company represents and warrants that it will deliver Full Requirements Electric Service to Customer free and clear of all claims or any interest therein or thereto by any person arising prior to the Delivery Points.

ARTICLE 11: REPRESENTATIONS AND WARRANTIES

- 11.1 Company and Customer Representations and Warranties.** Company and Customer Represent and Warrant to the other that:

- (a) It is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation and is qualified to conduct business in either Indiana or Michigan, or both, as applicable;
- (b) It has, or upon execution of this Agreement will promptly seek, all regulatory authorizations necessary for it to legally perform its obligations under this Agreement;
- (c) The execution, delivery and performance of this Agreement are within its powers, have been duly authorized by all necessary action and do not violate any of the terms and conditions in its governing documents, including, but not limited to, any organizational documents, charters, by-laws, indentures, mortgages or any other contracts or documents to which it is a party, or any law, rule, regulation, order or the like applicable to it;
- (d) This Agreement, and each other document executed and delivered in accordance with this Agreement constitutes its legally valid and binding obligation enforceable against it in accordance with its terms, subject to any legal and equitable defenses;
- (e) It is not bankrupt and there are no proceedings pending or being contemplated by it or, to its knowledge, threatened against it, which would result in it being or becoming bankrupt;

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**Indiana Michigan Power Company
FERC Rate Schedule No. 108**

Original Sheet No. 38

- (f) There is not pending or, to its knowledge, threatened against it any legal proceedings that could materially and/or adversely affect its ability to perform its obligations under this Agreement, including but not limited to Related Documents; and
- (g) There is no Event of Default or events which, with the giving of notice or lapse of time or both, would constitute an Event of Default with respect to it, and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement.

11.2 Customer Representations and Warranties. Customer Represents and Warrants to Company that:

- (a) With respect to its contractual obligations hereunder and performance thereof, it will not claim immunity on the grounds of its status as a municipality under Federal or state law or similar grounds with respect to itself or its revenues or assets from (i) suit, (ii) jurisdiction of court (including a court located outside the jurisdiction of its organization), (iii) relief by way of injunction, order for specific performance or recovery of property, (iv) attachment of assets, or (v) execution or enforcement of any judgment; and
- (b) Customer shall provide and maintain suitable protective devices on its equipment to prevent any loss, injury or damage that might result from single phasing conditions or any other fluctuations or irregularity in the supply of Energy. Company shall not be liable for any loss, injury or damage resulting from a single phasing condition or any other fluctuation or irregularity in the supply of Energy which could have been prevented by Customer's use of such protective devices.

ARTICLE 12: ASSIGNMENT

12.1 General Prohibition Against Assignments. Except as provided in Section 12.2 below, no Party shall assign, pledge or otherwise transfer this Agreement or any right or obligation under this Agreement without first obtaining the other Party's written consent, which consent shall not be unreasonably withheld.

12.2 Exceptions to Prohibition Against Assignments. A Party may, without the other Party's prior written consent, (and without relieving itself from liability hereunder) (i) transfer, sell, pledge, encumber or assign this Agreement or the accounts, revenues or proceeds hereof in connection with any financing or other financial arrangements; or (ii) transfer or assign this agreement to any person or entity succeeding by merger or by acquisition to all or substantially all of the assets of the assigning Party, where such person's or entity's creditworthiness is equal to or higher than that of the assigning Party; provided, however, that in each such case, any such assignee shall agree in writing to be bound by the terms and conditions hereof.

**Issued by: Marsha P. Ryan-President
Indiana Michigan Power Company**

Issued on: May 26, 2006

Effective: July 1, 2006



ARTICLE 13: CONFIDENTIALITY

13.1. Treatment of Confidential Information.

- (a) To the extent permitted by law, all Confidential Information shall be held and treated by the Parties and their agents in confidence, used solely in connection with this Agreement, and shall not, except as hereinafter provided, be disclosed without the other Party's prior written consent.
- (b) Notwithstanding the foregoing, Confidential Information may be disclosed (i) to a third party for the purpose of effectuating the supply, transmission and/or distribution of Full Requirements Electric Service to be delivered pursuant to this Agreement; (ii) to regulatory authorities of competent jurisdiction, or as otherwise required by applicable law, regulation or order, including state sunshine, open meeting, freedom of information or similar laws; (iii) as part of any required, periodic filing or disclosure with or to any regulatory authority of competent jurisdiction; and (iv) to third parties in connection with merger, acquisition/disposition and financing transactions provided that any such third party shall have signed a confidentiality agreement with the Disclosing Party containing customary terms and conditions that protect against the disclosure of the Confidential Information and that strictly limit the recipient's use of such information only for the purpose of the subject transaction and that provide for remedies for non-compliance. Disclosing Party shall make all reasonable efforts to ensure that Confidential Information remains confidential even if disclosed, including marking such information confidential and requesting confidential treatment of such information.
- (c) In the event that a Party ("Disclosing Party") is requested or required to disclose any Confidential Information pursuant to subsection (b) of this Article, the Disclosing Party shall provide the other Party with prompt written notice of any such request or requirement, so that the other Party may seek an appropriate protective order, other confidentiality arrangement or waive compliance with the provisions of this Agreement. If, failing the entry of a protective order, other confidentiality arrangement or the receipt of a waiver hereunder, the Disclosing Party, in the opinion of counsel, is compelled to disclose Confidential Information, the Disclosing Party may disclose that portion of the Confidential Information which the Disclosing Party's counsel advises that the Disclosing Party is compelled to disclose.
- (d) The Parties shall be entitled to all remedies available at law or in equity to enforce, or seek relief in connection with, this confidentiality obligation. In addition to the foregoing, the Disclosing Party shall indemnify, defend and hold harmless the other Party from and against any Claims, threatened or filed, and any losses, damages, expenses, attorneys' fees or court costs incurred by such Party in connection with or arising directly or indirectly from or out of the Disclosing Party's disclosure of the Confidential Information to third parties except as permitted above.

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Indiana Michigan Power Company
Issued on: **May 26, 2006**

Effective: **July 1, 2006**



- (e) Notwithstanding the above provisions, Company shall be permitted to communicate to the Transmission Provider any necessary information, including Confidential Information, with regard to implementation of this Agreement, and will make all reasonable efforts to ensure that Confidential Information remains confidential.

ARTICLE 14: REGULATORY AUTHORITIES

14.1 Effect of Regulation.

- (a) Each Party shall perform its obligations hereunder in accordance with applicable law, rules and regulations. Unless specifically provided otherwise in this Agreement, nothing in this Agreement affects, modifies or negates either Party's rights or obligations under the FPA and the regulations promulgated thereunder, or any other federal or state law or regulation. Nothing contained herein shall be construed to constitute consent or acquiescence by either Party to any action of the other Party which violates the laws of the United States or any applicable state laws, as those laws may be amended, supplemented or superseded, or which violates any other law or regulation, or any order, judgment or decree of any court or governmental authority of competent jurisdiction.
- (b) The Parties hereto recognize that this Agreement is subject to the jurisdiction of the FERC, and that the Company will file this Agreement with the FERC. Should the FERC not accept this Agreement for filing, without change or condition, this Agreement shall not become effective, unless the Parties agree otherwise in writing, it being the intent of the Parties that the FERC's acceptance of this Agreement, without change or condition, is a prerequisite to the validity of this Agreement. In the event that this Agreement is not accepted for filing, without change or condition, the Parties agree to negotiate in good faith to reach an agreement that provides for a similar balancing of interests as is reflected in this Agreement.
- (c) The Parties agree to use their best efforts to seek and obtain the prompt approval of this Agreement by the FERC.
- (d) Once this Agreement is accepted for filing by the FERC and Company commences delivering Full Requirements Service to Customer under this Agreement, the Parties agree: 1) that the currently-effective Electric Service Agreement between Company and Customer shall be terminated and superceded, and shall no longer have any force or effect; and 2) that if no other customers are taking service thereunder, the Company can cancel any FERC Electric Tariff or Tariffs under which Customer is currently served. The Customer agrees not to oppose such cancellation and further agrees that it will not be eligible for cost-based service under any such tariff or tariffs as long as they remain in place.

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Indiana Michigan Power Company
Issued on: **May 26, 2006**

Effective: **July 1, 2006**



- (e) The Parties recognize the Company's obligation, under FERC's Order 888, to unbundle the costs of providing service to Customer under this Agreement. Customer agrees that the unbundling of the costs of generation, NITS, Ancillary Services and Local Delivery Services, to be charged to Customer by Company under Article 4 of this Agreement, satisfies the FERC's requirements, even though the costs of certain Ancillary Services are included as generation-related costs under the formula rate mechanism in Appendix B. Company agrees to provide Customer with a breakdown of costs that would be charged to Customer under the OATT, assuming the Customer were paying a market-based generation price, as opposed to a cost-based formula rate, within thirty (30) days of Customer's request.

**ARTICLE 15: DISPUTE RESOLUTION AND STANDARD
OF REVIEW FOR PROPOSED CHANGES**

15.1 Resolution by Officers of the Parties. In the event of any dispute among the Parties arising out of or relating to this Agreement, the Parties shall refer the matter to their duly authorized officers for resolution. Should such officers fail to resolve the dispute within ten (10) days after such referral, the Parties agree that any such dispute may be resolved pursuant to Section 15.2.

15.2 Procedures for Resolution of Disputes.

(a) Any claim, counterclaim, demand, cause of action, dispute, or controversy arising out of or relating to this Agreement or the relationship established by this Agreement, any provision hereof, the alleged breach thereof, or in any way relating to the subject matter of this Agreement, involving the Parties and/or their respective representatives (for purposes of this Section only, collectively the "Disputes"), even though some or all of such Disputes allegedly are extra contractual in nature, whether such Claims sound in contract, tort, or otherwise, at law or in equity, under state or federal law, whether provided by statute or the common law, for damages or any other relief, may, upon mutual agreement of the parties, be resolved by binding arbitration. Such arbitration shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Upon agreement to arbitrate, any award made hereunder shall be binding upon the Parties, their successors and assigns, and any trustee or receiver of either Party. The existence of this Section 15.2(a), absent an agreement of the Parties to proceed thereunder, shall not affect, by itself, FERC's jurisdiction over this Agreement or any disputes under this Agreement, or either Party's rights to seek relief from FERC to resolve such disputes.

(b) In the event a Dispute comes before a court of competent jurisdiction, the Parties hereby knowingly, voluntarily and intentionally waive any rights they may have to a trial by jury in respect of any litigation based hereon, or arising out of, under, or in

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Indiana Michigan Power Company
Issued on: **May 26, 2006**

Effective: **July 1, 2006**

connection with, this Agreement and/or any course of conduct, course of dealing, statements (whether oral or written) or actions of Company and Customer related hereto.

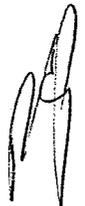
15.3 Standard of Review.

- (a) Notwithstanding the provisions of Sections 15.1 and 15.2 hereof, and subject to the exceptions set out in Section 15.3(b), the Parties agree that the provisions of this Agreement, including without limitation the rates and charges and conditions of service contained herein, are subject to change by the FERC, and that the Company and Customer shall be entitled, at any time and from time to time, to apply for or to take other action to request such a change under Sections 205 or 206 of the FPA, respectively, and pursuant to the rules and regulations promulgated thereunder (Sections 205 or 206 
- (b) The Parties expressly agree that the following provisions of this Agreement are not subject to change under Sections 205 or 206, absent the mutual written consent of the Parties:
1. the Term and expiration date of this Agreement;
 2. the Parties' agreement that Customer is not entitled to cost-based rates, after the cancellation, termination or expiration of this Agreement, on the basis of the agreements, orders and/or tariffs set out in Sections 2.2(d), 2.3(b) and 7.2;
 3. the cessation of the Company's obligation to plan to meet Customer's Retail Load, after the end of the Term of this Agreement, absent an agreement of the Parties that extends beyond the Term of this Agreement;
 4. the continuation of a cost-based formula rate throughout the Term of this Agreement;
 5. the credit provisions in Article 6;
 6. the cost-of-service provisions contained in parts (a) through (f) of Section 4.6 of this Agreement (except as explicitly specified in Section 4.6(b) and (f)); and
 7. the standard of review provisions in this Section.

It is the intent of this Section and the Parties that, to the maximum extent permitted by law, the provisions of this Agreement that are enumerated in this Section 15.3 (b) shall not be subject to change under Sections 205 and 206, and that absent the written agreement of the Parties to change any of the above enumerated provisions, the

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standard of review for changes to any of those enumerated provisions proposed by a Party, or a non-party, or the FERC, acting *sua sponte*, shall be the public interest standard of review set forth in *United Gas Pipe Line Co. v. Mobile Gas Service Corp.*, 350 U.S. 332 (1956) and *Federal Power Commission v. Sierra Pacific Power Co.*, 350 U.S. 348 (1956) (the *Mobile-Sierra Doctrine*).

ARTICLE 16: GENERAL PROVISIONS

- 16.1 **Third Party Beneficiaries.** This Agreement is intended solely for the benefit of the Parties hereto, and nothing herein will be construed to create any duty to, or standard of care with reference to, or any liability to, any person not a Party hereto.
- 16.2 **No Dedication of Facilities.** Any undertakings or commitments by one Party to the other under this Agreement shall not constitute the dedication of generation facilities or the transmission system or any portion thereof of either Party to the other Party.
- 16.3 **Waivers.** The failure of a Party to insist in any instance upon strict performance of any of the provisions of this Agreement or to take advantage of any of its rights under this Agreement shall not be construed as a general waiver of any such provision or the relinquishment of any such right, except to the extent such waiver is in writing and signed by an authorized representative of such Party.
- 16.4 **Interpretation.** The interpretation and performance of this Agreement shall be in accordance with and controlled by the laws of the State of Michigan, without giving effect to its conflict of laws provisions.
- 16.5 **Severability.** If any provision or provisions of this Agreement shall be held to be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall in no way be affected or impaired thereby; and the Parties hereby agree to effect such modifications to this Agreement as shall be reasonably necessary in order to give effect to the original intention of the Parties.
- 16.6. **Modification.** No modification to this Agreement will be binding on any Party unless it is in writing and signed by the Parties.
- 16.7 **Counterparts.** This Agreement may be executed in any number of counterparts, and each executed counterpart shall have the same force and effect as an original instrument.
- 16.8 **Headings.** Article and Section headings used throughout this Agreement are for the convenience of the Parties only and are not to be construed as part of this Agreement.
- 16.9 **Audit.** Each Party has the right, at its sole expense and during normal working hours, to examine the records of the other Party to the extent reasonably necessary to verify the

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Indiana Michigan Power Company
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accuracy of any invoice, charge or computation made pursuant to this Agreement. If requested, a Party shall provide to the other Party invoices evidencing the quantities of Full Requirements Electric Service. If any such examination reveals any inaccuracy in any invoice, the necessary adjustments to such invoice and the payments thereof will be made promptly and shall bear interest at a rate calculated in accordance with Section 35.19a of the FERC's Regulations from the date the overpayment or underpayment was made until paid; provided, however, that no adjustment for any statement or payment will be made unless objection to the accuracy thereof was made prior to the lapse of twelve (12) months from the rendition thereof, and thereafter any objection shall be deemed waived.

- 16.10 Records.** The Parties shall keep (or as necessary cause to be kept by their respective agents) for a period of at least five (5) years such records as may be needed to afford a clear history of the Full Requirements Service supplied pursuant to this Agreement. For any matters in dispute, the Parties shall keep the records related to such matters until the dispute is ended.
- 16.11 Survival.** The provisions of Articles 10, 13 and 15, and Sections 16.9 and 16.10 hereof, and any other Section of this Agreement that specifies by its terms that it survives termination, shall survive the cancellation, termination or expiration of this Agreement.
- 16.12 Cooperation to Effectuate Agreement.** Each Party shall cooperate to implement the provisions of and to administer this Agreement in accordance with the intent of the Parties.

ARTICLE 17: RULES OF CONSTRUCTION

- 17.1** Terms used in this Agreement but not listed in this Article, or defined herein or in Article 1, shall have meanings as commonly used in the English language and, where applicable, in Good Utility Practice.
- 17.2** Words not otherwise defined herein that have well known and generally accepted technical or trade meanings are used herein in accordance with such recognized meanings.
- 17.3** The masculine shall include the feminine and neuter.
- 17.4** The words "include", "includes" and "including" are deemed to be followed by the words "without limitation."
- 17.5** References to contracts, agreements and other documents and instruments shall be references to the same as amended, supplemented or otherwise modified from time to time.

Issued by: **Marsha P. Ryan-President**
Indiana Michigan Power Company
Issued on: **May 26, 2006**

Effective: **July 1, 2006**



- 17.6 The Appendices attached hereto are incorporated in and are intended to be a part of this Agreement; provided, that in the event of a conflict between the terms of any Appendices and the terms of this Agreement, the terms of this Agreement shall take precedence.
- 17.7 References to laws and to terms defined in, and other provisions of, laws shall be references to the same (or a successor to the same) as amended, supplemented or otherwise modified from time to time.
- 17.8 References to a person, entity, or governmental authority shall include its permitted successors and assigns, and any entity succeeding to the functions and capacities of that person, entity or governmental authority.
- 17.9 References to "Articles," "Sections," or "Appendices" shall be to articles, sections, or appendices of this Agreement, or, as appropriate, to sections of the FPA or FERC's regulations.
- 17.10 Unless the context plainly indicates otherwise, words importing the singular number shall be deemed to include the plural number (and vice versa); terms such as "hereof," "herein," "hereunder" and other similar compounds of the word "here" shall mean and refer to the entire Agreement rather than any particular part of the same.
- 17.11 This Agreement was negotiated and prepared by both Parties with the advice and participation of counsel. The Parties have agreed to the wording of this Agreement and none of the provisions hereof shall be construed against one Party on the ground that such Party is the author of this Agreement or any part hereof.

Issued by: **Marsha P. Ryan-President**
Indiana Michigan Power Company
Issued on: **May 26, 2006**

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IN WITNESS WHEREOF, the Parties have caused their duly authorized representatives to execute this Agreement on their behalf as of the date first above written.

City of South Haven, Michigan

By: Dorothy Appleyard

Name: Dorothy Appleyard

Title: Mayor

Indiana Michigan Power Company

By: Michael G. Morris

Name: Michael G. Morris

Title: Chairman of the Board and
Chief Executive Officer

Issued by: Marsha P. Ryan-President
Indiana Michigan Power Company

Issued on: May 26, 2006

Effective: July 1, 2006

APPENDIX A

LIST OF DELIVERY POINTS

CITY OF SOUTH HAVEN

DELIVERY POINTS

AS OF MAY 1, 2006

#	<u>DESCRIPTION</u>	<u>DELIVERY</u> <u>VOLTAGE</u>
1.	Phoenix	Transmission
2.	Lovejoy	Transmission

Issued by: Marsha P. Ryan-President
Indiana Michigan Power Company
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Effective: July 1, 2006



APPENDIX B

Cost-of-Service Formulas

A-1
 DETERMINATION OF DEMAND-RELATED COSTS AND
 DEMAND CHARGE
 TWELVE MONTHS ENDED DECEMBER 31, _____

	Demand Related	Reference
1. Return on Investment	\$	P.A-5, L.18, Col (2)
2. Operation & Maintenance Expense	\$	P.A-14, L.8, Col (2)
3. Depreciation Expense	\$	P.A-15, L.14, Col (2)
4. Taxes Other Than Income Taxes	\$	P.A-16, L.7, Col (2)
5. Income Tax	\$	P.A-17, L.5, Col (2)
6. Subtotal	\$	Lines 1 through 5
7. Less: Off-System Sales for Resale Expenses	\$	P. A-4, L.3, Col (2)
8. Less: Customer Share of Off-System Sales Margin	\$	P. A-4, L.4, Col (2)
9. Adjustment of Other Income and Deductions	\$	Note A
10. Annual Production Fixed Cost	\$	L.6 - L.7 - L.8 + L.9
11. Monthly Peak Megawatts	#	FERC-1, p.401b
12. Demand Charge @ Generation	\$ /kW	L.10 / L.11 / 1,000
13. Loss Adjusted Monthly Demand at Peak	# kW	Note B
14. Annual Demand Revenue Requirement	\$	L. 12 X L. 13
15. Loss Adjusted Monthly Demand	# kW	Note B
16. Demand Charge @ Generation	\$ /kW	L. 14 / L. 15
17. Transmission Loss Factor	#	Note C
18. Transmission Voltage Demand Charge	\$ /kW	L. 16 X L. 17
19. Primary Loss Factor	#	Note C
20. Primary Voltage Demand Charge	\$ /kW	L. 16 X L. 19

Note A: To be determined by accounting department.

Note B: Total customer demands adjusted for losses to generation.

Note C: Losses pursuant to OATT and loss study.

APPENDIX B

Cost-of-Service Formulas

A-2
 DETERMINATION OF ENERGY RELATED COSTS AND
 ENERGY CHARGE
 TWELVE MONTHS ENDED DECEMBER 31, ____

	<u>Energy Related</u>	<u>Reference</u>
1. Total Fuel	\$	P.A-14, L.16, Col (4)
2. Purchased Power (555)	\$	P.A-14, L.1, Col (4)
3. Other Production Expense	\$	P.A-14, L.4, Col (3)
4. <u>Total Production Cost</u>	\$	Lines 1, 2 & 3
5. Less: Off-System Sales for Resale Expenses	\$	P. A-4, L.3, Col (3)
6. Less: Customer Share of Off-System Sales Margin	\$	P. A-4, L.4, Col (3)
7. <u>Subtotal</u>	\$	L.4 - L.5 - L.6
8. Administrative & General Expense	\$	P.A-10, L.17, Col (5)
9. Return on Investment	\$	P.A-5, L.18, Col (3)
10. Depreciation Expense	\$	P.A-15, L.14, Col (3)
11. Income Tax	\$	P.A-17, L.5, Col (3)
12. <u>Annual Production Variable Costs</u>	\$	Lines 7 thru 11
13. Production Fuel Costs	\$	P.A-14, L.20, Col (4)
14. <u>Non-Fuel Costs</u>	\$	L.12 - L.13
15. Net mWh Generated and Purchased, less mWh Sold	#	FERC-1, p.401b
16. Energy Charge	\$ /kWh	L.14 / L.15 / 1,000
17. Fuel Charge	\$ /kWh	L.13 / L.15 / 1,000
18. Transmission Loss Factor	#	P.A-1, L.17
19. Transmission Voltage Energy Charge	\$ /kWh	L. 16 X L. 18
20. Transmission Voltage Fuel Charge	\$ /kWh	L. 17 X L. 18
21. Primary Loss Factor	#	P.A-1, L.19
22. Primary Voltage Energy Charge	\$ /kWh	L. 16 X L. 21
23. Primary Voltage Fuel Charge	\$ /kWh	L. 17 X L. 21

**Indiana Michigan Power Company
FERC Rate Schedule No. 108**

Original Sheet No. 50

Cost-of-Service Formulas
A-3
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APPENDIX B

**Issued by: Marsha P. Ryan
Indiana Michigan Power Company**
Issued on: May 26, 2006

Effective: July 1, 2006

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Cost-of-Service Formulae
 A-4
 OFF-SYSTEM SALES REVENUES AND MARGIN
 TWELVE MONTHS ENDED DECEMBER 31, ____

APPENDIX B

	Reference	PRODUCTION		
		Amount (1)	Demand (2)	Energy (3)
1. Off-System Sales Revenues	Note A	\$	\$	\$
2. Less: Margins from Off-System Sales	Note B	\$	\$	\$
3. Off-System Sales Expenses	L.1 - L.2	\$	\$	\$
4. Customer Share of Margins	50% of L.2	\$	\$	\$

Note A: Revenues associated with off-system sales as reported in Account 447
 (FERC-1, Page 311, column H, excluding RQ)

Note B: From Accounting.

Cost-of-Service Formulas
 A-5
 RETURN ON PRODUCTION-RELATED INVESTMENT
 TWELVE MONTHS ENDED DECEMBER 31, _____

	Reference	PRODUCTION		
		Amount (1)	Demand (2)	Energy (3)
1.	<u>ELECTRIC PLANT</u>			
2.	Gross Plant in Service	P.A-6, L.7, Col.(2)	\$	\$
3.	Less: Accumulated Depreciation	P.A-6, L.17, Col.(2)	\$	\$
4.	Less: Accumulated Deferred Taxes	P.A-6, L.18, Col.(2)	\$	\$
5.	Net Plant in Service	L.2 - (L.3 + L.4)	\$	\$
6.	Plant Held for Future Use	FERC-1, P.200, L.10	\$	\$
7.	Construction Work In Progress	Note A	\$	\$
8.	Subtotal - Electric Plant	L.5+L.6+L.7	\$	\$
9.	<u>WORKING CAPITAL</u>			
10.	Materials & Supplies		\$	\$
11.	Fuel	P.A-9, L.2	\$	\$
12.	Nonfuel	P.A-9, L.6	\$	\$
13.	Total M & S	L.11 + L.12	\$	\$
14.	Prepayments	Note B	\$	\$
15.	Cash Requirements	P.A-8, L.8	\$	\$
16.	Total Investment	L.8+L.13+L.14+L.15	\$	\$
17.	Composite Cost of Capital	P.A-11, L.4, Col (4)	%	%
18.	Return on Investment	L.16.x L.17	\$	\$

Note A: Production amount only. To be determined by I&M accounting department.

Note B: Classified and functionalized using Gross Plant % from P.A-6, L.8.
 Total Company Account 165 \$ FERC-1, P.110, L.46



Indiana Michigan Power Company
 FERC Rate Schedule No. 108

APPENDIX B

Cost-of-Service Formulas

A-6
 PRODUCTION-RELATED ELECTRIC PLANT IN SERVICE
 TWELVE MONTHS ENDED DECEMBER 31, _____

	Reference	System Amount (1)	PRODUCTION		
			Amount (2)	Demand (3)	Energy (4)
1. GROSS PLANT IN SERVICE		\$	\$	\$	\$
2. Plant in Service	Note A	\$	\$	\$	\$
3. Less: ARO-related Plant		\$	\$	\$	\$
4. Restated Plant in Service	L.2 - L.3	\$	\$	\$	\$
5. Generator Step-Ups Included in Accts. 352 & 353 above		\$	\$	\$	\$
6. General & Intangible Plant	P. A-7, L.19	\$	\$	\$	\$
7. Total	L.4 + L.5 + L.6	\$	\$	\$	\$
8. Percentage of Total		%	%	%	%
9. ACCUMULATED PROVISION FOR DEPRECIATION		\$	\$	\$	\$
10. Plant In Service	Note C	\$	\$	\$	\$
11. Less: ARO-related Depreciation		\$	\$	\$	\$
12. Adjustment to Depreciation Rate	Note D	\$	\$	\$	\$
13. Generator Step-Ups Included in Accts. 352 & 353 above		\$	\$	\$	\$
14. Adjustment to Depreciation Rate	Note D	\$	\$	\$	\$
15. General & Intangible Plant	Note B	\$	\$	\$	\$
16. Adjustment to Depreciation Rate	Note B, D	\$	\$	\$	\$
17. Total	L.10 - L.11 + L.12 + L.13 + L.14 + L.15 + L.16	\$	\$	\$	\$
18. ACCUM DEFERRED TAXES	Note E	\$	\$	\$	\$

Note A: Gross Plant in Service is the average of beginning and ending year balances (FERC-1, P. 206 & 207)

Note B: % from P.A-7, L.17

Note C: Accumulated Depreciation is the average of beginning and ending year balances (FERC-1, P.219)

Note D: From Accounting.

Note E: FERC-1, P. 111 and 113 (Accounts 281-283 & 190)
 Excludes directly-assignable amount from accounting of: \$
 Allocated on Gross Plant % From L.8 above

APPENDIX B

Cost-of-Service Formulas

A-7

PRODUCTION-RELATED GENERAL PLANT ALLOCATION
 TWELVE MONTHS ENDED DECEMBER 31, ____

General Plant Accounts 101 and 106

	Total System (1)	Allocation Factor (2)	Related to Production (1) x (2) (3)	Demand (4)	Energy (5)
1. GENERAL PLANT					
2. 389 Land	\$				
3. 390 Structures	\$				
4. 391 Office Equipment	\$				
5. 392 Transportation Equipment	\$				
6. 393 Stores Equipment	\$				
7. 394 Tools, Shop & Garage Equipment	\$				
8. 395 Lab Equipment	\$				
9. 396 Power Operated Equipment	\$				
10. 397 Communications Equipment	\$				
11. 398 Miscellaneous Equipment	\$	Note A	\$	\$	\$
12. Subtotal	\$		\$	\$	\$
13. PERCENT of Subtotal	%		%	%	%
14. Other Tangible Property (Excluding 399.1)	\$		\$	\$	\$
15. 399.0 Other Tangible Property	\$		\$	\$	\$
16. TOTAL GENERAL PLANT (Excl. 399.1)	\$	FERC-1, P.206	\$	\$	\$
17. PERCENT of Total	%		%	%	%
18. Intangible Plant	\$	FERC-1, P.204	\$	\$	\$
19. General and Intangible Plant	\$		\$	\$	\$

Note A: Allocation factors based on wages and salaries in electric operations and maintenance expenses, excluding administrative and general expenses:

a. Total wages and salaries in electric O&M excluding A&G FERC-1, P. 354, Column (b), L.25-L.24.	\$	\$	\$
b. Production wages and salaries in electric O&M FERC-1, P.354, Col (b), L.18.	\$	\$	\$
c. Ratio (b/a)			%

Classification factors based on wages and salaries in electric operations and maintenance expenses, excluding administrative and general expenses:

a. Production wages and salaries in electric O&M	\$	\$	\$
b. Production demand-related wages and salaries			\$
c. Ratio (b/a)			%

Note B: From Accounting.

Indiana Michigan Power Company
 FERC Rate Schedule No. 108

Original Sheet No. 55

APPENDIX B

Cost-of-Service Formulas
 A-8
 PRODUCTION-RELATED CASH REQUIREMENT
 TWELVE MONTHS ENDED DECEMBER 31, ____

	Reference	PRODUCTION		
		Amount (1)	Demand (2)	Energy (3)
1. Fuel Expense	P. A-14, L.16	\$	\$	\$
2. Fuel Cash Requirements	45/360 x L.1	\$	\$	\$
3. Purchased Power	P. A-14, L.1	\$	\$	\$
4. Purchased Power Cash Requirements	45/360 x L.3	\$	\$	\$
5. Total O&M, Excluding Fuel	P. A-14, L.8	\$	\$	\$
6. Other O&M Expense	L. 5 - L.3	\$	\$	\$
7. Other O&M Cash Requirements	45/360 x L.6	\$	\$	\$
8. Total Cash Requirements	L.2 + L.4 + L.7	\$	\$	\$

Issued by: Marsha P. Ryan
 Indiana Michigan Power Company
 Issued on: May 26, 2006

Effective: July 1, 2006

**Indiana Michigan Power Company
FERC Rate Schedule No. 108**

Original Sheet No. 56

APPENDIX B

Cost-of-Service Formulas

A-9
PRODUCTION-RELATED MATERIALS & SUPPLIES
TWELVE MONTHS ENDED DECEMBER 31, ____

	Reference	Total System (1)	Allocation Factor (2)	Related to Production (1) x (2) (3)	Demand (4)	Energy (5)
1. Material & Supplies						
2. Fuel (Note A)	FERC-1, P.110	\$		\$	\$	\$
3. Non-Fuel						
4. Account 158 - Allowances	FERC-1, P.110	\$	%	\$	\$	\$
5. Other - Non-Fuel	Note B	\$	%	\$	\$	\$
6. Total Non-Fuel	L. 4 + L. 5	\$		\$	\$	\$
7. Total Material & Supplies	L. 2 + L. 6	\$		\$	\$	\$

Note A: Accounts 120, 151, 152

Note B: Accounts 154 through 157 and 163 (FERC Form 1, P. 110) Functionalized on Gross Plant from P. A-6, L.4

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Indiana Michigan Power Company
Issued on: **May 26, 2006**

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Indiana Michigan Power Company
FERC Rate Schedule No. 108

APPENDIX B

Cost-of-Service Formulas

A-10

PRODUCTION-RELATED ADMINISTRATIVE & GENERAL EXPENSE ALLOCATION
TWELVE MONTHS ENDED DECEMBER 31, _____

	Account	Reference	System Amount (1)	Allocation Factor % (2)	PRODUCTION			
					Amount (3)	Demand (4)	Energy (5)	
1.	ADMINISTRATIVE & GENERAL EXPENSE							
2.	RELATED TO WAGES AND SALARIES							
3.	A&G Salaries	920	FERC-1, P.322	\$				
4.	Office Supplies	921	FERC-1, P.322	\$				
5.	Adm. Expense Transfer - Cr.	922	FERC-1, P.322	\$				
6.	Outside Services	923	FERC-1, P.323	\$				
7.	Injuries & Damages	925	FERC-1, P.323	\$				
8.	Employee Pensions & Benefits	926	FERC-1, P.323	\$				
9.	Franchise Requirements	927	FERC-1, P.323	\$				
10.	Duplicate Charges - Cr.	929	FERC-1, P.323	\$				
11.	Miscellaneous General Expenses	930	FERC-1, P.323	\$				
12.	Rents	931	FERC-1, P.323	\$				
13.	Subtotal		Ls. 3 thru 12	\$	Note A	\$	\$	\$
14.	Property Insurance	924	FERC-1, P.323	\$	Note B	\$	\$	\$
15.	Regulatory Comm. Expenses	928	FERC-1, P.351	\$	Note C	\$	\$	\$
16.	Maintenance of General Plant	935	FERC-1, P.323	\$	Note D	\$	\$	\$
17.	Total		Ls. 13 thru 16	\$		\$	\$	\$

Note A: Allocation factor based on wages and salaries in electric operations and maintenance expenses, excluding administrative and general expenses - See Page A-7.

Note B: From Accounting.

Note C: FERC-1, P.351, Excluding FERC Annual Assessment

Note D: Allocated on Gross Plant % from P.A-7, L.17

Issued by: Marsha P. Ryan
Indiana Michigan Power Company
Issued on: May 26, 2006

Effective: July 1, 2006

**Indiana Michigan Power Company
FERC Rate Schedule No. 108**

APPENDIX B

Cost-of-Service Formulas
A-11
COMPOSITE COST OF CAPITAL
TWELVE MONTHS ENDED DECEMBER 31, ____

	Reference	Total Company Average Capitalization		Cost of Capital	Composite Cost of Capital
		\$ (1)	% (2)	% (3)	(2 x 3) (4)
1. Long Term Debt	Note A	\$	%	%	%
2. Preferred Stock	Note B	\$	%	%	%
3. Common Stock	Note C	\$	%	%	%
4. Total		\$	%		%

Note A: Line 1, Columns (1) and (3) from Page A-12.

Note B: Line 2, Columns (1) and (3) from Page A-13.

Note C: Line 3, Column (1) from FERC-1, P. 112, Total Proprietary Capital of:	\$
Less: Preferred Stock, P.A-13, L.1(b)	\$
Less: Premium on Preferred Stock, P.A-13, L.1(c)	\$
Common Stock	\$

Indiana Michigan Power Company
FERC Rate Schedule No. 108

APPENDIX B

Cost-of-Service Formulas
A-12
AVERAGE LONG TERM DEBT
TWELVE MONTHS ENDED DECEMBER 31, _____

	Average Debt Balance (1)	Interest Booked (2)
1 Total (FERC-1, P. 112 & P. 117 - Account 427)	\$	\$
2 Preferred Stock With Mandatory Redemption (FERC-1, P. 257.2)	\$	\$
3 Account 224 - Pre-83 SNF Disposal Costs (FERC-1, P. 257)	\$	
4 Amortization of Debt Discount and Expense (FERC-1, P. 117, Accounts 428 - 429.1)		\$
5 Total (L.1 - L.2 - L.3 + L.4)	\$	\$
6 Embedded Costs = L.5, Col. (2)/Col. (1)		%

Indiana Michigan Power Company
FERC Rate Schedule No. 108

Original Sheet No. 60

Cost-of-Service Formulas
A-13
AVERAGE PREFERRED STOCK
TWELVE MONTHS ENDED DECEMBER 31, ____

APPENDIX B

	Reference	Amount
1. (a) Preferred Stock Dividends	FERC-1, P.118, L.29 (Account 437) & FERC-1, P. 257.2	\$
(b) Preferred Stock Issued	FERC-1, P.112, L.3	\$
(c) Premium on Preferred Stock	FERC-1, P.112, L.6 (Account 2070003)	\$
(d) Preferred Stock with Mandatory Redemption	FERC-1, P.257.2	\$
(e) Total Preferred Stock	L.1 (b) + L.1 (c) + L.1(d)	\$
2. Average Cost Rate	L.1 (a)/L.1 (e)	%

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Indiana Michigan Power Company
Issued on: May 26, 2006

Effective: July 1, 2006



Indiana Michigan Power Company
 FERC Rate Schedule No. 108

APPENDIX B

Cost-of-Service Formulas
 A-14
 PRODUCTION O & M EXPENSE
 TWELVE MONTHS ENDED DECEMBER 31, ____

	Account No.	Total Company (1)	(Demand) Fixed (2)	Energy	
				Non-Fuel Variable (3)	Fuel (4)
1. Purchased Power (FERC Form-1, P.327)	555	\$	\$	\$	\$
2. System Control of Load Dispatching (FERC Form-1, P.321)	556	\$	\$	\$	\$
3. Other Production Expenses (FERC Form-1, P.321)	557	\$	\$	\$	\$
4. Other Production Expenses	Note A	\$	\$	\$	\$
5. Total Production Expense Excluding Fuel Used in Electric Generation above		\$	\$	\$	\$
6. A & G Expense P.A.-10, L.17		\$	\$	\$	\$
7. Generator Step Up related O&M	Note B	\$	\$	\$	\$
8. Total O & M Excluding Fuel		\$	\$	\$	\$
9. Fuel - Account 501 (FERC Form-1, P.320)	501	\$			\$
10. Less: Fuel Handling		\$			\$
11. Less: Sale of Fly Ash (Revenue & Expense)		\$			\$
12. Plus: Account 518	518	\$			\$
13. Plus: Account 547	547	\$			\$
14. Less: Pre 4/7/83 Spent Nuclear Fuel	Note C	\$			\$
15. Plus: Pre 4/7/83 Spent Nuclear Fuel - Study		\$	\$	\$	\$
16. Total Fuel		\$	\$	\$	\$
17. Total - Production O&M	L.5 + L.16	\$	\$	\$	\$
18. Less: Off-System Sales Revenues (P.A-4, L.1;					\$
19. Plus: Company Share of Margins (P.A-4, L.2 - L.4;					\$
20. Total Fuel Costs					\$
21. Plus: Gains/(Losses) on Disp. of Allowances	A-14(a)	\$			\$
22. Plus: Nuclear Decomm Expense - ARO	A-14(a)	\$			\$
23. Less: Nuclear Decommissioning Adjustment	A-14(a)	\$			\$
24. Less: Spent Nuclear Fuel Adjustment	L.15 - L.14	\$			\$
25. Check Total - Perbooks Production O&M	P.321	\$			\$

Note A: Classified into Fixed and Variable Components in accordance with P.A-14(a).

Note B: FERC-1, P.321, (Accounts 562, 569 & 570) allocated on Gross Plant ratio - GSU to total.

Note C: Accounts 5180004 & 5180005

Indiana Michigan Power Company
 FERC Rate Schedule No. 108

APPENDIX B

Cost-of-Service Formulas
 A-14(a)
 CLASSIFICATION OF FIXED AND VARIABLE PRODUCTION EXPENSES
 TWELVE MONTHS ENDED DECEMBER 31. ____

Line No.	Description	FERC Account No.	Demand Related	Energy Related
1	Operation supervision and engineering	500	\$	-
2	Fuel	501	-	xx
3	Fuel Handling	5010003	-	\$
4	Sale of Fly Ash (Revenue & Expense)	5010012	-	\$
5	Steam expenses	502	\$	-
6	Steam from other sources	503	-	\$
7	Steam transferred-Cr.	504	-	\$
8	Electric expenses	505	\$	-
9	Miscellaneous steam power expenses	506	\$	-
10	Rents	507	\$	-
11	Allowances	509	-	\$
12	Less: Gains from Disposition of Allowances	411.8	-	\$
13	Plus: Losses from Disposition of Allowances	411.9	-	\$
14	Maintenance supervision and engineering	510	\$	-
15	Maintenance of structures	511	\$	-
16	Maintenance of boiler plant	512	-	\$
17	Maintenance of electric plant	513	-	\$
18	Maintenance of miscellaneous steam plant	514	\$	\$
19	Total steam power generation expenses		\$	\$
20	Operation supervision and engineering	517	\$	-
21	Coolants and Water	519	\$	-
22	Steam expenses	520	\$	-
23	Steam from other sources	521	\$	-
24	Steam transferred-Cr.	522	\$	-
25	Electric expenses	523	\$	-
26	Miscellaneous nuclear power expenses	524	\$	-
27	Less: Nuclear Decomm Expense - ARO	524.0009	\$	-
28	Rents	525	\$	\$
29	Total nuclear power generation operation expenses		\$	\$
30	Maintenance supervision and engineering	528	-	\$
31	Maintenance of structures	529	\$	-
32	Maintenance of reactor plant equipment	530	-	\$
33	Maintenance of electric plant	531	-	\$
34	Maintenance of miscellaneous nuclear plant	532	-	\$
35	Total nuclear power generation maintenance expenses		\$	\$
36	Less: Nuclear Decommissioning	524.0008	\$	-
37	Plus: Nuclear Decommissioning - Study		\$	-
38	Operation supervision and engineering	535	\$	-
39	Water for power	536	\$	-
40	Hydraulic expenses	537	\$	-
41	Electric expenses	538	\$	-
42	Misc. hydraulic power generation expenses	539	\$	-
43	Rents	540	\$	-
44	Maintenance supervision and engineering	541	\$	-
45	Maintenance of structures	542	\$	-
46	Maintenance of reservoirs, dams and waterways	543	\$	-
47	Maintenance of electric plant	544	-	\$
48	Maintenance of miscellaneous hydraulic plant	545	\$	\$
49	Total hydraulic power generation expenses		\$	\$
50	Operation supervision and engineering	546	\$	-
51	Fuel	547	-	xx
52	Generation expenses	548	\$	-
53	Miscellaneous other power generation expenses	549	\$	-
54	Rents	550	\$	-
55	Maintenance supervision and engineering	551	\$	-
56	Maintenance of structures	552	\$	-
57	Maintenance of generation and electric plant	553	\$	-
58	Maintenance of misc. other power generation plant	554	\$	\$
59	Total other power generation expenses		\$	\$
60	Purchased power	555	xx	xx
61	System control and load dispatching	556	xx	-
62	Other expenses	557	xx	-
63	TOTAL OTHER PRODUCTION EXPENSES		\$	\$

Issued by: Marsha P. Ryan
 Indiana Michigan Power Company
 Issued on: May 26, 2006

Effective: July 1, 2006

Indiana Michigan Power Company
FERC Rate Schedule No. 108

APPENDIX B

Cost-of-Service Formulas

A-15

PRODUCTION-RELATED DEPRECIATION EXPENSE
TWELVE MONTHS ENDED DECEMBER 31, _____

		Production Related (1)	Demand (2)	Energy (3)
1.	Steam Production Plant	Note A	\$	\$
2.	Nuclear Production Plant	Note A	\$	\$
3.	Hydro Production Plant Conventional	Note A	\$	\$
4.	Pump Storage	Note A	\$	\$
5.	Other Production	Note A	\$	\$
6.	Production Subtotal		\$	\$
7.	Less: ARO-Related Depreciation (403.1)	Note A	\$	\$
8.	Plus: Non-Nuclear Depr. & Accretion	Note B	\$	\$
9.	Adjustment to Depreciation Rate	Note B	\$	\$
10.	Production-Related Gen. & Int. Plant	Note C	\$	\$
11.	Adjustment to Depreciation Rate	Note B, C	\$	\$
12.	GSU-related Depreciation Expense	Note B	\$	\$
13.	Adjustment to Depreciation Rate	Note B	\$	\$
14.	Total Production		\$	\$

Note A: Lines 1 through 5 are Depreciation Expense reported on page 336 of the FERC Form No. 1 for Accounts 403, 404 and 405 (excluding 403.1).

Note B: From Accounting.

Note C:	General and Intangible Plant Depreciation Expense	\$	FERC-1, p. 336, Col. (f)
	Production-Related %	%	Page A-7, L. 17, Col.(3)
	Gen Plant Depr. Exp. - Prod. Related	\$	
	Adjustment to General Plant Depreciation Expense	\$	
	Production-Related %	%	Page A-7, L. 17, Col.(3)
	Gen Plant Depr. Exp. - Prod. Related	\$	

Cost-of-Service Formulae

APPENDIX B

A-15
 PRODUCTION-RELATED TAXES OTHER THAN INCOME TAXES
 TWELVE MONTHS ENDED DECEMBER 31, _____

	REFERENCE	SYSTEM AMOUNT (1)	%	PRODUCTION AMOUNT (2)
TAXES RELATED TO PRODUCTION WAGES AND SALARIES				
1.	State Unemployment	Note A		\$
2.	Federal Social Security & Unemployment	Note A		\$
3.	Total Taxes Related to Wages & Salaries		Note B	\$
4.	Real and Personal Property Tax	Note A		\$
5.	Franchise Tax	Note A		\$
6.	Total Taxes Related to Production Plant		Note C	\$
7.	Total Taxes Other Than Income Taxes	L. 3 + L. 6		\$
8.	Misc. & State Commission Assessments			\$
9.	Check Total - Taxes Other	FERC-1 P.114		\$

Note A: Taxes other than Income Taxes will be those reported in FERC-1, pages 262 & 263 as listed above.

Note B: Allocation factor based on wages and salaries in electric operations and maintenance expenses, excluding administrative and general expenses - See Page A-7. %

Note C: Allocation factor based on gross plant in service - See Page A-6. %

**Indiana Michigan Power Company
FERC Rate Schedule No. 108**

Original Sheet No. 65

Cost-of-Service Formulas
A-17
PRODUCTION-RELATED INCOME TAX
TWELVE MONTHS ENDED DECEMBER 31, _____

APPENDIX B

	Reference	Amount (1)	Demand (2)	Energy (3)
1. Return on Investment	P. A-5, L.18	\$	\$	\$
2. Interest	P. A-5, L.16 x P. A-11, L.1, Col(4)	\$	\$	\$
3. Balance for Equity Earnings	L.1 - L.2	\$	\$	\$
4. Combined Income Tax Factor	P. A-18, L.17		#	#
5. Income Tax	L.4 x L.3	\$	\$	\$

Issued by: **Marsha P. Ryan**
Indiana Michigan Power Company
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**Indiana Michigan Power Company
FERC Rate Schedule No. 108**

Original Sheet No. 66

Cost-of-Service Formulas

A-18
COMPUTATION OF EFFECTIVE INCOME TAX RATE
TWELVE MONTHS ENDED DECEMBER 31, ____

APPENDIX B

	REFERENCE	AMOUNT
1. Net Income before Extraordinary	FERC-1, P. 117, L. 67	\$
2. Less: Allowance for Funds Used During Construction (AFUDC)	FERC-1, P. 117, Acct 419.1	\$
3. Adjusted Net Income	Line 1 - Line 2	\$
Income Taxes:		
4. Federal	FERC-1.P. 114, Acct 409.1	\$
5. Other	FERC-1.P. 114, Acct 409.1	\$
6. Provision for Deferred Inc. Taxes	FERC-1.P. 114, Acct 410.1	\$
7. Provision for Def. Inc. Taxes-Cr.	FERC-1.P. 114, Acct 411.1	\$
8. Investment Tax Cr. Adjustment Net	FERC-1.P. 114, Acct 411.4	\$
Taxes Applicable to Other Income and Deductions:		
9. Income Taxes - Federal	FERC-1 P.117, Acct 409.2	\$
10. Income Taxes - Other	FERC-1 P.117, Acct 409.2	\$
11. Provision for Deferred Inc. Taxes	FERC-1 P.117, Acct 410.2	\$
12. Provision for Deferred Inc. Taxes - credit	FERC-1 P.117, Acct 411.2	\$
13. Investment Tax Credit Adj. - Net	FERC-1 P.117, Acct 411.5	\$
14. Total Income Taxes	Lines 4 thru 13	\$
15. Pretax Earnings Base	Line 3 + Line 14	\$
16. Effective Income Tax Rate	Line 14 / Line 15	%
17. Combined Tax Factor	Line 16 / (100 - Line 16)	#

Issued by: **Marsha P. Ryan**
Indiana Michigan Power Company
Issued on: **May 26, 2006**

Effective: July 1, 2006

APPENDIX C

Assignment of PJM Charges and Credits
 for Full Requirements Electric Service

PJM Operating Agreement

Schedules	Description	Company	Customer
1-3.2.1 & 3.3.1	Spot Market Energy, including day-ahead and balancing charges, credits and reconciliations	x	
1-3.2.4, 3.4.1 & 5.2	Transmission Congestion, including day-ahead and balancing charges, credits and reconciliations	x	
1-3.2.5 & 3.4.2	Transmission Losses, including day-ahead and balancing charges, credits and reconciliations	x	
1-3.2.2, 3.2.2A, 3.3.2 & 3.3.2A	Regulation charges, credits and reconciliations	x	
1-3.2.3A & 3.3.5	Spinning Reserves charges, credits and reconciliations	x	
1-3.2.3 & 3.3.3	Operating Reserves, including day-ahead, balancing and synchronous condensing charges, credits and reconciliations	x	
	Synchronous Condensing - included under Operating Reserves, above	x	
1-3.2.3B	Reactive Services charges, credits and reconciliations	x	
11-6.7	Capacity Credit Market charges, credits and reconciliations	x	
1-7.3.8	FTR Auction charges, credits and reconciliations	x	
1-7.4	Auction Revenue Rights credits	x	
1-3.2.6, 3.3.4, 3.5.1 & 4.3	Emergency Energy charges, credits and reconciliations	x	
1-3.6	Meter Correction	x	

Indiana Michigan Power Company
FERC Rate Schedule No. 108

APPENDIX C

Assignment of PJM Charges and Credits
for Full Requirements Electric Service

PJM OATT

Schedules	Description	Company	Customer
1 & 9	Scheduling, System Control & Dispatch Services <i>PJM charges and reconciliation for control area administration, FTR administration, market support, regulation and frequency response administration, capacity and resource obligation administration, and FERC annual charge recovery</i>	x	
1A	Scheduling, System Control & Dispatch Services <i>Transmission Owner charges, credits and reconciliations</i>		x
2	Reactive Supply & Voltage Control from Generation Sources charges, credits and reconciliations	x	
3	Regulation and Frequency Response - billed under PJM Operating Agreement, above	x	
4	Energy Imbalance - billed under PJM Operating Agreement, above	x	
5	Operating Reserve - Spinning Reserve Service - billed under PJM Operating Agreement, above	x	
6	Operating Reserve - Supplemental Reserve Service - billed under PJM Operating Agreement, above	x	
6A	Black Start Service charges and credits	x	
7	NITS Service charges and credits, including Contract Demand Reservation Service		x
7	RTO Start-Up Costs		x
7 & 8	Firm and Non-Firm Point-to-Point Transmission Service		x
13	Expansion Cost Recovery charges and credits	x	
Attachment R	PJM/MISO and Intra-PJM SECA charges		x
Attachment X	PJM/MISO and Intra-PJM SECA credits	x	
ILDSA	Other Supporting Facilities		x
	AEP Inadvertent	x	
	Energy Imbalance	x	

Issued by: Marsha P. Ryan
Indiana Michigan Power Company
Issued on: May 26, 2006

Effective: July 1, 2006

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December 5, 2014

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PATENT AND TRADEMARK OFFICE

**ADMITTED ONLY IN COLORADO;
SUPERVISION BY PRINCIPALS OF THE FIRM,
MEMBERS OF THE DC BAR

*OF COUNSEL

To: IMMDA Members

Fr: Lisa S. Gast

Re: Status of Amendments to Full Requirements Electric Service Agreements with I&M

How We Got Here

Each of the IMMDA members (with the exception of the City of Dowagiac) are a party to a Cost-Based Formula Rate Agreement for Full Requirements Electric Service with Indiana Michigan Power Company (I&M) (“Agreement”). Each City entered into their Agreement effective July 1, 2006. The delivery period for this Agreement runs from July 1, 2006 through May 31, 2026 unless the Agreement is terminated in accordance with Section 2.2 (b) or 2.2 (c). Section 2.2 (b) of the Agreement permits the Customer to cancel the agreement by providing notification on or prior to May 31 of any year, 7 years prior to the effective date of termination. For example, the City could provide notification of cancellation before June 1, 2014 and the agreement would terminate on May 31, 2021.

On October 31, 2012, all American Electric Power (AEP) subsidiaries, including I&M, filed documents with the Federal Energy Regulatory Commission (FERC) requesting termination of their Pool Agreement effective January 1, 2014. The Pool Agreement was replaced with a Power Coordination Agreement (PCA). The PCA requires I&M and the other AEP subsidiaries to meet their respective load and reserve obligations. I&M sells energy to other AEP subsidiaries and the revenue from these sales (off system sales) is shared with the IMMMA members. As a result, the off system sales revenue can reduce the cost that IMMMA members pay for purchased power. AEP indicated that there should be no substantial cost increases to the IMMMA members as a result of the new PCA. However, they were not able to provide accurate information regarding off system sales revenue under the new PCA. The primary issue for IMMMA members is that a reduction in off system sales revenues could result

in an increase in purchased power costs. However, if changes occur, they will probably be gradual and occur over a long period of time.

As a result of these changes, IMMUDA, acting on behalf of its members, negotiated a settlement to modify the current Agreement for each member. The contract modification changes the termination period in Section 2.2 (b) of the Agreement. The modified Agreement replaces the seven (7) year notification period with a four (4) year notification period, provided that notification may not be given prior to May 31, 2015. For example, IMMUDA could provide notice of cancellation before June 1, 2015 and the Agreement would terminate on May 31, 2019.

Each of the IMMUDA members secured authority through your City Councils/Boards and executed an Amendment to your Agreement, which executed Amendments were sent to I&M on May 14, 2014. To date, we have not received counter-signed Amendments from I&M.

Where We Are Now

To effectuate the amendment to the IMMUDA members' Agreements with I&M, I&M has to file revised Agreements with the Federal Energy Regulatory Commission (FERC). As I explained at the IMMUDA Annual Meeting, FERC changed its rules about 5 years ago, and whenever a new agreement is filed, or an amendment to an existing contract is filed, the jurisdictional filing party must file in the form of an "E-Tariff," so that all jurisdictional contracts fit FERC's new formatting. To change over existing contracts is an arduous process, as you are trying to fit round pegs in to square holes, and vice versa. Nobody ever gets it right the first time, and there's a lot of back-and-forth with FERC Staff to get existing contracts to fit the FERC's mold.

In an effort to try to avoid this process, I&M's counsel suggested, and after thorough research IMMUDA agreed, that I&M could file each of the IMMUDA member's revised Agreement as a new "market based rate tariff" under the AEP Operating Companies' market based tariff, as opposed to making an individual "E-Tariff" filing for each IMMUDA member's contract. To that end, once each of the Revised Agreements are executed, I&M will file with FERC to terminate the current Agreements as of 11:59:59 p.m. on December 31, 2014, and, commencing on December 1, 2014, I&M will provide service under versions of the Agreements that have been modified from the current Agreements only to (1) reflect the revisions to the current Agreements agreed to in the 2014 Amendments ("Revised Agreements"); (2) recognize the termination of the current Agreements; and (3) update Supreme Court precedent regarding *Mobile Sierra*.

A side agreement has been also reached between IMMUDA and I&M whereby I&M has attested that to the best of I&M's knowledge, no other changes or modifications are being made to or included in the Revised Agreements, and that to the extent an inadvertent change or modification is identified by the Parties, the Parties will promptly correct such inadvertent change or modification. This side agreement protects the IMMUDA members by

ensuring that the Revised Agreements only differ from the current Agreements to the extent the IMMUDA members agreed to such revisions.

Each of the IMMUDA members must execute their Revised Agreement before I&M can terminate the existing Agreement and file the Revised Agreement. Such execution may require City Council/Board authorization, or the execution of the Amendment to your City's Agreement with I&M may serve as such authorization to execute the Revised Agreement.

**AMENDED AND RESTATED
COST-BASED FORMULA RATE
AGREEMENT FOR
FULL REQUIREMENTS ELECTRIC SERVICE**

BY AND BETWEEN

INDIANA MICHIGAN POWER COMPANY

AND

THE CITY OF SOUTH HAVEN, MICHIGAN

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**AMENDED AND RESTATED COST-BASED FORMULA RATE
AGREEMENT FOR FULL REQUIREMENTS ELECTRIC SERVICE**

This AMENDED AND RESTATED COST-BASED FORMULA RATE AGREEMENT FOR FULL REQUIREMENTS ELECTRIC SERVICE dated February 1, 2015 amends and restates, in its entirety that AGREEMENT dated as of May 24, 2006 (“Effective Date”) and is by and between the Indiana Michigan Power Company (hereinafter referred to as “Company”), and the City of South Haven, Michigan (“Customer”) (Company and Customer each individually referred to herein as a “Party,” or collectively, the “Parties”).

RECITALS

WHEREAS, Company is a corporation organized and existing under the laws of the State of Indiana, with its principal place of business at One Summit Square, 110 East Wayne Street, Fort Wayne, Indiana, 46802, and owns and operates facilities for the generation, transmission and distribution of electric power and energy in the States of Indiana and Michigan; and

WHEREAS, Customer is a municipal corporation chartered and existing under and by virtue of the laws of the State of Michigan, with its principal place of business at 539 Phoenix Street, South Haven, Michigan, 49090-1499; and

WHEREAS, Company is an electric utility subsidiary of American Electric Power Company, Inc. (“AEP”), is part of the integrated AEP System, and is a signator to various agreements with one or more AEP subsidiaries; and

WHEREAS, Customer desires to purchase Full Requirements Electric Service from Company to meet Customer’s Retail Load; and

WHEREAS, Company has proposed to supply Full Requirements Electric Service to Customer, subject to the terms and conditions set forth herein; and

WHEREAS, the Parties have met numerous times to develop a cost-based formula rate for Full Requirements Electric Service.

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained, the Parties hereby agree that this Agreement, together with the Appendices attached hereto and Related Documents, sets forth the terms under which Company will supply Full Requirements Electric Service to Customer, during the Delivery Period; constitutes the entire agreement between the Parties relating to Full Requirements Electric Service at cost-based rates; and supersedes any other agreements, written or oral (including without limitation any preliminary term sheet), between the Parties concerning this subject matter.

ARTICLE 1: DEFINITIONS

The following words and terms shall be understood to have the following meanings when used in this Agreement or in any associated documents entered into in conjunction with this Agreement, unless a different meaning is plainly required by the context. This Agreement includes certain capitalized terms that are not explicitly defined herein. Such capitalized terms shall have the meanings specified in the “Related Documents,” as the same are in effect from time to time, which meanings are incorporated herein by reference and made a part hereof. In the event of any inconsistency between a definition contained herein and a definition contained in “Related Documents,” the definition in this Agreement shall control for purposes of this Agreement. Certain other definitions as required appear in subsequent parts of this Agreement.

- 1.1 AEP Interconnection Agreement** means the agreement on file at FERC, commonly referred to as the AEP Pool Agreement, that regulates the inter-company charges and credits for capacity and energy among the following AEP Operating Companies: Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company and Ohio Power Company.
- 1.2 AEP Operating Companies** means the electric utility subsidiaries of AEP, consisting of Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company, Southwest Electric Power Company and Public Service Company of Oklahoma. "AEP Operating Companies" may include fewer than all of the listed companies, or may include the American Electric Power Service Corporation (“AEPSC”), where the context requires such interpretation.
- 1.3 Affiliate** means, with respect to any person or corporation, any other person or corporation (other than an individual) that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such person or corporation. For this purpose, “control” means the direct or indirect ownership of fifty percent (50%) or more of the outstanding capital stock or other equity interests having ordinary voting power.
- 1.4 Agreement** means this Cost-Based Formula Rate Agreement for Full Requirements Electric Service, including the Appendices and Related Documents, as amended, modified or supplemented from time to time.
- 1.5 Ancillary Services** means the following services related to the Full Requirements Electric Service to be supplied under the terms of this Agreement to the Delivery Points: those services set forth in the OATT schedules and any supplemental or revised tariffs or schedules adopted by the Transmission Provider, including, without limitation, Scheduling, System Control and Dispatch Service; Transmission Owners Scheduling, System Control and

Dispatch Service; Reactive Supply and Voltage Control from Generation Sources Service; Regulation and Frequency Response Service; Energy Imbalance Service; Operating Reserve-Spinning Reserve Service; Operating Reserve-Supplemental Reserve Service; and Black Start Service (as each of those services is defined in the OATT).

- 1.6 Billing Period** means the calendar month which shall be the standard period for all payments and metering measurements under this Agreement, unless otherwise specifically required by the Transmission Provider or the entity providing meter reading services.
- 1.7 Business Day** means a day ending at 5:00 p.m. Eastern Prevailing Time, other than Saturday, Sunday and any day which is a legal holiday or a day designated as a holiday by the North American Electric Reliability Council; provided, that, with respect to any payment due hereunder, or any other obligation of Company or Customer, a “Business Day” means a day ending at 5:00 p.m. Eastern Prevailing Time, other than Saturday, Sunday and any day which is a legal holiday or a day on which banking institutions in Michigan and/or Columbus, Ohio are authorized by law to close; and, provided, further, that with respect to any notices for scheduling to be delivered pursuant to any Section hereof, a “Business Day” shall be a day other than Saturday, Sunday and any day which is a legal holiday or a day designated as a holiday by the Transmission Provider.
- 1.8 Calendar Year** means a twelve-consecutive-month period commencing at the start of hour ending (“HE”) 0100 on January 1 and ending at the conclusion of HE 2400 on December 31.
- 1.9 Claims** means all third party claims or actions, threatened or filed and, whether groundless, false, fraudulent or otherwise, that directly or indirectly relate to the subject matter of this Agreement, and the resulting losses, damages, expenses, reasonable attorneys’ fees and court costs, whether incurred by settlement or otherwise, and whether such claims or actions are threatened or filed prior to or after the termination of this Agreement.
- 1.10 Confidential Information** means such information as the Parties agree shall remain confidential. Notwithstanding the foregoing, the following shall not constitute Confidential Information:
- a. Information which was already in a Party’s possession prior to its receipt from another Party and not subject to a requirement of confidentiality;
 - b. Information which is obtained from a third person who, insofar as is known to the Party, is not prohibited from transmitting the information to the Party by a contractual, legal or fiduciary obligation to the Party; and

c. Information which is or becomes publicly available through no fault of the Party.

- 1.11 Contract Year** means a twelve-consecutive-month period beginning at the start of HE 0100 on June 1 and ending at the conclusion of HE 2400 on May 31 of the subsequent Calendar Year.
- 1.12 Credit Rating** means, with respect to any entity, the rating then assigned to such entity's unsecured, senior long-term debt obligations or its long-term revenue bonds (not supported by third party credit enhancements) or if such entity does not have a rating for its senior unsecured long-term debt or its long-term revenue bonds, then the rating, if any, then assigned to such entity as an issuer rating by S&P and/or Moody's.
- 1.13 Defaulting Party** means the Party who has caused an Event of Default.
- 1.14 Delivery Period** means the period defined in Section 2.2 of this Agreement.
- 1.15 Delivery Points** mean the point or points designated on Appendix A, to which Company will deliver and at which Customer will accept Firm Energy.
- 1.16 Early Termination Date** is the date selected by the Non-Defaulting Party to terminate this Agreement in accordance with Section 7.2 herein.
- 1.17 Eastern Prevailing Time** means the prevailing time in Columbus, Ohio.
- 1.18 Energy** means three-phase, 60-cycle alternating current electric energy, expressed in KWhs.
- 1.19 Event of Default** means those events by the Defaulting Party, as set forth in Article 7 of this Agreement, which give the Non-Defaulting Party the right to terminate this Agreement or exercise other remedies available under this Agreement or at law or in equity.
- 1.20 FERC** means the Federal Energy Regulatory Commission.
- 1.21 Firm Energy** means Energy that Company is required by this Agreement to sell and deliver and that Customer is required by this Agreement to purchase and receive, in each case without curtailment or interruption except as provided in Sections 8.1 and 8.2 hereof, unless relieved of their respective obligations without liability by Force Majeure, but in the case of Force Majeure only to the extent that, and for the period during which, either Party's performance is prevented by Force Majeure. Firm Energy shall be provided in accordance with the Transmission Provider's FERC-approved tariffs, Market Rules and Procedures.

- 1.22 Force Majeure** means an event or circumstance, subject to the limitations set forth below, that prevents one Party from performing its obligations under this Agreement, which event or circumstance was not anticipated as of the Effective Date of this Agreement, which is not within the reasonable control of, or the result of the negligence of, the Claiming Party, and which, by the exercise of due diligence, the Claiming Party is unable to overcome or avoid or cause to be avoided. Force Majeure shall not be based on (i) the loss of any load by Customer; (ii) Customer's inability economically to use or resell the Full Requirements Electric Service contracted for hereunder; (iii) the loss or failure of Company's Generation Resources; or (iv) Company's ability to resell the Full Requirements Electric Service at a price greater than the pricing set forth herein.
- 1.23 Full Requirements Electric Service** means the supply of Firm Energy Company is required to supply to the Customer at the Delivery Points, as the same may fluctuate in real time to serve Customer's Retail Load, together with all associated generation-related services as more fully described in Article 3 and Appendix C of this Agreement.
- 1.24 Generation Resource** means the generation assets owned by Company, which, as of the Effective Date of this Agreement, consist of the Donald C. Cook Nuclear Plant (Units 1 and 2), the Rockport Plant (Units 1 and 2), the Tanners Creek Plant (Units 1 through 4), and various hydroelectric facilities; the Company's share of any jointly-owned units; long-term capacity purchases by the Company; and all generating plants of co-generators, qualifying facilities, and independent power producers that are not owned by the Company, but that produce electric power and sell it to the Company. The individual elements of Generation Resources are expected to change during the Term of this Agreement, but the Company shall maintain sufficient Generation Resources to meet reliably its load obligations as a public utility during the Term of this Agreement.
- 1.25 Good Utility Practice** means any of the practices, methods, techniques and standards (including the practices, methods, techniques and standards approved by a significant portion of the electric power generation industry, the Transmission Provider and/or NERC) that, in the exercise of reasonable judgment in light of the facts known or that should reasonably have been known at the time a decision was made and having due regard for, among other things, contractual obligations, applicable laws and equipment manufacturer's recommendations, could have been expected to accomplish the desired result in a manner consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method, technique or standard to the exclusion of all others, but rather to be a range of possible practices, methods, techniques or standards within which I&M shall conduct its activities under this Agreement.

- 1.26 **KW** means kilowatt.
- 1.27 **KWh** means kilowatt-hour.
- 1.28 **Letter(s) of Credit** means one or more irrevocable, transferable standby letters of credit issued by a U.S. commercial bank or a foreign bank with a U.S. branch with such bank having a Credit Rating of at least A- from S&P or A3 from Moody's, in a form and from a bank acceptable to the Company. Costs of a Letter of Credit shall be borne by the applicant for such Letter of Credit.
- 1.29 **Load Serving Entity** means any entity (or the duly designated agent of such an entity), (i) serving end-users within the Transmission Provider's transmission service area, and (ii) that has been granted the authority or has an obligation pursuant to state or local law, regulation or franchise to sell electric energy to end-users located within the Transmission Provider's transmission service area.
- 1.30 **Losses** means any transmission loss, transformation loss, sub-transmission and/or distribution losses incurred in providing Full Requirements Electric Service hereunder; provided, however, that Losses shall only include losses incurred between the sources of Energy and the Delivery Points. In no case shall Losses include losses that may be incurred from the Delivery Points to the ultimate retail customers.
- 1.31 **Market Rules and Procedures** means the market rules, manuals and procedures adopted by the Transmission Provider, as may be amended from time to time, and as administered by the Transmission Provider to govern operations within the Transmission Provider's transmission service area.
- 1.32 **Monthly Charges** means the monthly charges set out in Article 4 of this Agreement.
- 1.33 **Moody's** means Moody's Investors Service, Inc. and its successors.
- 1.34 **MW** means Megawatt.
- 1.35 **MWh** means Megawatt-hour.
- 1.36 **NERC** means the North American Electric Reliability Council.
- 1.37 **Network Integration Transmission Service** or **NITS** means firm transmission service as set forth in the Transmission Provider's OATT that provides for delivery of Firm Energy to the Delivery Points.
- 1.38 **Non-Defaulting Party** means the Party that has not caused an Event of Default.

- 1.39 Normal Load Growth** means the future projected load growth, as measured by Customer's hourly peak demand, in the current Contract Year, predicted by the method below that yields the higher value: (a) the maximum annual peak demand over a 60 minute interval in any of the previous three (3) Contract Years times 1.04; or (b) the maximum annual peak demand over a 60 minute interval in any of the previous three (3) Contract Years plus five thousand (5,000) kilowatts. Load growth that occurs as a result of Customer annexing territory that Company serves at retail shall not be treated as load growth for purposes of this definition, but such annexed load shall be served under this Agreement.
- 1.40 OATT** means the Transmission Provider's Open Access Transmission Tariff on file at FERC.
- 1.41 Performance Assurance** means collateral in the form of either cash, Letter(s) of Credit, or other security acceptable to the Company.
- 1.42 PJM** means PJM Interconnection, LLC.
- 1.43 Related Documents** means, either collectively or individually, the Interconnection and Local Delivery Services Agreement, the PJM Open Access Transmission Tariff, the PJM Operating Agreement, the PJM Reliability Agreement, the PJM West Reliability Agreement, and any other applicable PJM Market Rules And Procedures.
- 1.44 Retail Load** means Energy metered at the Delivery Points to meet the requirements of Customer's end use customers (including Customer's own end use for such things as street lighting and municipal buildings) located within the franchised service territory that Customer has a statutory or contractual right or obligation to serve.
- 1.45 S&P** means Standard & Poor's Rating Group (a division of McGraw-Hill, Inc.).
- 1.46 Term** is defined in Section 2.1 of this Agreement.
- 1.47 Transmission Provider** means the entity or entities transmitting or transporting the Firm Energy, and responsible for providing Ancillary Services associated with the delivery of Full Requirements Electric Service, from the Generation Resources to the Delivery Points. The Transmission Provider as of the Effective Date of this Agreement is PJM.

ARTICLE 2: TERM, SERVICE AND DELIVERY PROVISIONS

- 2.1 Term.** The Term of this Agreement shall begin as of the Effective Date and extend through and include the end of the Delivery Period. Whenever the Term of this

Agreement ends, the applicable provisions of this Agreement shall continue in effect for one year in accordance with Article 16.11, Survival, or by their own terms, or to the extent necessary to provide for final accounting, billing (including any “true-up” billing provided for in this Agreement), billing adjustments, resolution of any billing disputes, realization of any collateral or other security, set-off, final payments, or payments pertaining to liability and indemnification obligations arising from acts or events that occurred in connection with this Agreement during the Term.

2.2 Delivery Period.

- (a) The Delivery Period shall commence on **July 1, 2006**, and extend through **May 31, 2026**, from HE 0100 through 2400 Eastern Prevailing Time, unless (i) this Agreement is canceled earlier in accordance with Sections 2.2(b) or 2.2(c) hereof, in which event the Delivery Period shall end as of 2400 Eastern Prevailing Time on the date the notice provided for in Sections 2.2(b) or 2.2(c) becomes effective; or (ii) an Early Termination Date becomes effective in accordance with the provisions of Article 7 of this Agreement, in which event the Delivery Period shall end as of 2400 Eastern Prevailing Time on the Early Termination Date.
- (b) Customer may cancel this Agreement prior to the end of the Delivery Period, effective on May 31, 2019, or on May 31 of any year thereafter through 2025, by delivering to Company not less than four (4) years prior to June 1 of any of those years, written notice of Customer’s intention to cancel this Agreement. For example, providing notice of cancellation before June 1, 2015, shall terminate this Agreement as of May 31, 2019.
- (c) With six (6) months advance written notice, either Party may cancel this Agreement, prior to the end of the Delivery Period, if a Material Impact occurs as a result of any of the following:
 - (i) The sale, transfer or permanent shut-down of Cook Unit 1, Cook Unit 2, or the Company’s net share of Rockport Unit 1 or Rockport Unit 2, determined as of the Effective Date of this Agreement;
 - (ii) A merger or consolidation of the Company with another entity, the acquisition of the Company by another entity, a change of control of the Company pursuant to which an entity acquires 50% or more of the voting stock of the Company, or the acquisition of another entity by the Company; or
 - (iii) A change in the AEP Interconnection Agreement.

Material Impact means an increase of at least thirty-five percent (35%) in Company’s annual costs per MWh, as determined pursuant to Appendix B, from one Calendar Year to the next Calendar Year.

- (d) Any notice given under Section 2.2(b) or 2.2(c) of this Agreement, for any reason, shall irrevocably terminate or cancel forever both this Agreement and any obligation on the Company's part to provide service to Customer under this Agreement. Customer further expressly acknowledges and agrees that the Customer waives any and all rights to raise in any forum a claim that the Company must provide service to Customer on the basis of
- (i) any terms or provisions of this Agreement, once this Agreement is terminated or cancelled;
 - (ii) any previous agreements between the Customer and the Company, including, but not limited to, any previous electric service agreements, any settlement agreements resolving FERC proceedings or any settlement agreements resolving any state or federal court suits (including the antitrust suits filed by Customer and others in the U.S. District Court for the Northern District of Indiana in Docket Nos. 74-72, 75-210, 77-210, 79-43); or
 - (iii) any FERC tariffs or court orders in existence as of the Effective Date of this Agreement.

Customer expressly acknowledges that Customer also waives any right to request vacatur of the order of dismissal or to reinstitute proceedings in the antitrust suits filed in U.S. District Court for the Northern District of Indiana.

2.3 Planning.

- (a) The Parties understand and agree that, as a result of this Agreement, the Company will plan to provide Full Requirements Electric Service to Customer during the Term of this Agreement. In recognition of this fact, the Parties have entered into this long-term Agreement. In order for the Company to continue to plan to serve the Customer beyond the end of the Delivery Period, the Parties understand and agree that, absent a written mutual agreement to the contrary, the Parties will need to negotiate and execute a new agreement for a new delivery period extending beyond the last day of the Term of this Agreement, at least eight (8) years before the end of the Delivery Period.
- (b) At the end of the Term of this Agreement, the Company's obligation to serve Customer under this Agreement shall terminate, and Customer expressly acknowledges that the Customer waives any and all rights to raise in any forum a claim that the Company must provide service to Customer on the basis of:
- (i) any terms or provisions of this Agreement;
 - (ii) any previous agreements between the Customer and the Company, including, but not limited to, any previous electric service agreements, any settlement

agreements resolving FERC proceedings or any settlement agreements resolving any state or federal court suits (including the antitrust suits filed by Customer and others in the U.S. District Court for the Northern District of Indiana in Docket Nos. 74-72, 75-210, 77-210, 79-43); or

- (iii) any FERC tariffs or court orders in existence as of the Effective Date of this Agreement.

Customer expressly acknowledges that Customer also waives any right to request vacatur of the order of dismissal or to reinstitute proceedings in the antitrust suits filed in U.S. District Court for the Northern District of Indiana.

- (c) In order to allow Company to plan to meet Customer's Retail Load, Customer agrees to provide the Company, by June 1 of each Calendar Year during the Term of this Agreement, a forecast of Customer's expected Retail Load for the following eight Calendar Years.

2.4 Delivery Points. The Delivery Points for the Full Requirements Electric Service to be provided hereunder are set forth on Appendix A. In coordination with the Transmission Provider, if necessary, and subject to the execution of any necessary agreements, the Parties may mutually agree to add or delete Delivery Points and to make other changes regarding Delivery Points. Consent to changes regarding Delivery Points shall not be unreasonably withheld. Whenever there is any change in Delivery Points, Appendix A hereto automatically shall be amended to reflect such change and, when necessary, be submitted to the FERC.

ARTICLE 3: SALE AND PURCHASE

3.1 Full Requirements Service.

- (a) During the Delivery Period, Company shall sell and deliver and Customer shall receive and purchase Full Requirements Electric Service sufficient to serve Customer's Retail Load, except as otherwise provided herein. As a provider of Full Requirements Electric Service, Company is solely responsible for satisfying all requirements and paying all costs incurred or to be incurred to provide Full Requirements Service, and Customer shall pay for such Full Requirements Electric Service as provided in Article 4 of this Agreement. Full Requirements Electric Service includes all generation-related services and schedules associated with Full Requirements Electric Service, as more fully identified in Appendix C of this Agreement.
- (b) Appendix C, delineating the respective cost responsibilities of Company and Customer for generation-related and transmission-related services and schedules,

respectively, is based upon the current PJM Operating Agreement and PJM OATT, and reflects the Company's current accounting for generation-related services and schedules, which are collected through the cost of service formulas set forth in Appendix B hereto. As either (i) schedules and services are added, deleted or changed in those agreements and tariffs of the Transmission Provider or in other documents governing the provision of and charges for services required in connection with Full Requirements Electric Service, or (ii) the accounting for such charges is changed, the Parties shall negotiate in good faith to determine, consistent with the principles underlying Appendix C, which new or changed schedules and services are predominantly generation-related and therefore shall be included in Full Requirements Electric Service and which are predominantly transmission-related and therefore shall be the responsibility of Customer. Appendices B and C shall automatically be amended, in a prompt manner, to incorporate such changes, as are mutually agreed by the Parties, and, when necessary, submitted to the FERC. The Parties shall cooperate in good faith to ensure that, irrespective of changes in the mechanisms for recovery of costs by the Transmission Provider and changes in accounting, the respective cost responsibilities of Company and Customer shall remain governed by this Agreement. In no event shall the costs of a particular service or schedule associated with Full Requirements Electric Service be recovered twice from Customer through its inclusion both in the costs used to derive the Full Requirements Electric Service unit rates pursuant to Appendix B and also in the costs in Appendix C for which Customer is responsible.

The cost-of-service formulas attached hereto as Appendix B make reference to certain page and line numbers found in the FERC Form 1 for Calendar Year 2005. From time to time, the FERC makes changes in the format of the FERC Form 1. Such changes may result in certain page and line references included in Appendix B being rendered inaccurate. Therefore, the Parties agree that to the extent that only formatting changes are involved and there is no substantive change, Appendix B shall be interpreted as if the page and line references contained therein are references to the pages and lines contained in the current FERC Form 1 on which can be found the data described on the pages and lines of the 2005 FERC Form 1.

- (c) Company understands that the Customer's Retail Load may change from time to time. Except as specifically provided herein, at no time during the Delivery Period shall Customer use either (i) newly constructed or purchased generation resources, or (ii) new power purchase agreements, to reduce Customer's Retail Load. Company is responsible for Full Requirements Electric Service regardless of changes in Retail Load arising from daily fluctuations, increased or decreased usage, extreme weather and/or similar events; provided, however, that the Parties agree that this Agreement does not obligate the Company to sell to Customer, or the Customer to purchase from Company, at the rates set forth herein, Full Requirements Electric Service for any additions to Retail Load that exceed Normal Load Growth.

- (d) To the extent that Customer's Retail Load grows at a rate in excess of Normal Load Growth, Company and Customer agree to meet to discuss whether such excess Retail Load could be served under this Agreement, or whether changes could be made to this Agreement to address how Customer's Retail Load that exceeds Normal Load Growth can be met under this Agreement; provided however, neither Party shall be required to accept a change with which it, in its sole judgment, disagrees. If the Parties do not agree how Customer's Retail Load that exceeds Normal Load Growth can be met under this Agreement, then Customer shall have the right to find alternate supplies to serve such excess Retail Load, including the use of New Generation in accordance with this Article. With appropriate compensation, Company will cooperate with Customer with respect to the integration of such alternative supplies into the total supply of Customer.
- (e) If, during the Term of this Agreement, one or both units of Company's Cook Nuclear Plant experiences an outage that is anticipated to extend longer than three (3) months, and the Parties agree in writing that a reduction in Customer's Full Requirements Electric Service would be mutually beneficial, then Customer may reduce Customer's Full Requirements Electric Service for the duration of the outage.

3.2 Transmission Service, Ancillary Services and Local Facilities Service.

- (a) Commencing simultaneously with the Delivery Period and ending no later than the end of the Term of this Agreement, Company shall arrange for Network Integration Transmission Service ("NITS") and Ancillary Services for Customer's Retail Load and shall be responsible during the Delivery Period for the provision of all such services. Customer shall be responsible for paying all NITS and any other related Transmission Provider charges (including but not limited to, administrative fees that the Company incurs but does not record on its books in generation-related accounts) as identified on Appendix C. Beginning July 1, 2006, and throughout the Term of this Agreement, Customer agrees to reimburse the Company for all NITS and any other related Transmission Provider charges that the Company incurs on the Customer's behalf, as well as for all charges for Ancillary Services the Company incurs but does not record on its books in generation-related accounts. These charges shall be billed by Company to Customer using the same rates and billing determinants that would be used by the Transmission Provider to bill Customer if Customer were separately billed by the Transmission Provider. Company agrees not to oppose the Customer's right to initiate or participate in any FERC proceeding regarding PJM or NITS charges. In no event shall the costs of a particular service or schedule associated with Full Requirements Electric Service be recovered twice from Customer through its inclusion both in the costs used to derive the Full Requirements Electric Service unit rates pursuant to Appendix B and also in the costs in Appendix C for which Customer is responsible.

(b) Prior to the beginning of the Delivery Period, Customer agrees to execute, and during the Term of this Agreement Customer agrees to maintain, an Interconnection and Local Delivery Service Agreement with the Company. Beginning July 1, 2006, and throughout the Term of this Agreement, Customer further agrees to pay all charges related to the Interconnection and Local Delivery Service Agreement to Company, or to the Transmission Provider acting as a billing and collections agent for the AEP Operating Companies, if the Customer, Company and Transmission Provider so agree. The services provided under the Interconnection and Local Delivery Service Agreement are sometimes referred to in this Agreement as “Local Facilities Service.”

3.3 Existing Generation. As of the Effective Date of this Agreement, Customer has no existing generating facilities behind the meters that will measure Customer’s Billing Demand and Billing Energy under this Agreement.

3.4 New Generation.

(a) Subject to all applicable interconnection and siting requirements, and any other applicable requirements, Customer may, at any time after the Effective Date of this Agreement, construct, behind the Company’s meters, new generating facilities, including but not limited to, generation facilities to provide backup, standby or emergency power (“New Generation”). The output of any New Generation shall be separately metered to allow Company to determine Customer’s total Retail Load unaffected by New Generation. Unless Customer designates a New Generation facility “Load Serving Generation” pursuant to the process set forth in Section 3.4(b) of this Agreement, New Generation shall be deemed to be “Non-Load Serving Generation” and shall be subject to the provisions of Section 3.4(c) of this Agreement.

(b) If the following conditions are met, then New Generation built by Customer after the Effective Date of this Agreement may be used to serve up to, and including, ten percent (10%) of Customer’s maximum demand established since the beginning of the Delivery Period (“Load Serving Generation”):

- (i) Customer shall provide Company with no less than two (2) years’ advance written notice of the in-service date of any Load Serving Generation it intends to build;
- (ii) Any Load Serving Generation built by Customer shall be capable of producing sufficient capacity and energy to serve the amount of Retail Load, not to exceed ten percent (10%) of Customer’s maximum demand established since the beginning of the Delivery Period, that Customer designates to be served by the Load Serving Generation (“Load Responsibility Percentage”);

- (iii) Customer's Load Responsibility Percentage shall be determined, to the nearest one tenth of one percent (0.1%), as of the in-service date specified by Customer in the notice provided under Section 3.4(b)(i), as the lower of (a) the amount specified by Customer (not to exceed the nameplate rating of the Load Serving Generation) as a percentage of Customer's maximum demand established since the beginning of the Delivery Period; or (b) 10%;
- (iv) Once Customer provides Company with written notice of its intention to build Load Serving Generation, then, as of the in-service date specified in Customer's notice, Customer shall be responsible for serving the Load Responsibility Percentage determined in accordance with Section 3.4(b)(iii), but not future load growth. Consequently, Customer's Load Responsibility Percentage will be adjusted to the nearest one tenth of one percent (0.1%), on an annual basis two (2) months prior to the beginning of the next Contract Year, in accordance with the following example: Customer builds Load Serving Generation with a five (5) MW nameplate rating at a time when its maximum demand is one hundred (100) MWs. Customer's Load Responsibility Percentage is five percent (5%). Over the next year, Customer's monthly maximum peak demand grows to one hundred ten (110) MWs. The Load Responsibility Percentage shall be adjusted to four and five tenths percent (4.5%) calculated by dividing five (5) MWs by one hundred ten (110) MWs;
- (v) Beginning on the in-service date specified in Customer's notice of its intention to build Load Serving Generation, regardless of the actual in-service date of the Load Serving Generation, Customer shall be responsible for serving the Load Responsibility Percentage of its Retail Load (*i.e.* "gross" load) in each hour throughout the remaining Term of this Agreement, and Company shall no longer have any obligation to serve that Load Responsibility Percentage of Customer's Retail Load under this Agreement. If Customer is unable to supply its Load Responsibility Percentage of its Retail Load from its Load Serving Generation, Customer shall supply such load from other sources, including the market. With appropriate compensation, Company will cooperate with Customer with respect to the integration of such other sources into the total supply of Customer; and
- (vi) Beginning on the in-service date specified in Customer's notice of its intention to build Load Serving Generation, the grant of any and all rights, interests and obligations to Company to supply the Load Responsibility Percentage of Customer's Retail Load under this Agreement shall cease, and Company and Customer shall cooperate, in advance, to make all necessary filings with the Transmission Provider and to perform all other

acts necessary to transfer all rights, interests and obligations associated with the Load Responsibility Percentage back to Customer.

- (c) Any New Generation built by Customer after the Effective Date of this Agreement that is not designated as Load Serving Generation under Section 3.4(b) shall be deemed to be non-load serving generation (“Non-Load Serving Generation”). So long as adequate metering is maintained on the Non-Load Serving Generation to measure hourly metered output in KWh, Customer may run its Non-Load Serving Generation at any time during the Delivery Period; provided, however, that Non-Load Serving Generation shall not reduce Retail Load or the amount of Full Requirements Electric Service that Customer is obligated to purchase from Company under this Agreement. The metered output of Customer’s Non-Load Serving Generation shall be added to the Customer’s metered load to determine Customer’s Billing Demand and Billing Energy (total Retail Load). The Parties agree that the sole compensation that Customer shall receive from Company for running Non-Load Serving Generation built to provide backup, standby or emergency power shall be a credit netted against Customer’s Monthly Bill calculated by taking an amount equal to (i) the metered KWh, as measured each hour by the metering on the Non-Load Serving Generation during the preceding month, adjusted for losses, times (ii) the Real-Time Locational Marginal Price (“LMP”) in the AEP Load Zone (“AEP Zonal LMP”) for each such hour less the PJM Balancing Operating Reserve charges for such hour. Customer may sell energy and/or capacity from other Non-Load Serving Generation (i.e. Non-Load Serving Generation that was not built to provide backup, standby and/or emergency power) into PJM, in accordance with applicable Market Rules and Procedures, or under a bilateral agreement with Company or a third party.

3.5 Qualifying Facility Purchases.

- (a) So long as Customer is receiving Full Requirements Electric Service from Company, Company shall be obligated to purchase the electrical output from any duly licensed and properly operating Qualifying Facility connected to Customer, but only so long as Company has such obligation pursuant to the Public Utility Regulatory Policies Act of 1978, as amended (“PURPA”). The definition of Qualifying Facility shall be as contained in PURPA and the FPA.
- (b) Company shall apply the monthly billing amounts set forth in Article 4 to the combined Full Requirements Electric Service supplied by Company and the amounts delivered by the Qualifying Facility to the Customer. If Customer pays the Qualifying Facility directly for such energy, Company shall provide a credit equal to Company’s avoided cost rate at the rate that Company would have paid to the Qualifying Facility if Company had directly purchased the Qualifying Facility output.
- (c) Customer agrees that Customer will not, directly or indirectly, engage in any activity to encourage or promote the construction or installation of a Qualifying Facility,

except as otherwise required by or necessary to comply with applicable law, and shall not itself install, purchase or operate a Qualifying Facility during the Term of this Agreement.

- (d) Customer shall notify Company of the proposed connection of any Qualifying Facility to Customer's system. Notification shall be in writing as soon as practical, but at least ninety (90) days prior to the connection of the Qualifying Facility.

3.6 Retail Choice.

- (a) The Parties expressly recognize that retail choice may occur in Customer's service area during the Term of this Agreement. In order to enable Customer to compete to retain existing customers, in the event retail choice is mandated in Customer's service area, by state or federal statutes, regulations, or regulatory agencies, or in the event other power suppliers plan to make a direct connection to one or more retail customers of Customer, the Parties agree as follows: If retail choice is available to a customer or an aggregated group of customers or a potential customer of Customer, Customer may negotiate a price with Company for the retention of such customer or group of customers, or to obtain new customers; provided, however, that if Customer and Company are unable to agree upon a price that retains or acquires such customer(s), then Customer may seek to obtain an alternate source of power supply, including the use of New Generation, which Company shall have the right of last refusal to match within one (1) Business Day of being officially notified by Customer. Such alternate source of power can only be made available to that specific customer or aggregated groups of customers for the defined period of the contract for alternate power supply and shall not be made available to other Retail Load of Customer or to displace other purchases.
- (b) "Mandated by state or federal statutes, regulations or regulatory agencies" includes the following scenarios: (i) state or federal statutes or regulations or regulatory agencies provide for retail choice by Customer's Retail Load as part of a larger retail choice program (in either a pilot program or permanent program), or (ii) Customer is exempt from such state or federal statutes or regulations, but retail customers of Customer, by vote or other legally enforceable right, require that Customer offer them the same provisions and rights contained in a statewide retail choice program.

3.7 Renewable Portfolio Standards.

- (a) During the Term of this Agreement, if the Company is required, as a result of federal or state laws, rules or regulations, to meet the requirements of any renewable portfolio standards, the Company agrees to meet those requirements with regard to Customer's Retail Load. In no event shall the Company be obligated to meet any renewable portfolio standards imposed upon or enacted by Customer that are more stringent than those standards that the Company is required to meet.

(b) In the event that Customer, but not Company, is required, as a result of federal or state laws, rules or regulations, to meet the requirements of any renewable portfolio standards, the Company and Customer agree to meet and discuss how such requirements are to be met.

ARTICLE 4: MONTHLY RATES AND BILLING

- 4.1 General Principles Regarding Monthly Charges for Full Requirements Electric Service.** The Monthly Charges for Full Requirements Electric Service supplied to Customer by Company hereunder during the Delivery Period of this Agreement shall include a Generation Demand Charge, a Generation Energy Charge (collectively, the “Generation Demand and Generation Energy Charges”), and a Generation Fuel Charge, all calculated in accordance with the terms of this Article and subject to all other terms and conditions contained in this Agreement. For each Calendar Year, the Generation Demand and Generation Energy Charges for which Customer is ultimately responsible shall be determined using data from Company’s FERC Form 1 for that Calendar Year and the Return on Common Equity from December of the preceding Calendar Year as specified in Section 4.6(b). Because of the time lag in availability of the FERC Form 1 data, Generation Demand and Generation Energy Charges will initially be assessed based on estimated monthly rates, and a “true-up” will subsequently be conducted for each Calendar Year, as provided in Section 4.3 hereof. The Generation Energy Charge shall exclude fuel-related costs. All fuel-related costs shall be recovered through the Generation Fuel Charge, which shall be “trued up” to more current actual fuel-related costs by means of the Fuel Adjustment Charge set forth in Section 4.5 hereof. The monthly rates used to calculate the Generation Demand Charge, Generation Energy Charge and Generation Fuel Charge for Full Requirements Electric Service shall be determined pursuant to the cost-of-service formulas set forth in Appendix B hereto. These formulas will be used for both estimated and actual (“trued-up”) rates and charges.
- 4.2 Estimated Generation Demand, Generation Energy, and Generation Fuel Charges.** Estimated monthly rates shall be developed for each Contract Year. The estimated monthly rates used to calculate the Generation Demand Charge, Generation Energy Charge and Generation Fuel Charge shall be determined annually by the Company, pursuant to Appendix B, prior to the 31st day of May; be provided to the Customer, for its review by June 1; and be made effective as of June 1 (*i.e.*, at the commencement of each Contract Year). The estimated monthly rates in effect during each Contract Year shall be based upon the cost incurred in providing Full Requirements Electric Service for the most recent Calendar Year for which FERC Form 1 data is available. Customer shall have the rights set forth in Section 4.4 of this Agreement regarding the calculation of these estimated monthly rates and the resulting estimated Monthly Charges.

For example, in Calendar Year 2007, for the first five months the estimated monthly rates used to bill Customer will be based upon Calendar Year 2005 FERC Form 1 data (and will be the same as the estimated monthly rates used in the latter portion of Calendar Year 2006); beginning on June 1, 2007, the estimated monthly rates will be based upon Calendar Year 2006 FERC Form 1 data (and will remain in effect for the remainder of the 2007-2008 Contract Year); and all charges based on these estimated rates for Calendar Year 2007 will be subject to “true-up” of the Generation Demand Rate and Generation Energy Rate in 2008, pursuant to Section 4.3.

4.3 True-Up of Generation Demand and Generation Energy Charges. Because the Generation Demand and Generation Energy Charges initially collected during a Calendar Year will be the product of estimated rates based on data from previous Calendar Years, the Generation Demand and Generation Energy Charges shall be adjusted (or “trued-up”) based upon (i) FERC Form 1 cost data from that Calendar Year and (ii) the Return on Common Equity calculated using data from December of the previous Calendar Year as specified in Section 4.6(b). The true-up for Generation Demand and Generation Energy Charges shall be conducted by Company prior to May 31st of each Calendar Year once the FERC Form 1 data for the prior Calendar Year is available, and shall be accomplished by recalculating the sums due to Company from Customer for service provided during the prior Calendar Year. The difference between the sum of the Monthly Charges originally billed to Customer for service provided during the Calendar Year, based on the estimated monthly rates, and the sum of the Monthly Charges for which Customer is ultimately responsible shall be billed to Customer or credited to Customer, as appropriate, in twelve (12) equal monthly amounts beginning with the month of June of the year immediately following the Calendar Year for which the “true-up” is calculated, unless otherwise agreed by the Parties. The amount to be billed or credited for any such over-collections or under-collections will include interest determined in accordance with Section 35.19a of FERC’s regulations, charged or applied from the date of original payment to the date when the over-collections or under-collections are paid or credited, but excluding the date paid or credited. Customer may unilaterally elect to prepay any amounts owed to Company, and Company may unilaterally elect to credit, in advance, any amounts due to Customer; and any such prepayments or advance credits shall be reflected in any interest calculations hereunder. Customer shall have the rights set forth in Section 4.4 of this Agreement regarding the calculation of the “trued-up” Monthly Charges.

For example, the “true-up” of Generation Demand and Generation Energy Charges initially collected for service provided during Calendar Year 2007 shall be conducted by Company by May 31, 2008. The “trued-up” charges shall be calculated using (i) 2007 FERC Form 1 cost data and (ii) the Return on Common Equity calculated using data from December, 2006. The difference between the sum of the Monthly Charges originally billed to Customer for service provided during 2007 (based on two different sets of estimated rates for portions of two Contract Years) and the sum of the “trued-up” Monthly Charges for Calendar Year 2007 will be divided into twelve (12) equal amounts

and billed to Customer or credited to Customer, as appropriate and with interest, in invoices sent to Customer from July 2008 through June 2009, covering services provided during June 2008 through May 2009, unless otherwise agreed by the Parties or unless a full prepayment is made by Customer or a full advance credit is refunded by Company.

- 4.4 Review Process.** Each time monthly rates are determined annually by the Company, whether to use in estimated billings to Customer during the upcoming Contract Year, or to “true up” the Generation Demand and Generation Energy Charges for the preceeding Calendar Year, the following information shall be provided to Customer by Company on or before June 1: (i) the Company’s FERC Form 1 Report; (ii) the calculation of the monthly rates; and (iii) workpapers showing the source of all data utilized in the calculation of the monthly rates and any other supporting documentation. The accuracy of the Company’s calculations, as well as the data used in those calculations (including FERC Form 1 data) shall be subject to review and adjustment in accordance with the following procedure:
- (a) Customer shall have until September 30 to review the information provided by the Company. During that time the Customer may ask the Company questions, but such questions shall be limited to determining if the Company properly applied the cost-of-service formulas in Appendix B; if the data used in Appendix B was proper; and if the Company’s calculations were consistent with this Agreement. The Company shall respond to such questions within fifteen (15) Business Days.
 - (b) If the Company and Customer do not resolve any dispute as to the appropriateness of the data used by the Company or the application of the cost-of-service formulas in Appendix B by September 30, Customer may file a complaint at FERC regarding the accuracy of the Company’s calculations or the data used in those calculations (including FERC Form 1 data), or both. The Parties agree that the complaint proceeding will be limited to determining if the Company properly applied the cost-of-service formulas in Appendix B; if the data used in Appendix B was proper; and if the Company’s calculations were consistent with this Agreement. The Company agrees to bear the burden of proof regarding these matters in any such complaint proceeding. The refund obligation will extend for the entire Contract Year or Calendar Year that is the subject of review as a result of the complaint proceeding, with Company having no right to seek suspension of the refund effective date.
 - (c) The Monthly Charges being collected from Customer by Company under this Agreement shall be subject to adjustment until the latest of (i) September 30 of each year during the Term of this Agreement, if at such time, there has been no complaint filed at FERC under this Section; (ii) the final resolution of any complaint filed pursuant to this Section; or (iii) the day any required corrections have been made by the Company. The Company shall make any necessary corrections as soon as possible and shall make any adjustments to Customer’s bill on the next monthly billing.

- 4.5 Fuel Adjustment Charge.** Customer shall pay Company a monthly Fuel Adjustment Charge determined pursuant to the cost-of-service formulas set forth in Appendix B hereto. The base cost of fuel, expressed in dollars per KWh, to be used in the Fuel Adjustment Charge shall equal the then-applicable Generation Fuel Rate. Customer shall be billed a Fuel Adjustment Charge each month for the energy delivered in the preceding month based upon estimated fuel charges in excess of the Generation Fuel Rate or, if applicable, shall be credited for the amount by which the estimated fuel charges are lower than the Generation Fuel Rate. Any difference between the estimated fuel charges and the fuel charges based on actual fuel costs shall be billed or credited to Customer on the first bill rendered after such actual fuel costs have been determined. Company shall use reasonable diligence when estimating monthly fuel charges so as to avoid any significant difference between estimated and actual monthly fuel charges to Customer.
- 4.6 Cost-of-Service Formulas.** The cost-of-service formulas set forth in Appendix B were designed, by mutual agreement, primarily to use the Company's FERC Form 1 costs. Certain costs that either are not reflected in the Company's FERC Form 1, or that the Parties agreed were not representative of the Company's costs, were determined by negotiation. The specific elements of the cost-of-service formulas set forth below were negotiated as an integrated and integral part of this Agreement:
- (a) For purposes of calculating the Company's rate base used in Appendix B, the Parties agree that the Company will include one hundred percent (100%) of its expenditures for Pollution Control Facilities and Fuel Conversion Facilities (as defined in Section 35.25 of the FERC's regulations) recorded on the Company's books and records as construction work in progress ("CWIP"), and fifty percent (50%) of its expenditures for all other CWIP.
 - (b) The Return on Common Equity, which will be used to compute the composite cost of capital used in Appendix B, shall be determined annually by taking the average of the daily Moody's Long-Term Baa Corporate Bond Index for the month of December of the preceding year, and adding 535 basis points (5.35 percentage points). For estimated Monthly Charges, the composite cost of capital and estimated Monthly Charges shall be developed using the Appendix B formulas and data from the FERC Form 1 for the Calendar Year that ends with the same month of December as was used to determine the Return on Common Equity. (For example, by June 1, 2008, the composite cost of capital shall be determined using the Return on Common Equity from December, 2007 and other capital cost data from the FERC Form 1 for Calendar Year 2007. The resulting composite cost of capital shall be used in the Appendix B formulas together with other FERC Form 1 data for Calendar Year 2007 to determine the estimated Generation Demand and Generation Energy Charges and the Generation Fuel Rate for the Contract Year beginning June 1, 2008.) For true-ups of the Generation Demand and Generation Energy Charges, the FERC Form 1 data for the Calendar Year being trueed up shall be used in conjunction with the Return on Common Equity from December of the prior Calendar Year. (For example, once

- 2008 FERC Form 1 data are available in 2009, such data shall be used to compute the 2008 composite cost of capital using the Return on Common Equity from December, 2007. That composite cost of capital will be used with other 2008 FERC Form 1 data to determine the trued-up Generation Demand and Generation Energy Charges for Calendar Year 2008.) So long as the Return on Common Equity computed pursuant to this Section 4.6(b) is neither lower than 9.0% nor higher than 18.0%, the Parties agree that the Return on Common Equity used to compute the composite cost of capital in Appendix B shall not be subject to change under Sections 205 or 206 of the Federal Power Act ("FPA"), absent the mutual written consent of the Parties. In the event that the Return on Common Equity produced as a result of the calculation provided for herein is either below 9.0% or above 18.0%, either Party may seek FERC review of the Return on Common Equity value under the "just and reasonable" standard of Sections 205 and 206 of the FPA.
- (c) The Company's Member Load Ratio share of net revenue from deliveries to non-associated companies by the AEP Operating Companies ("System Sales") shall be shared fifty percent (50%) by Customer and fifty percent (50%) by Company, with the Customer's share reducing the Company's total production cost as shown on Appendix B. For purposes of this Section 4.6(c), "net revenue" refers to the revenue in excess of the full cost of making such System Sales.
 - (d) The Depreciation Expense used in Appendix B will be calculated using the depreciation rates that are approved from time to time by the Michigan Public Service Commission ("MPSC") to record depreciation in the Company's Michigan jurisdiction. These depreciation rates are subject to periodic change at such time as the Company has filed new depreciation rates with the MPSC and the MPSC allows the Company to begin recording depreciation expense based upon newly-approved depreciation rates.
 - (e) The Nuclear Decommissioning expense used in Appendix B will initially be set at the total Company level of \$40 million. When the MPSC next authorizes a change in the level of Nuclear Decommissioning Expense for the Company's Michigan retail customers, the total Company level of Nuclear Decommissioning Expense used in Appendix B to calculate Customer's rates shall be reset as if the total Company level authorized by the MPSC were being collected from customers in all of the Company's regulatory jurisdictions. This provision in no way affects Customer's rights, if any, at FERC, regarding nuclear decommissioning expenses. The revenue collected from Customer, by means of the Monthly Charges in effect under this Agreement, includes a component sufficient to recover Customer's portion of Company's regulatory assets and unrecorded liabilities related to decommissioning.
 - (f) The method set forth in Appendix B to allocate costs as production-related and/or transmission-related shall be used throughout the Term of this Agreement; provided, however, that, to the extent that any of the following circumstances occur during the

Term of this Agreement, the Parties will meet and attempt to determine a mutually agreeable modification to Appendix B: (i) FERC determines in a rulemaking proceeding, or in a proceeding regarding the Company's costs to be included in the Transmission Provider's OATT, or it is agreed in a FERC-approved settlement of any such proceeding, that items currently included in Appendix B as production-related should be treated as transmission-related; or (ii) FERC determines in a rulemaking proceeding, or in a proceeding regarding the Company's costs to be included in the Transmission Provider's OATT, or it is agreed in a FERC-approved settlement of any such proceeding, that items currently excluded from Appendix B as transmission-related should be treated as production-related. If either or both of the circumstances in this Section 4.6(f) occurs and the Parties cannot agree upon a modification to Appendix B, then either Party may seek FERC review of Appendix B's treatment of the items addressed in such proceedings under the "just and reasonable" standard of Sections 205 and 206 of the FPA.

4.7 Billing Demand and Energy.

- (a) The monthly Billing Demand shall be the single highest 60-minute KW demand measured during the Billing Period, but not less than 400 KW.
- (b) The monthly Billing Energy shall be the total KWWhs of Firm Energy as measured during the Billing Period.

4.8 Determination of Monthly Bill. The Monthly Bill shall set forth charges for Full Requirements Electric Service, charges for Local Facilities Service, charges to reimburse costs incurred by Company on behalf of Customer in connection with Full Requirements Electric Service, and other charges associated with Full Requirements Electric Service. The Monthly Bill shall be the total of the following:

1. The product of the Generation Demand Rate and the Billing Demand; plus
2. The product of the Generation Energy Rate and the Billing Energy; plus
3. The product of the Generation Fuel Rate and the Billing Energy; plus
4. The product of the Fuel Adjustment Charge and the Billing Energy; plus
5. All applicable charges in accordance with the Interconnection and Local Delivery Service Agreement, to the extent not billed directly to the Customer by the Transmission Provider or otherwise; plus
6. All amounts due to Company for reimbursement of charges incurred by Company as the NITS customer for delivery of Full Requirements Electric Service in accordance with the OATT or related agreements for transmission-related schedules or services for which Customer is

responsible pursuant to Section 3.2(a) and Appendix C hereto, to the extent that such charges are not included in Items 1 through 5 above; minus

7. All amounts due to Customer from Company pursuant to Sections 3.3, 3.4 and 3.5; plus
8. Any applicable governmental taxes, fees and assessments attributable to Full Requirements Electric Service not included in any of the other elements of the Monthly Bill.

4.9 Payment Date. Customer shall pay Company any amounts due and payable hereunder on or before the later of the fifteenth (15th) day of each month, or the fifteenth (15th) day after receipt of invoice or, if such due date is not a Business Day, then on the next Business Day. All invoices shall be paid by electronic funds transfer, or by other mutually agreeable method(s), to the account designated by the Company. If all or any part of any amount due and payable pursuant to this Agreement shall remain unpaid thereafter, interest shall thereafter accrue and be payable to Company on such unpaid amount at a rate determined in accordance with Section 35.19a of FERC's regulations.

4.10 Payment Netting. Parties hereby agree that they shall discharge mutual debts and payment obligations due and owing to each other on the same date pursuant to this Agreement through netting, in which case all amounts owed by each Party to the other Party under this Agreement, interest, and payments or credits, shall be netted so that only the excess amount remaining due shall be paid by the Party who owes it. All amounts netted pursuant to Article Four shall not take into account or include any Performance Assurance or guaranty, which may be in effect to secure a Party's performance under this Agreement. If no mutual debts or payment obligations exist and only one Party owes a debt or obligation to the other during the monthly Billing Period, that Party shall pay such sum in full when due.

4.11 Billing Disputes. If a Party, in good faith, disputes an invoice, the disputing Party shall immediately notify the other Party of the basis for the dispute and pay the undisputed portion of such invoice no later than the due date; provided, however, with respect to any amounts the Company passed through from the Transmission Provider to the Customer pursuant to item 6 in Section 4.8 above, the full amount of the disputed bill shall be paid when due and any billing dispute shall be handled in accordance with the procedures set forth in the OATT. Upon resolution of the dispute, any required payment shall be made within five (5) Business Days of such resolution along with any interest accrued at the rate determined in accordance with Section 35.19a of the FERC's regulations from and including the due date to but excluding the date paid. Inadvertent overpayments shall be returned by the receiving Party or deducted at the option of the overpaying Party, in either case with interest accrued at the rate determined in accordance with Section 35.19a of the FERC's regulations until the date paid or deducted from and including the date of such

overpayment to but excluding the date repaid or deducted by the Party receiving such overpayment.

ARTICLE 5: TRANSMISSION PROVIDER IMPLEMENTATION

5.1 Implementation.

- (a) Company and Customer shall enter into, and file with the Transmission Provider and other applicable entities, all documents necessary for the Company and the Customer to fulfill their respective obligations to provide or take Full Requirements Electric Service.
- (b) The Parties recognize and agree that Company is deemed to be the Customer's Load Serving Entity for purposes of PJM and this Agreement. The Parties further recognize and agree that the Full Requirements Electric Service to be provided hereunder is a load obligation of the Company, for purposes of PJM and the AEP Interconnection Agreement, and that the Company assumes such load obligation as its own firm power commitment and shall retain all obligations and advantages accruing from meeting the load during the Term of this Agreement. At the end of this Agreement, the Customer shall become the Load Serving Entity and all obligations and advantages from being the Load Serving Entity shall revert to Customer.
- (c) Each Party shall provide the other Party access to information the other Party reasonably requests to facilitate the administration of this Agreement.

ARTICLE 6: CREDITWORTHINESS

- 6.1 **Financial Information.** If requested by a Party ("Party X"), the other Party ("Party Y") shall deliver (i) within one hundred fifty (150) days following the end of each fiscal year, a copy of the annual report containing audited consolidated financial statements for such fiscal year with respect to Party Y, and (ii) within 60 days after the end of each of its first three fiscal quarters of each fiscal year, a copy of the quarterly report containing unaudited consolidated financial statements for such fiscal quarter with respect to Party Y, to the extent that such reports are prepared in Party Y's ordinary course of business on such schedule. In all cases the statements shall be for the most recent accounting period and shall be prepared in accordance with generally accepted accounting principles; provided, however, that should any such statements not be available on a timely basis due to a delay in preparation or certification, such delay shall not be an Event of Default so long as Party Y diligently pursues the preparation, certification and delivery of the statements.

6.2 Credit Assurances.

(a) Customer represents that Customer's Charter ("Charter") in effect as of the Effective Date of this Agreement, enables it to charge rates which, together with the other revenues, produce revenues sufficient to pay maintenance expenses, purchased power expenses, other operation expenses, debt service on its bonds, other indebtedness, liens and/or charges against its revenues. In connection with the foregoing representations, Company hereby acknowledges receipt of a copy of the relevant portions of Customer's Charter. Customer agrees to annually provide Company with a copy of the relevant portion of its Charter, by June 1 of each Calendar Year during the Term of this Agreement, if requested by Company. If, at any time during the Term of this Agreement there are any material changes to Customer's Charter, or the rates it charges thereunder, that cause the representations of Customer described above to cease to be substantially accurate, Customer further agrees to immediately notify Company, in writing. Regardless of whether Customer so notifies the Company, or provides a copy of the relevant portions of its Charter to Company annually, the Customer and Company agree that if there are any material changes to Customer's Charter, or the rates it charges thereunder, that cause the representations described above to cease to be substantially accurate, then, the following provisions shall immediately become operable with respect to Customer.

- (i) If at any time Company has reasonable grounds to believe that Customer's creditworthiness or performance under this Agreement has become unsatisfactory, Company may provide the Customer with written notice requesting Performance Assurance in an amount determined by Company in a commercially reasonable manner.
- (ii) Upon receipt of such notice the Customer shall have three (3) Business Days to remedy the situation by providing such Performance Assurance to the Company.
- (iii) In the event that the Customer fails to provide such Performance Assurance or other credit assurance acceptable to the Company within three (3) Business Days of receipt of notice, then an Event of Default under Article 7 shall be deemed to have occurred.

(b) Grant of Security Interest/Remedies.

- (i) To secure its obligations under this Agreement and only to the extent Customer delivers Performance Assurance hereunder, Customer (the "Pledgor") hereby grants to Company (the "Secured Party") a present and continuing security interest in, and lien on (and right of setoff against), and assignment of, all cash collateral and cash equivalent collateral and any and all proceeds resulting therefrom or the liquidation thereof, whether

now or hereafter held by, on behalf of, or for the benefit of, the Secured Party, and Pledgor agrees to take such action as the Secured Party reasonably requires in order to perfect the Secured Party's first-priority security interest in, and lien on (and right of setoff against), such collateral and any and all proceeds resulting therefrom or from the liquidation thereof.

- (ii) Upon or any time after the occurrence or deemed occurrence and during the continuation of an Event of Default or an Early Termination Date by Customer, the Company may do any one or more of the following:
 - 1. exercise any of the rights and remedies of Company with respect to all Performance Assurance, including any such rights and remedies under law then in effect;
 - 2. exercise its rights of setoff against any and all property of the Customer in the possession of the Company or its agent;
 - 3. draw on any outstanding Letter of Credit issued for its benefit; and
 - 4. liquidate all Performance Assurance then held by or for the benefit of Company free from any claim or right of any nature whatsoever of the Customer, including any equity or right of purchase or redemption by the Customer.
- (iii) The Company shall apply the proceeds of the collateral realized upon the exercise of any such rights or remedies to reduce the Customer's obligations under the Agreement (the Customer remaining liable for any amounts owing to the Company after such application), subject to the Company's obligation to return any surplus proceeds remaining after such obligations are satisfied in full.

(c) **Interest Rate on Cash Amounts Held as Collateral.** For Performance Assurance in the form of cash that is held by Company pursuant to this Article Six, the interest rate will be the Federal Funds Rate minus 0.25% as from time to time in effect. "Federal Funds Rate" means the rate, for the relevant determination date opposite the caption "Federal Funds (Effective)", as set forth in the weekly statistical release designated as H.15 (519), published by the Board of Governors of the Federal Reserve System. Such interest shall be calculated commencing on the date Performance Assurance in the form of cash is received by Company but excluding the earlier of: (i) the date Performance Assurance in the form of cash is returned to Customer; or (ii) the date Performance Assurance in the form of cash is applied to a Customer's obligations pursuant to Section 6.2(b).

- (d) **Transfer of Interest Amount.** Customer shall invoice the Company monthly setting forth the calculation of the interest amount due, and the Company shall make payment thereof by the later of (i) the third Business Day of the first month after the last month to which such invoice relates; or (ii) the third Business Day after the day on which such invoice is received.

ARTICLE 7: DEFAULT AND REMEDIES

7.1 **Events of Default.** Any one or more of the following shall constitute an “Event of Default” hereunder with respect to either Party (the “Defaulting Party”):

- (a) The failure to make, when due, any payment required pursuant to this Agreement (other than payments disputed under Article 4) if such failure is not remedied within five (5) Business Days after written notice;
- (b) Any representation or warranty made by a Party herein is false or misleading in any material respect when made or when deemed made or repeated, if such failure is not remedied within thirty (30) Business Days after written notice;
- (c) The failure by Customer to provide Performance Assurance to Company as required under Article 6;
- (d) The failure to perform any material covenant or obligation set forth in this Agreement (except to the extent constituting a separate Event of Default as specified above, and except to the extent such Party’s obligations to deliver or receive Firm Energy are modified by the provisions of Article 8), if such failure is not remedied within five (5) Business Days after written notice; or
- (e) A Party: (i) files a petition or otherwise commences, authorizes or acquiesces in the commencement of a proceeding or cause of action under any bankruptcy, insolvency, reorganization or similar law, or has any such petition filed or commenced against it; (ii) makes an assignment or any general arrangement for the benefit of creditors; (iii) otherwise becomes bankrupt or insolvent (however evidenced); (iv) has a liquidator, administrator, receiver, trustee, conservator or similar official appointed with respect to it or any substantial portion of its property or assets; or (v) is generally unable to pay its debts as they fall due.

7.2 **Declaration of an Early Termination.** If an Event of Default with respect to a Defaulting Party shall have occurred and be continuing, the other Party (the “Non-Defaulting Party”) shall have the right (i) to designate a day, no earlier than the day such notice is effective and no later than 20 days after such notice is effective, as an early termination date (“Early Termination Date”); (ii) withhold any payments due to the Defaulting Party under this Agreement; and (iii) suspend performance. The declaration of an Early Termination Date shall, as of the Early Termination Date, terminate this

Agreement and any obligation on the Company's part to provide service to Customer, under this Agreement or any other agreement or rate schedule, on the basis of

- (i) any terms or provisions of this Agreement;
- (ii) any previous agreements between the Customer and the Company, including, but not limited to, any previous electric service agreements, any settlement agreements resolving FERC proceedings, or any settlement agreements resolving any state or federal court suits (including the antitrust suits filed in the U.S. District Court for the Northern District of Indiana in Docket Nos. 74-72, 75-210, 77-210, 79-43); or
- (iii) any FERC tariffs or court orders in existence as of the Effective Date of this Agreement.

Customer expressly acknowledges that Customer also waives any right to request vacatur of the order of dismissal or to reinstitute proceedings in the antitrust suits filed in U.S. District Court for the Northern District of Indiana in Docket Nos. 74-72, 75-210, 77-210, 79-43).

7.3 Suspension of Performance. Notwithstanding any other provision of this Agreement, if an Event of Default shall have occurred and be continuing, the Non-Defaulting Party, upon written notice to the Defaulting Party, shall have the right

- (a) to suspend performance under this Agreement; provided, however, in no event shall any such suspension continue for longer than fifteen (15) Business Days unless an Early Termination Date shall have been declared and notice thereof pursuant to Article 9 been given;
- (b) to exercise any remedy available at law, subject to the limitations set forth in Section 10.1 hereof, including the right to seek to recover direct damages before a court of competent jurisdiction, and, if the Defaulting Party is the Customer, Company's right to seek to recover its stranded costs at FERC in accordance with Section 35.26 of FERC's regulations; and
- (c) to exercise any remedy available in equity.

7.4 Obligations At Expiration or Termination. Upon the termination or expiration of this Agreement, in addition to such rights and obligations enumerated elsewhere in this Agreement, the grant of any and all right and interest to Company to supply Full Requirements Electric Service under this Agreement shall cease. Customer and Company shall cooperate, in advance to the extent possible, to make all necessary filings with the Transmission Provider and to perform all other acts necessary to transfer all such rights and interests back to Customer in a timely manner.

ARTICLE 8: CURTAILMENT, TEMPORARY INTERRUPTIONS AND FORCE MAJEURE

- 8.1 Curtailment.** If there is a shortage of Energy requiring the curtailment of the Company's Firm Energy deliveries, then upon being notified by the Transmission Provider or the Company, Customer will institute procedures which will cause a corresponding curtailment of the use of Energy by its Retail Load. It is the express intention of this provision that any curtailment of Firm Energy shall fall equitably upon all firm loads served by the Company after, to the extent within the Company's control, the curtailment of its non-firm loads. If upon notification of a requirement to curtail, Customer fails to institute such procedures, Company shall be entitled to limit deliveries of Firm Energy to Customer in order to effectuate reductions in Energy deliveries, in the smallest amount that is operationally practical, equivalent to or greater than the reduction which would have been effected had Customer fulfilled its curtailment obligation hereunder during the period any shortage exists, and, in such event, Company shall not incur any liability to Customer in connection with any such action so taken by Company.
- 8.2 Temporary Interruptions.** Company will use reasonable diligence in furnishing Firm Energy to Customer, but Company does not guarantee that the supply of Firm Energy furnished to Customer will be uninterrupted, or that voltage and frequency will be at all times constant. The Company will not unduly discriminate against the Customer, as among its retail and wholesale customers, when handling the impact of temporary interruptions. Temporary interruption of Firm Energy deliveries hereunder shall not constitute a breach of the obligations of Company under this Agreement, and Company shall not in any such case be liable to Customer for damages resulting from any such temporary interruptions of service.
- 8.3 Force Majeure.** To the extent either Party is prevented by Force Majeure from carrying out, in whole or part, its obligations under this Agreement and such Party (the "Claiming Party") gives notice and details of the Force Majeure to the other Party as soon as practicable, then the Claiming Party shall be excused from the performance of its obligations with respect to this Agreement (other than the obligation to make payments then due or becoming due with respect to performance prior to the Force Majeure). The Claiming Party shall remedy the Force Majeure with all reasonable dispatch. The non-Claiming Party shall not be required to perform or resume performance of its obligations to the Claiming Party corresponding to the obligations of the Claiming Party excused by Force Majeure.
- 8.4 Transmission Curtailment.** Neither Party may raise a claim of Force Majeure based in whole or in part on curtailment by the Transmission Provider unless (i) such Party has contracted for firm transmission with the Transmission Provider for the services to be delivered to or received at the Delivery Point; and (ii) such curtailment is due to "force majeure" or "uncontrollable force" or a similar term as defined under the Transmission Provider's tariff.

ARTICLE 9: NOTICES, REPRESENTATIVES OF THE PARTIES

9.1 Notices. Any notice, demand, or request required or authorized by this Agreement to be given by one Party to another Party shall be in writing. Such notice shall be sent by facsimile, courier, personally delivered or mailed, postage prepaid, to the representative of the other Party designated in this Article 9. Any such notice, demand, or request shall be deemed to be given (i) when received by facsimile; (ii) when actually received if delivered by courier, overnight mail or personal delivery; or (iii) three (3) days after deposit in the United States mail, if sent by first class mail.

(a) Notices and other communications by Company to Customer shall be addressed to:

Dorothy Appleyard, Mayor
City of South Haven, Michigan
539 Phoenix Street
South Haven, Michigan 49090-1499
Phone: (269) 637-8087
Facsimile: (269) 637-5319

With a copy to:

Amanda Sleigh, City Clerk
City of South Haven, Michigan
539 Phoenix St.
South Haven, Michigan 49090-1499
Phone: (269) 637-0750
Facsimile: (269) 637-5319

Robert G. Stickland, P.E, Director of Public Works
City of South Haven, Michigan
1199 8th Avenue
South Haven, Michigan 49090-1499
Phone: (269) 637-0719
Facsimile: (269) 637-4778

(b) Notices and other communications by Customer to Company shall be addressed to:

President
Indiana Michigan Power Company
One Summit Square
Ft. Wayne, IN 46802
Phone: (260) 425-2355
Facsimile: (260) 425-2318

Vice President – Energy Marketing
American Electric Power Service Corporation
155 W. Nationwide Blvd., Suite 500
Columbus, OH 43215
Phone: (614) 583-6408
Facsimile: (614) 583-1626

With a copy to:

Credit Risk Management
American Electric Power Service Corporation
155 W. Nationwide Blvd., Suite 400
Columbus, OH 43215
Phone: (614) 583-6728
Facsimile: (614) 583-1626

(c) Any Party may change its representative by written notice to the other Parties.

- 9.2. **Authority of Representative.** The Parties' representatives designated in Section 9.1 shall have full authority to act for their respective principals in all technical matters relating to the performance of this Agreement. The Parties' representatives shall not, however, have the authority to amend, modify or waive any provision of this Agreement unless they are authorized officers of their respective entities and such amendment, modification or waiver is made pursuant to Section 16.6.

ARTICLE 10: LIABILITY, INDEMNIFICATION, AND RELATIONSHIP OF PARTIES

- 10.1 **Limitation on Consequential, Incidental and Indirect Damages.** TO THE FULLEST EXTENT PERMITTED BY LAW, NEITHER CUSTOMER NOR COMPANY, NOR THEIR RESPECTIVE OFFICERS, DIRECTORS, AGENTS, EMPLOYEES, MEMBERS, PARENTS, SUBSIDIARIES OR AFFILIATES, SUCCESSORS OR ASSIGNS, OR THEIR RESPECTIVE OFFICERS, DIRECTORS, AGENTS, OR EMPLOYEES, SUCCESSORS, SUBSIDIARIES OR ASSIGNS, SHALL BE LIABLE TO THE OTHER PARTY OR THEIR RESPECTIVE MEMBERS, PARENTS, SUBSIDIARIES, AFFILIATES, OFFICERS, DIRECTORS, AGENTS, EMPLOYEES, SUCCESSORS OR ASSIGNS, FOR CLAIMS, SUITS, ACTIONS OR CAUSES OF ACTION FOR INCIDENTAL, INDIRECT, SPECIAL, PUNITIVE, MULTIPLE OR CONSEQUENTIAL DAMAGES CONNECTED WITH OR RESULTING FROM PERFORMANCE OR NON-PERFORMANCE OF THIS AGREEMENT, OR ANY ACTIONS UNDERTAKEN IN CONNECTION WITH OR RELATED TO THIS AGREEMENT, INCLUDING WITHOUT LIMITATION, ANY SUCH DAMAGES WHICH ARE BASED UPON CAUSES OF ACTION FOR BREACH OF CONTRACT,

TORT (INCLUDING NEGLIGENCE AND MISREPRESENTATION), BREACH OF WARRANTY, STRICT LIABILITY, STATUTE, OPERATION OF LAW, UNDER ANY INDEMNITY PROVISION OR ANY OTHER THEORY OF RECOVERY. IF NO REMEDY OR MEASURE OF DAMAGES IS EXPRESSLY PROVIDED HEREIN, THE OBLIGOR'S LIABILITY SHALL BE LIMITED TO DIRECT DAMAGES ONLY, AND SUCH DIRECT DAMAGES SHALL BE THE SOLE AND EXCLUSIVE MEASURE OF DAMAGES AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. THE PROVISIONS OF THIS SECTION 10.1 SHALL APPLY REGARDLESS OF FAULT AND SHALL SURVIVE TERMINATION, CANCELLATION, SUSPENSION, COMPLETION OR EXPIRATION OF THIS AGREEMENT.

10.2 Indemnification.

- (a) To the extent permitted by law, each Party shall indemnify, defend and hold harmless the other Party from and against any Claims arising from or out of any event, circumstance, act or incident occurring or existing during the period when control and title to Full Requirements Electric Service is vested in such Party as provided in Section 10.3 of this Agreement.
- (b) Each Party shall indemnify, defend and hold harmless the other Party from and against any and all Claims for damages to any person or destruction of any property arising in any manner directly or indirectly by reason of the acts of such Party's authorized representatives while on the premises of the other Party under any rights of access provided herein.
- (c) Customer shall indemnify, defend and hold harmless the Company from and against any and all Claims for damages to any individual, firm or corporation constituting any part of Customer's Retail Load arising in any manner directly or indirectly by reason of a failure, interruption, curtailment, or deficiency in Company's supply of Full Requirements Electric Service.
- (d) Neither Party assumes any responsibility of any kind with respect to the construction, maintenance, or operation of the system or other property owned or used by the other Party. To the extent permitted by law, each Party agrees to indemnify, defend and hold harmless the other Party from any and all Claims for injuries to person or property by any person, firm or corporation in any way resulting from, growing out of, or arising in or in connection with the construction, maintenance or operation of the other Party's system or other property. The Customer further agrees to indemnify, defend and hold harmless the Company from any and all Claims for injuries to persons or property by any person, firm or corporation in any way resulting from, growing out of, or arising in or in connection with the use of, or contact with, Energy delivered hereunder after it is delivered to Customer and while it is flowing through

the lines of Customer, or is being distributed by Customer, or is being used by Retail Load.

- (e) If a Party intends to seek indemnification under this Section 10.2 from the other Party with respect to any Claim, the Party seeking indemnification shall give such other Party notice of such Claim within thirty (30) days of the commencement of, or actual knowledge of, such Claim, whichever is earlier. Such Party seeking indemnification shall have the right, at its sole cost and expense, to participate in the defense of any such Claim. The Party seeking indemnification shall not compromise or settle any such Claim without the prior consent of the other Party, which consent shall not be unreasonably withheld.

10.3 Title; Risk of Loss. Title to and risk of loss related to the Full Requirements Electric Service provided hereunder shall transfer from Company to Customer at the Delivery Points. Company represents and warrants that it will deliver Full Requirements Electric Service to Customer free and clear of all claims or any interest therein or thereto by any person arising prior to the Delivery Points.

ARTICLE 11: REPRESENTATIONS AND WARRANTIES

11.1 Company and Customer Representations and Warranties. Company and Customer Represent and Warrant to the other that:

- (a) It is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation and is qualified to conduct business in either Indiana or Michigan, or both, as applicable;
- (b) It has, or upon execution of this Agreement will promptly seek, all regulatory authorizations necessary for it to legally perform its obligations under this Agreement;
- (c) The execution, delivery and performance of this Agreement are within its powers, have been duly authorized by all necessary action and do not violate any of the terms and conditions in its governing documents, including, but not limited to, any organizational documents, charters, by-laws, indentures, mortgages or any other contracts or documents to which it is a party, or any law, rule, regulation, order or the like applicable to it;
- (d) This Agreement, and each other document executed and delivered in accordance with this Agreement constitutes its legally valid and binding obligation enforceable against it in accordance with its terms, subject to any legal and equitable defenses;

- (e) It is not bankrupt and there are no proceedings pending or being contemplated by it or, to its knowledge, threatened against it, which would result in it being or becoming bankrupt;
- (f) There is not pending or, to its knowledge, threatened against it any legal proceedings that could materially and/or adversely affect its ability to perform its obligations under this Agreement, including but not limited to Related Documents; and
- (g) There is no Event of Default or events which, with the giving of notice or lapse of time or both, would constitute an Event of Default with respect to it, and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement.

11.2 Customer Representations and Warranties. Customer Represents and Warrants to Company that:

- (a) With respect to its contractual obligations hereunder and performance thereof, it will not claim immunity on the grounds of its status as a municipality under Federal or state law or similar grounds with respect to itself or its revenues or assets from (i) suit, (ii) jurisdiction of court (including a court located outside the jurisdiction of its organization), (iii) relief by way of injunction, order for specific performance or recovery of property, (iv) attachment of assets, or (v) execution or enforcement of any judgment; and
- (b) Customer shall provide and maintain suitable protective devices on its equipment to prevent any loss, injury or damage that might result from single phasing conditions or any other fluctuations or irregularity in the supply of Energy. Company shall not be liable for any loss, injury or damage resulting from a single phasing condition or any other fluctuation or irregularity in the supply of Energy which could have been prevented by Customer's use of such protective devices.

ARTICLE 12: ASSIGNMENT

12.1 General Prohibition Against Assignments. Except as provided in Section 12.2 below, no Party shall assign, pledge or otherwise transfer this Agreement or any right or obligation under this Agreement without first obtaining the other Party's written consent, which consent shall not be unreasonably withheld.

12.2 Exceptions to Prohibition Against Assignments. A Party may, without the other Party's prior written consent, (and without relieving itself from liability hereunder) (i) transfer, sell, pledge, encumber or assign this Agreement or the accounts, revenues or proceeds hereof in connection with any financing or other financial arrangements; or (ii) transfer or assign this agreement to any person or entity succeeding by merger or by

acquisition to all or substantially all of the assets of the assigning Party, where such person's or entity's creditworthiness is equal to or higher than that of the assigning Party; provided, however, that in each such case, any such assignee shall agree in writing to be bound by the terms and conditions hereof.

ARTICLE 13: CONFIDENTIALITY

13.1 Treatment of Confidential Information.

- (a) To the extent permitted by law, all Confidential Information shall be held and treated by the Parties and their agents in confidence, used solely in connection with this Agreement, and shall not, except as hereinafter provided, be disclosed without the other Party's prior written consent.
- (b) Notwithstanding the foregoing, Confidential Information may be disclosed (i) to a third party for the purpose of effectuating the supply, transmission and/or distribution of Full Requirements Electric Service to be delivered pursuant to this Agreement; (ii) to regulatory authorities of competent jurisdiction, or as otherwise required by applicable law, regulation or order, including state sunshine, open meeting, freedom of information or similar laws; (iii) as part of any required, periodic filing or disclosure with or to any regulatory authority of competent jurisdiction; and (iv) to third parties in connection with merger, acquisition/disposition and financing transactions provided that any such third party shall have signed a confidentiality agreement with the Disclosing Party containing customary terms and conditions that protect against the disclosure of the Confidential Information and that strictly limit the recipient's use of such information only for the purpose of the subject transaction and that provide for remedies for non-compliance. Disclosing Party shall make all reasonable efforts to ensure that Confidential Information remains confidential even if disclosed, including marking such information confidential and requesting confidential treatment of such information.
- (c) In the event that a Party ("Disclosing Party") is requested or required to disclose any Confidential Information pursuant to subsection (b) of this Article, the Disclosing Party shall provide the other Party with prompt written notice of any such request or requirement, so that the other Party may seek an appropriate protective order, other confidentiality arrangement or waive compliance with the provisions of this Agreement. If, failing the entry of a protective order, other confidentiality arrangement or the receipt of a waiver hereunder, the Disclosing Party, in the opinion of counsel, is compelled to disclose Confidential Information, the Disclosing Party may disclose that portion of the Confidential Information which the Disclosing Party's counsel advises that the Disclosing Party is compelled to disclose.
- (d) The Parties shall be entitled to all remedies available at law or in equity to enforce, or seek relief in connection with, this confidentiality obligation. In addition to the

foregoing, the Disclosing Party shall indemnify, defend and hold harmless the other Party from and against any Claims, threatened or filed, and any losses, damages, expenses, attorneys' fees or court costs incurred by such Party in connection with or arising directly or indirectly from or out of the Disclosing Party's disclosure of the Confidential Information to third parties except as permitted above.

- (e) Notwithstanding the above provisions, Company shall be permitted to communicate to the Transmission Provider any necessary information, including Confidential Information, with regard to implementation of this Agreement, and will make all reasonable efforts to ensure that Confidential Information remains confidential.

ARTICLE 14: REGULATORY AUTHORITIES

14.1 Effect of Regulation.

- (a) Each Party shall perform its obligations hereunder in accordance with applicable law, rules and regulations. Unless specifically provided otherwise in this Agreement, nothing in this Agreement affects, modifies or negates either Party's rights or obligations under the FPA and the regulations promulgated thereunder, or any other federal or state law or regulation. Nothing contained herein shall be construed to constitute consent or acquiescence by either Party to any action of the other Party which violates the laws of the United States or any applicable state laws, as those laws may be amended, supplemented or superseded, or which violates any other law or regulation, or any order, judgment or decree of any court or governmental authority of competent jurisdiction.
- (b) The Parties hereto recognize that this Agreement is subject to the jurisdiction of the FERC, and that the Company will file this Agreement with the FERC. Should the FERC not accept this Agreement for filing, without change or condition, this Agreement shall not become effective, unless the Parties agree otherwise in writing, it being the intent of the Parties that the FERC's acceptance of this Agreement, without change or condition, is a prerequisite to the validity of this Agreement. In the event that this Agreement is not accepted for filing, without change or condition, the Parties agree to negotiate in good faith to reach an agreement that provides for a similar balancing of interests as is reflected in this Agreement.
- (c) The Parties agree to use their best efforts to seek and obtain the prompt approval of this Agreement by the FERC.
- (d) Once this Agreement is accepted for filing by the FERC and Company commences delivering Full Requirements Service to Customer under this Agreement, the Parties agree: 1) that the currently-effective Electric Service Agreement between Company

and Customer shall be terminated and superceded, and shall no longer have any force or effect; and 2) that if no other customers are taking service thereunder, the Company can cancel any FERC Electric Tariff or Tariffs under which Customer is currently served. The Customer agrees not to oppose such cancellation and further agrees that it will not be eligible for cost-based service under any such tariff or tariffs as long as they remain in place.

- (e) The Parties recognize the Company's obligation, under FERC's Order 888, to unbundle the costs of providing service to Customer under this Agreement. Customer agrees that the unbundling of the costs of generation, NITS, Ancillary Services and Local Delivery Services, to be charged to Customer by Company under Article 4 of this Agreement, satisfies the FERC's requirements, even though the costs of certain Ancillary Services are included as generation-related costs under the formula rate mechanism in Appendix B. Company agrees to provide Customer with a breakdown of costs that would be charged to Customer under the OATT, assuming the Customer were paying a market-based generation price, as opposed to a cost-based formula rate, within thirty (30) days of Customer's request.

ARTICLE 15: DISPUTE RESOLUTION AND STANDARD OF REVIEW FOR PROPOSED CHANGES

15.1 Resolution by Officers of the Parties. In the event of any dispute among the Parties arising out of or relating to this Agreement, the Parties shall refer the matter to their duly authorized officers for resolution. Should such officers fail to resolve the dispute within ten (10) days after such referral, the Parties agree that any such dispute may be resolved pursuant to Section 15.2.

15.2 Procedures for Resolution of Disputes.

- (a) Any claim, counterclaim, demand, cause of action, dispute, or controversy arising out of or relating to this Agreement or the relationship established by this Agreement, any provision hereof, the alleged breach thereof, or in any way relating to the subject matter of this Agreement, involving the Parties and/or their respective representatives (for purposes of this Section only, collectively the "Disputes"), even though some or all of such Disputes allegedly are extra contractual in nature, whether such Claims sound in contract, tort, or otherwise, at law or in equity, under state or federal law, whether provided by statute or the common law, for damages or any other relief, may, upon mutual agreement of the parties, be resolved by binding arbitration. Such arbitration shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Upon agreement to arbitrate, any award made hereunder shall be binding upon the Parties, their successors and assigns, and any trustee or receiver of either Party. The existence of this Section 15.2(a), absent an

agreement of the Parties to proceed thereunder, shall not affect, by itself, FERC's jurisdiction over this Agreement or any disputes under this Agreement, or either Party's rights to seek relief from FERC to resolve such disputes.

- (b) In the event a Dispute comes before a court of competent jurisdiction, the Parties hereby knowingly, voluntarily and intentionally waive any rights they may have to a trial by jury in respect of any litigation based hereon, or arising out of, under, or in connection with, this Agreement and/or any course of conduct, course of dealing, statements (whether oral or written) or actions of Company and Customer related hereto.

15.3 Standard of Review.

- (a) Notwithstanding the provisions of Sections 15.1 and 15.2 hereof, and subject to the exceptions set out in Section 15.3(b), the Parties agree that the provisions of this Agreement, including without limitation the rates and charges and conditions of service contained herein, are subject to change by the FERC, and that the Company and Customer shall be entitled, at any time and from time to time, to apply for or to take other action to request such a change under Sections 205 or 206 of the FPA, respectively, and pursuant to the rules and regulations promulgated thereunder (Sections 205 or 206), provided further, however, Customer agrees not to apply for or to assert or take any other action to request a change to the Agreement under Section 206 of the FPA for any portion of the Delivery Period prior to June 1, 2015.
- (b) The Parties expressly agree that the following provisions of this Agreement are not subject to change under Sections 205 or 206, absent the mutual written consent of the Parties:
1. the Term and expiration date of this Agreement;
 2. the Parties' agreement that Customer is not entitled to cost-based rates, after the cancellation, termination or expiration of this Agreement, on the basis of the agreements, orders and/or tariffs set out in Sections 2.2(d), 2.3 (b) and 7.2;
 3. the cessation of the Company's obligation to plan to meet Customer's Retail Load, after the end of the Term of this Agreement, absent an agreement of the Parties that extends beyond the Term of this Agreement;
 4. the continuation of a cost-based formula rate throughout the Term of this Agreement;
 5. the credit provisions in Article 6;

6. the cost-of-service provisions contained in parts (a) through (f) of Section 4.6 of this Agreement (except as explicitly specified in Section 4.6(b) and (f)); and
7. the standard of review provisions in this Section.

It is the intent of this Section and the Parties that, to the maximum extent permitted by law, the provisions of this Agreement that are enumerated in this Section 15.3 (b) shall not be subject to change under Sections 205 and 206, and that absent the written agreement of the Parties to change any of the above enumerated provisions, the standard of review for changes to any of those enumerated provisions proposed by a Party, or a non-party, or the FERC, acting *sua sponte*, shall be the public interest standard of review set forth in *United Gas Pipe Line Co. v. Mobile Gas Service Corp.*, 350 U.S. 332 (1956) and *Federal Power Commission v. Sierra Pacific Power Co.*, 350 U.S. 348 (1956) (the *Mobile-Sierra Doctrine*).

ARTICLE 16: GENERAL PROVISIONS

- 16.1 **Third Party Beneficiaries.** This Agreement is intended solely for the benefit of the Parties hereto, and nothing herein will be construed to create any duty to, or standard of care with reference to, or any liability to, any person not a Party hereto.
- 16.2 **No Dedication of Facilities.** Any undertakings or commitments by one Party to the other under this Agreement shall not constitute the dedication of generation facilities or the transmission system or any portion thereof of either Party to the other Party.
- 16.3 **Waivers.** The failure of a Party to insist in any instance upon strict performance of any of the provisions of this Agreement or to take advantage of any of its rights under this Agreement shall not be construed as a general waiver of any such provision or the relinquishment of any such right, except to the extent such waiver is in writing and signed by an authorized representative of such Party.
- 16.4 **Interpretation.** The interpretation and performance of this Agreement shall be in accordance with and controlled by the laws of the State of Michigan, without giving effect to its conflict of laws provisions.
- 16.5 **Severability.** If any provision or provisions of this Agreement shall be held to be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall in no way be affected or impaired thereby; and the Parties hereby agree to effect such modifications to this Agreement as shall be reasonably necessary in order to give effect to the original intention of the Parties.

- 16.6. Modification.** No modification to this Agreement will be binding on any Party unless it is in writing and signed by the Parties.
- 16.7 Counterparts.** This Agreement may be executed in any number of counterparts, and each executed counterpart shall have the same force and effect as an original instrument.
- 16.8 Headings.** Article and Section headings used throughout this Agreement are for the convenience of the Parties only and are not to be construed as part of this Agreement.
- 16.9 Audit.** Each Party has the right, at its sole expense and during normal working hours, to examine the records of the other Party to the extent reasonably necessary to verify the accuracy of any invoice, charge or computation made pursuant to this Agreement. If requested, a Party shall provide to the other Party invoices evidencing the quantities of Full Requirements Electric Service. If any such examination reveals any inaccuracy in any invoice, the necessary adjustments to such invoice and the payments thereof will be made promptly and shall bear interest at a rate calculated in accordance with Section 35.19a of the FERC's Regulations from the date the overpayment or underpayment was made until paid; provided, however, that no adjustment for any statement or payment will be made unless objection to the accuracy thereof was made prior to the lapse of twelve (12) months from the rendition thereof, and thereafter any objection shall be deemed waived.
- 16.10 Records.** The Parties shall keep (or as necessary cause to be kept by their respective agents) for a period of at least five (5) years such records as may be needed to afford a clear history of the Full Requirements Service supplied pursuant to this Agreement. For any matters in dispute, the Parties shall keep the records related to such matters until the dispute is ended.
- 16.11 Survival.** The provisions of Articles 10, 13 and 15, and Sections 16.9 and 16.10 hereof, and any other Section of this Agreement that specifies by its terms that it survives termination, shall survive the cancellation, termination or expiration of this Agreement.
- 16.12 Cooperation to Effectuate Agreement.** Each Party shall cooperate to implement the provisions of and to administer this Agreement in accordance with the intent of the Parties.

ARTICLE 17: RULES OF CONSTRUCTION

- 17.1** Terms used in this Agreement but not listed in this Article, or defined herein or in Article 1, shall have meanings as commonly used in the English language and, where applicable, in Good Utility Practice.

- 17.2** Words not otherwise defined herein that have well known and generally accepted technical or trade meanings are used herein in accordance with such recognized meanings.
- 17.3** The masculine shall include the feminine and neuter.
- 17.4** The words “include”, “includes” and “including” are deemed to be followed by the words “without limitation.”
- 17.5** References to contracts, agreements and other documents and instruments shall be references to the same as amended, supplemented or otherwise modified from time to time.
- 17.6** The Appendices attached hereto are incorporated in and are intended to be a part of this Agreement; provided, that in the event of a conflict between the terms of any Appendices and the terms of this Agreement, the terms of this Agreement shall take precedence.
- 17.7** References to laws and to terms defined in, and other provisions of, laws shall be references to the same (or a successor to the same) as amended, supplemented or otherwise modified from time to time.
- 17.8** References to a person, entity, or governmental authority shall include its permitted successors and assigns, and any entity succeeding to the functions and capacities of that person, entity or governmental authority.
- 17.9** References to “Articles,” “Sections,” or “Appendices” shall be to articles, sections, or appendices of this Agreement, or, as appropriate, to sections of the FPA or FERC’s regulations.
- 17.10** Unless the context plainly indicates otherwise, words importing the singular number shall be deemed to include the plural number (and vice versa); terms such as "hereof," "herein," "hereunder" and other similar compounds of the word "here" shall mean and refer to the entire Agreement rather than any particular part of the same.
- 17.11** This Agreement was negotiated and prepared by both Parties with the advice and participation of counsel. The Parties have agreed to the wording of this Agreement and none of the provisions hereof shall be construed against one Party on the ground that such Party is the author of this Agreement or any part hereof.

IN WITNESS WHEREOF, the Parties have caused their duly authorized representatives to execute this Agreement on their behalf as of the date first above written.

City of South Haven, Michigan

By: _____

Name: Robert Burr

Title: Mayor

Indiana Michigan Power Company

By: _____

Name: Paul Chodak, III

Title: President

APPENDIX A
LIST OF DELIVERY POINTS

CITY OF SOUTH HAVEN

DELIVERY POINTS

AS OF MAY 1, 2006

	<u>DESCRIPTION</u>	<u>DELIVERY VOLTAGE</u>
.	Phoenix	Transmission
.	Lovejoy	Transmission

Cost-of-Service Formulas

A-1

DETERMINATION OF DEMAND-RELATED COSTS AND
DEMAND CHARGE
TWELVE MONTHS ENDED DECEMBER 31, ____

APPENDIX B

	<u>Demand Related</u>	<u>Reference</u>
1. Return on Investment	\$	P.A-5, L.18, Col (2)
2. Operation & Maintenance Expense	\$	P.A-14, L.8, Col (2)
3. Depreciation Expense	\$	P.A-15, L.14, Col (2)
4. Taxes Other Than Income Taxes	\$	P.A-16, L.7, Col (2)
5. Income Tax	\$	P.A-17, L.5, Col (2)
6. <u>Subtotal</u>	<u>\$</u>	Lines 1 through 5
7. Less: Off-System Sales for Resale Expenses	\$	P. A-4, L.3, Col (2)
8. Less: Customer Share of Off-System Sales Margin	\$	P. A-4, L.4, Col (2)
9. Adjustment of Other Income and Deductions	\$	Note A
10. <u>Annual Production Fixed Cost</u>	<u>\$</u>	L.6 - L.7 - L.8 + L.9
11. Monthly Peak Megawatts	#	FERC-1, p.401b
12. Demand Charge @ Generation	\$ /kW	L.10 / L.11 / 1,000
13. Loss Adjusted Monthly Demand at Peak	# kW	Note B
14. <u>Annual Demand Revenue Requirement</u>	<u>\$</u>	L.12 X L.13
15. Loss Adjusted Monthly Demand	# kW	Note B
16. <u>Demand Charge @ Generation</u>	<u>\$ /kW</u>	L.14 / L.15
17. Transmission Loss Factor	#	Note C
18. Transmission Voltage Demand Charge	\$ /kW	L.16 X L.17
19. Primary Loss Factor	#	Note C
20. Primary Voltage Demand Charge	\$ /kW	L.16 X L.19

Note A: To be determined by accounting department.

Note B: Total customer demands adjusted for losses to generation.

Note C: Losses pursuant to OATT and loss study.

Cost-of-Service Formulas**APPENDIX B**

A-2

DETERMINATION OF ENERGY RELATED COSTS AND
ENERGY CHARGE
TWELVE MONTHS ENDED DECEMBER 31, _____

		<u>Energy Related</u>	<u>Reference</u>
1.	Total Fuel	\$	P.A-14, L.16, Col (4)
2.	Purchased Power (555)	\$	P.A-14, L.1, Col (4)
3.	Other Production Expense	\$	P.A-14, L.4, Col (3)
4.	<u>Total Production Cost</u>	<u>\$</u>	Lines 1, 2 & 3
5.	Less: Off-System Sales for Resale Expenses	\$	P. A-4, L.3, Col (3)
6.	Less: Customer Share of Off-System Sales Margin	\$	P. A-4, L.4, Col (3)
7.	<u>Subtotal</u>	<u>\$</u>	L.4 - L.5 - L.6
8.	Administrative & General Expense	\$	P.A-10, L.17, Col (5)
9.	Return on Investment	\$	P.A-5, L.18, Col (3)
10.	Depreciation Expense	\$	P.A-15, L.14, Col (3)
11.	Income Tax	\$	P.A-17, L.5, Col (3)
12.	<u>Annual Production Variable Costs</u>	<u>\$</u>	Lines 7 thru 11
13.	Production Fuel Costs	\$	P.A-14, L.20, Col (4)
14.	<u>Non-Fuel Costs</u>	<u>\$</u>	L.12 - L.13
15.	Net mWh Generated and Purchased, less mWh Sold	#	FERC-1, p.401b
16.	Energy Charge	\$ /kWh	L.14 / L.15 / 1,000
17.	Fuel Charge	\$ /kWh	L.13 / L.15 / 1,000
18.	Transmission Loss Factor	#	P.A-1, L.17
19.	Transmission Voltage Energy Charge	\$ /kWh	L.16 X L.18
20.	Transmission Voltage Fuel Charge	\$ /kWh	L.17 X L.18
21.	Primary Loss Factor	#	P.A-1, L.19
22.	Primary Voltage Energy Charge	\$ /kWh	L.16 X L.21
23.	Primary Voltage Fuel Charge	\$ /kWh	L.17 X L.21

Cost-of-Service Formulas

A-3

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APPENDIX B

Cost-of-Service Formulas

APPENDIX B

A-4

OFF-SYSTEM SALES REVENUES AND MARGIN
TWELVE MONTHS ENDED DECEMBER 31, ____

	Reference	PRODUCTION		
		Amount (1)	Demand (2)	Energy (3)
1. Off-System Sales Revenues	Note A	\$	\$	\$
2. Less: Margins from Off-System Sales	Note B	\$	\$	\$
3. Off-System Sales Expenses	L.1 - L.2	\$	\$	\$
4. Customer Share of Margins	50% of L.2	\$	\$	\$

Note A: Revenues associated with off-system sales as reported in Account 447
(FERC-1, Page 311, column H, excluding RQ)

Note B: From Accounting.

Cost-of-Service Formulas

APPENDIX B

A-6

PRODUCTION-RELATED ELECTRIC PLANT IN SERVICE

TWELVE MONTHS ENDED DECEMBER 31, _____

	Reference	System Amount (1)	PRODUCTION		
			Amount (2)	Demand (3)	Energy (4)
1.	GROSS PLANT IN SERVICE				
2.	Plant in Service	Note A	\$	\$	\$
3.	Less: ARO-related Plant		\$	\$	\$
4.	Restated Plant in Service	L.2 - L.3	\$	\$	\$
5.	Generator Step-Ups Included in Accts. 352 & 353 above		\$	\$	\$
6.	General & Intangible Plant	P. A-7, L.19	\$	\$	\$
7.	Total	L.4 + L.5 + L.6	\$	\$	\$
8.	Percentage of Total		%	%	%
9.	ACCUMULATED PROVISION FOR DEPRECIATION				
10.	Plant in Service	Note C	\$	\$	\$
11.	Less: ARO-related Depreciation		\$	\$	\$
12.	Adjustment to Depreciation Rate	Note D	\$	\$	\$
13.	Generator Step-Ups Included in Accts. 352 & 353 above		\$	\$	\$
14.	Adjustment to Depreciation Rate	Note D	\$	\$	\$
15.	General & Intangible Plant	Note B	\$	\$	\$
16.	Adjustment to Depreciation Rate	Note B, D	\$	\$	\$
17.	Total	L.10 - L.11 + L.12 + L.13 + L.14 + L.15 + L.16	\$	\$	\$
18.	ACCUM DEFERRED TAXES	Note E	\$	\$	\$

Note A: Gross Plant in Service is the average of beginning and ending year balances (FERC-1, P. 206 & 207)

Note B: % from P.A-7, L.17

Note C: Accumulated Depreciation is the average of beginning and ending year balances (FERC-1, P.219)

Note D: From Accounting.

Note E: FERC-1, P. 234 Ln. 8 (Account 190), FERC-1 P. 272/273 Ln. 8 (Account 281), FERC-1, P. 274/275 Ln. 5 (Account 282), and FERC-1, P. 276/277 Ln. 9 (Account 283) - Allocated on Gross Plant in Service

Cost-of-Service Formulas

APPENDIX B

A-7

PRODUCTION-RELATED GENERAL PLANT ALLOCATION
TWELVE MONTHS ENDED DECEMBER 31, ____

General Plant Accounts 101 and 106						
		Total System (1)	Allocation Factor (2)	Related to Production (1) x (2) (3)	Demand (4)	Energy (5)
1.	GENERAL PLANT					
2.	389 Land	\$				
3.	390 Structures	\$				
4.	391 Office Equipment	\$				
5.	392 Transportation Equipment	\$				
6.	393 Stores Equipment	\$				
7.	394 Tools, Shop & Garage Equipment	\$				
8.	395 Lab Equipment	\$				
9.	396 Power Operated Equipment	\$				
10.	397 Communications Equipment	\$				
11.	398 Miscellaneous Equipment	\$				
12.	Subtotal	\$	Note A	\$	\$	\$
13.	PERCENT of Subtotal	%		%	%	%
14.	Other Tangible Property (Excluding 399.1)					
15.	399.0 Other Tangible Property	\$		\$	\$	\$
16.	TOTAL GENERAL PLANT (Excl. 399.1)	\$	FERC-1, P.206	\$	\$	\$
17.	PERCENT of Total	%		%	%	%
18.	Intangible Plant	\$	FERC-1, P.204	\$	\$	\$
19.	General and Intangible Plant	\$		\$	\$	\$
Note A:	Allocation factors based on wages and salaries in electric operations and maintenance expenses, excluding administrative and general expenses:			I&M	AEPSC Note B	Total
	a. Total wages and salaries in electric O&M excluding A&G FERC-1, P. 354, Column (b), L.25-L.24.			\$	\$	\$
	b. Production wages and salaries in electric O&M FERC-1, P.354, Col (b), L.18.			\$	\$	\$
	c. Ratio (b/a)					%
	Classification factors based on wages and salaries in electric operations and maintenance expenses, excluding administrative and general expenses:					
	a. Production wages and salaries in electric O&M					\$
	b. Production demand-related wages and salaries			\$	\$	\$
	c. Ratio (b/a)					%
Note B:	From Accounting.					

Cost-of-Service Formulas

APPENDIX B

A-8

PRODUCTION-RELATED CASH REQUIREMENT
TWELVE MONTHS ENDED DECEMBER 31, _____

	Reference	PRODUCTION		
		Amount (1)	Demand (2)	Energy (3)
1. Fuel Expense	P. A-14, L.16	\$	\$	\$
2. Fuel Cash Requirements	$45/360 \times L.1$	\$	\$	\$
3. Purchased Power	P. A-14, L.1	\$	\$	\$
4. Purchased Power Cash Requirements	$45/360 \times L.3$	\$	\$	\$
5. Total O&M, Excluding Fuel	P. A-14, L.8	\$	\$	\$
6. Other O&M Expense	L.5 - L.3	\$	\$	\$
7. Other O&M Cash Requirements	$45/360 \times L.6$	\$	\$	\$
8. Total Cash Requirements	$L.2 + L.4 + L.7$	\$	\$	\$

Cost-of-Service Formulas

APPENDIX B

A-9

PRODUCTION-RELATED MATERIALS & SUPPLIES
 TWELVE MONTHS ENDED DECEMBER 31, ____

	Reference	Total System (1)	Allocation Factor (2)	Related to Production (1) x (2) (3)	Demand (4)	Energy (5)
1. Material & Supplies						
2. Fuel (Note A)	FERC-1, P.110	\$		\$	\$	\$
3. Non-Fuel						
4. Account 158 - Allowances	FERC-1, P.110	\$	%	\$	\$	\$
5. Other - Non-Fuel	Note B	\$	%	\$	\$	\$
6. Total Non-Fuel	L. 4 + L. 5	\$		\$	\$	\$
7. Total Material & Supplies	L. 2 + L. 6	\$		\$	\$	\$

Note A: Accounts 120, 151, 152

Note B: Accounts 154 through 157 and 163 (FERC Form 1, P. 110) Functionalized on Gross Plant from P. A-6, L.4

Cost-of-Service Formulas

A-10

PRODUCTION-RELATED ADMINISTRATIVE & GENERAL EXPENSE ALLOCATION
TWELVE MONTHS ENDED DECEMBER 31, ____

	Account	Reference	System Amount (1)	Allocation Factor % (2)	PRODUCTION		
					Amount (3)	Demand (4)	Energy (5)
1.	ADMINISTRATIVE & GENERAL EXPENSE						
2.	RELATED TO WAGES AND SALARIES						
3.	A&G Salaries	920 FERC-1, P.322	\$				
4.	Office Supplies	921 FERC-1, P.322	\$				
5.	Adm. Expense Transfer - Cr.	922 FERC-1, P.322	\$				
6.	Outside Services	923 FERC-1, P.323	\$				
7.	Injuries & Damages	925 FERC-1, P.323	\$				
8.	Employee Pensions & Benefits	926 FERC-1, P.323	\$				
9.	Franchise Requirements	927 FERC-1, P.323	\$				
10.	Duplicate Charges - Cr.	929 FERC-1, P.323	\$				
11.	Miscellaneous General Expenses	930 FERC-1, P.323	\$				
12.	Rents	931 FERC-1, P.323	\$				
13.	Subtotal	Ls. 3 thru 12	\$	Note A	\$	\$	\$
14.	Property Insurance	924 FERC-1, P.323	\$	Note B	\$	\$	\$
15.	Regulatory Comm. Expenses	928 FERC-1, P.351	\$	Note C	\$	\$	\$
16.	Maintenance of General Plant	935 FERC-1, P.323	\$	Note D	\$	\$	\$
17.	Total	Ls. 13 thru 16	\$		\$	\$	\$

Note A: Allocation factor based on wages and salaries in electric operations and maintenance expenses, excluding administrative and general expenses - See Page A-7.

Note B: From Accounting.

Note C: FERC-1, P.351. Excluding FERC Annual Assessment

Note D: Allocated on Gross Plant % from P.A-7, L.17

Cost-of-Service Formulas

APPENDIX B

A-11

COMPOSITE COST OF CAPITAL

TWELVE MONTHS ENDED DECEMBER 31, ____

	Reference	Total Company Average Capitalization		Cost of Capital	Composite Cost of Capital
		\$	%	%	(2 x 3)
		(1)	(2)	(3)	(4)
1.	Long Term Debt	Note A	\$	%	%
2.	Preferred Stock	Note B	\$	%	%
3.	Common Stock	Note C	\$	%	%
4.	Total		\$	%	%

Note A: Line 1, Columns (1) and (3) from Page A-12.

Note B: Line 2, Columns (1) and (3) from Page A-13.

Note C: Line 3, Column (1) from FERC-1, P. 112, Total Proprietary Capital of:	\$
Less: Preferred Stock, P.A-13, L.1(b)	\$
Less: Premium on Preferred Stock, P.A-13, L.1(c)	\$
Common Stock	\$

Cost-of-Service Formulas

A-12

AVERAGE LONG TERM DEBT

TWELVE MONTHS ENDED DECEMBER 31, ____

APPENDIX B

	Average Debt Balance (1)	Interest Booked (2)
1 Total (FERC-1, P. 112 & P. 117 - Account 427)	\$	\$
2 Preferred Stock With Mandatory Redemption (FERC-1, P. 257.2)	\$	\$
3 Account 224 - Pre-83 SNF Disposal Costs (FERC-1, P. 257)	\$	
4 Amortization of Debt Discount and Expense (FERC-1, P. 117, Accounts 428 - 429.1)		\$
5 Total (L.1 - L.2 - L. 3 + L. 4)	\$	\$
6 Embedded Costs = L.5, Col. (2)/Col. (1)		%

Cost-of-Service Formulas
 A-13
 AVERAGE PREFERRED STOCK
 TWELVE MONTHS ENDED DECEMBER 31, ____

APPENDIX B

	Reference	Amount
1. (a) Preferred Stock Dividends	FERC-1, P.118, L.29 (Account 437) & FERC-1, P. 257.2	\$
(b) Preferred Stock Issued	FERC-1, P.112, L.3	\$
(c) Premium on Preferred Stock	FERC-1, P.112, L.6 (Account 2070003)	\$
(d) Preferred Stock with Mandatory Redemption	FERC-1, P.257.2	\$
(e) Total Preferred Stock	L.1 (b) + L.1 (c) + L.1(d)	\$
2. Average Cost Rate	L.1 (a)/L.1 (e)	%

Cost-of-Service Formulas

APPENDIX B

A-14

PRODUCTION O & M EXPENSE

TWELVE MONTHS ENDED DECEMBER 31, ____

	Account No.	Total Company (1)	(Demand) Fixed (2)	Energy	
				Non-Fuel Variable (3)	Fuel (4)
1. Purchased Power (FERC Form-1, P.327)	555	\$	\$	\$	\$
2. System Control of Load Dispatching (FERC Form-1, P.321)	Note D	\$	\$	\$	\$
3. Other Production Expenses (FERC Form-1, P.321)	557	\$	\$	\$	\$
4. Other Production Expenses	Note A	\$	\$	\$	\$
5. Total Production Expense Excluding Fuel Used In Electric Generation above		\$	\$	\$	\$
6. A & G Expense P.A-10, L.17		\$	\$	\$	\$
7. Generator Step Up related O&M	Note B	\$	\$	\$	\$
8. Total O & M Excluding Fuel		\$	\$	\$	\$
9. Fuel - Account 501 (FERC Form-1, P.320)	501	\$			\$
10. Less: Fuel Handling		\$			\$
11. Less: Sale of Fly Ash (Revenue & Expense)		\$			\$
12. Plus: Account 518	518	\$			\$
13. Plus: Account 547	547	\$			\$
14. Less: Pre 4/7/83 Spent Nuclear Fuel	Note C	\$			\$
15. Plus: Pre 4/7/83 Spent Nuclear Fuel - Study		\$			\$
16. Total Fuel		\$	\$	\$	\$
17. Total - Production O&M	L.5 + L.16	\$	\$	\$	\$
18. Less: Off-System Sales Revenues (P.A-4, L.1)					\$
19. Plus: Company Share of Margins (P.A-4, L.2 - L.4)					\$
20. Total Fuel Costs					\$
21. Plus: Gains/(Losses) on Disp. of Allowances	A-14(a)	\$			
22. Plus: Nuclear Decomm Expense - ARO	A-14(a)	\$			
23. Less: Nuclear Decommissioning Adjustment	A-14(a)	\$			
24. Less: Spent Nuclear Fuel Adjustment	L.15 - L.14	\$			
25. Check Total - Perbooks Production O&M	P.321	\$			

Note A: Classified into Fixed and Variable Components in accordance with P.A-14(a).

Note B: FERC-1, P.321, (Accounts 562, 569 & 570) allocated on Gross Plant ratio - GSU to total.

Note C: Accounts 5180004 & 5180005

Note D: Pursuant to FERC Order 668, expenses that were booked in Account 556 are now being recorded in the following accounts:

561.4 Scheduling, System Control and Dispatch Services (FERC Form-1, P. 321)

561.8 Reliability, Planning and Standards Development Services (FERC Form-1, P. 321)

575.7 Market Facilitation, Monitoring and Compliance Services (FERC Form-1, P. 322)

Cost-of-Service Formulas

APPENDIX B

A-14(a)

CLASSIFICATION OF FIXED AND VARIABLE PRODUCTION EXPENSES
TWELVE MONTHS ENDED DECEMBER 31, ____

Line No.	Description	FERC Account No.	Demand Related	Energy Related
1	Operation supervision and engineering	500	\$	-
2	Fuel	501	-	XX
3	Fuel Handling	5010003	-	\$
4	Sale of Fly Ash (Revenue & Expense)	5010012	-	\$
5	Steam expenses	502	\$	-
6	Steam from other sources	503	-	\$
7	Steam transferred-Cr.	504	-	\$
8	Electric expenses	505	\$	-
9	Miscellaneous steam power expenses	506	\$	-
10	Rents	507	\$	-
11	Allowances	509	-	\$
12	Less: Gains from Disposition of Allowances	411.8	-	\$
13	Plus: Losses from Disposition of Allowances	411.9	-	\$
14	Maintenance supervision and engineering	510	-	\$
15	Maintenance of structures	511	\$	-
16	Maintenance of boiler plant	512	-	\$
17	Maintenance of electric plant	513	-	\$
18	Maintenance of miscellaneous steam plant	514	\$	-
19	Total steam power generation expenses		\$	\$
20	Operation supervision and engineering	517	\$	-
21	Coolants and Water	519	\$	-
22	Steam expenses	520	\$	-
23	Steam from other sources	521	\$	-
24	Steam transferred-Cr.	522	\$	-
25	Electric expenses	523	\$	-
26	Miscellaneous nuclear power expenses	524	\$	-
27	Less: Nuclear Decomm Expense - ARO	524.0009	\$	-
28	Rents	525	\$	-
29	Total nuclear power generation operation expenses		\$	\$
30	Maintenance supervision and engineering	528	-	\$
31	Maintenance of structures	529	\$	-
32	Maintenance of reactor plant equipment	530	-	\$
33	Maintenance of electric plant	531	-	\$
34	Maintenance of miscellaneous nuclear plant	532	-	\$
35	Total nuclear power generation maintenance expenses		\$	\$
36	Less: Nuclear Decommissioning	524.0008	\$	-
37	Plus: Nuclear Decommissioning - Study		\$	-
38	Operation supervision and engineering	535	\$	-
39	Water for power	536	\$	-
40	Hydraulic expenses	537	\$	-
41	Electric expenses	538	\$	-
42	Misc. hydraulic power generation expenses	539	\$	-
43	Rents	540	\$	-
44	Maintenance supervision and engineering	541	\$	-
45	Maintenance of structures	542	\$	-
46	Maintenance of reservoirs, dams and waterways	543	\$	-
47	Maintenance of electric plant	544	-	\$
48	Maintenance of miscellaneous hydraulic plant	545	\$	-
49	Total hydraulic power generation expenses		\$	\$
50	Operation supervision and engineering	546	\$	-
51	Fuel	547	-	XX
52	Generation expenses	548	\$	-
53	Miscellaneous other power generation expenses	549	\$	-
54	Rents	550	\$	-
55	Maintenance supervision and engineering	551	\$	-
56	Maintenance of structures	552	\$	-
57	Maintenance of generation and electric plant	553	\$	-
58	Maintenance of misc. other power generation plant	554	\$	-
59	Total other power generation expenses		\$	\$
60	Purchased power	555	XX	XX
61	System control and load dispatching	556	XX	-
62	Other expenses	557	XX	-
63	TOTAL OTHER PRODUCTION EXPENSES	\$	\$	\$

Cost-of-Service Formulas

APPENDIX B

A-15

PRODUCTION-RELATED DEPRECIATION EXPENSE
TWELVE MONTHS ENDED DECEMBER 31, ____

			Production Related (1)	Demand (2)	Energy (3)
1.	Steam Production Plant	Note A	\$	\$	\$
2.	Nuclear Production Plant	Note A	\$	\$	\$
3.	Hydro Production Plant Conventional	Note A	\$	\$	\$
4.	Pump Storage	Note A	\$	\$	\$
5.	Other Production	Note A	\$	\$	\$
6.	Production Subtotal		\$	\$	\$
7.	Less: ARO-Related Depreciation (403.1)	Note A	\$	\$	\$
8.	Plus: Non-Nuclear Depr. & Accretion	Note B	\$	\$	\$
9.	Adjustment to Depreciation Rate	Note B	\$	\$	\$
10.	Production-Related Gen. & Int. Plant	Note C	\$	\$	\$
11.	Adjustment to Depreciation Rate	Note B, C	\$	\$	\$
12.	GSU-related Depreciation Expense	Note B	\$	\$	\$
13.	Adjustment to Depreciation Rate	Note B	\$	\$	\$
14.	Total Production		\$	\$	\$

Note A: Lines 1 through 5 are Depreciation Expense reported on page 336 of the FERC Form No. 1 for Accounts 403, 404 and 405 (excluding 403.1).

Note B: From Accounting.

Note C:	General and Intangible Plant Depreciation Expense	\$	FERC-1, p. 336, Col. (f)
	Production-Related %	%	Page A-7, L. 17, Col.(3)
	Gen Plant Depr. Exp. - Prod. Related	\$	
	Adjustment to General Plant Depreciation Expense	\$	
	Production-Related %	%	Page A-7, L. 17, Col.(3)
	Gen Plant Depr. Exp. - Prod. Related	\$	

Cost-of-Service Formulas

APPENDIX B

A-16

PRODUCTION-RELATED TAXES OTHER THAN INCOME TAXES
 TWELVE MONTHS ENDED DECEMBER 31, ____

	REFERENCE	SYSTEM AMOUNT (1)	%	PRODUCTION AMOUNT (2)
TAXES RELATED TO PRODUCTION WAGES AND SALARIES				
1.	State Unemployment	Note A	\$	
2.	Federal Social Security & Unemployment	Note A	\$	
3.	Total Taxes Related to Wages & Salaries		\$	Note B
4.	Real and Personal Property Tax	Note A	\$	
5.	Franchise Tax	Note A	\$	
6.	Total Taxes Related to Production Plant		\$	Note C
7.	Total Taxes Other Than Income Taxes	L. 3 + L. 6	\$	\$
8.	Misc. & State Commission Assessments		\$	
9.	Check Total - Taxes Other	FERC-1 P.114	\$	

Note A: Taxes other than Income Taxes will be those reported in FERC-1, pages 262 & 263 as listed above.

Note B: Allocation factor based on wages and salaries in electric operations and maintenance expenses, excluding administrative and general expenses - See Page A-7.

%

Note C: Allocation factor based on gross plant in service - See Page A-6.

%

Cost-of-Service Formulas

APPENDIX B

A-17

PRODUCTION-RELATED INCOME TAX
 TWELVE MONTHS ENDED DECEMBER 31, _____

	Reference	Amount (1)	Demand (2)	Energy (3)
1. Return on Investment	P. A-5, L.18	\$	\$	\$
2. Interest	P. A-5, L.16 x P. A-11, L.1, Col(4)	\$	\$	\$
3. Balance for Equity Earnings	L.1 - L.2	\$	\$	\$
4. Combined Income Tax Factor	P. A-18, L.17		#	#
5. Income Tax	L.4 x L.3	\$	\$	\$

Cost-of-Service Formulas

APPENDIX B

A-18

COMPUTATION OF EFFECTIVE INCOME TAX RATE
TWELVE MONTHS ENDED DECEMBER 31, ____

	REFERENCE	AMOUNT
1. Net Income before Extraordinary	FERC-1, P. 117, L. 67	\$
2. Less: Allowance for Funds Used During Construction (AFUDC)	FERC-1, P. 117, Acct 419.1	\$
3. Adjusted Net Income	Line 1 - Line 2	\$
Income Taxes:		
4. Federal	FERC-1.P. 114, Acct 409.1	\$
5. Other	FERC-1.P. 114, Acct 409.1	\$
6. Provision for Deferred Inc. Taxes	FERC-1.P. 114, Acct 410.1	\$
7. Provision for Def. Inc. Taxes-Cr.	FERC-1.P. 114, Acct 411.1	\$
8. Investment Tax Cr. Adjustment Net	FERC-1.P. 114, Acct 411.4	\$
Taxes Applicable to Other Income and Deductions:		
9. Income Taxes - Federal	FERC-1 P.117, Acct 409.2	\$
10. Income Taxes - Other	FERC-1 P.117, Acct 409.2	\$
11. Provision for Deferred Inc. Taxes	FERC-1 P.117, Acct 410.2	\$
12. Provision for Deferred Inc. Taxes - credit	FERC-1 P.117, Acct 411.2	\$
13. Investment Tax Credit Adj. - Net	FERC-1 P.117, Acct 411.5	\$
14. Total Income Taxes	Lines 4 thru 13	\$
15. Pretax Earnings Base	Line 3 + Line 14	\$
16. Effective Income Tax Rate	Line 14 / Line 15	%
17. Combined Tax Factor	Line 16 / (100 - Line 16)	#

APPENDIX C

**Assignment of PJM Charges and Credits
for Full Requirements Electric Service**

PJM Operating Agreement

Schedules	Description	Company	Customer
1-3.2.1 & 3.3.1	Spot Market Energy, including day-ahead and balancing charges, credits and reconciliations	x	
1-3.2.4, 3.4.1 & 5.2	Transmission Congestion, including day-ahead and balancing charges, credits and reconciliations	x	
1-3.2.5 & 3.4.2	Transmission Losses, including day-ahead and balancing charges, credits and reconciliations	x	
1-3.2.2, 3.2.2A, 3.3.2 & 3.3.2A	Regulation charges, credits and reconciliations	x	
1-3.2.3A & 3.3.5	Spinning Reserves charges, credits and reconciliations	x	
1-3.2.3 & 3.3.3	Operating Reserves, including day-ahead, balancing and synchronous condensing charges, credits and reconciliations	x	
	Synchronous Condensing - included under Operating Reserves, above	x	
1-3.2.3B	Reactive Services charges, credits and reconciliations	x	
11-6.7	Capacity Credit Market charges, credits and reconciliations	x	
1-7.3.8	FTR Auction charges, credits and reconciliations	x	
1-7.4	Auction Revenue Rights credits	x	
1-3.2.6, 3.3.4, 3.5.1 & 4.3	Emergency Energy charges, credits and reconciliations	x	
1-3.6	Meter Correction	x	

**Assignment of PJM Charges and Credits
for Full Requirements Electric Service**

PJM OATT

Schedules	Description	Company	Customer
1, 9 & 10	Scheduling, System Control & Dispatch Services <i>PJM charges and reconciliation for control area administration, FTR administration, market support, regulation and frequency response administration, capacity and resource obligation administration, FERC annual charge recovery, and NERC and RFC reliability charges.</i>	x	
1A	Scheduling, System Control & Dispatch Services <i>Transmission Owner charges, credits and reconciliations</i>		x
2	Reactive Supply & Voltage Control from Generation Sources charges, credits and reconciliations	x	
3	Regulation and Frequency Response - billed under PJM Operating Agreement, above	x	
4	Energy Imbalance - billed under PJM Operating Agreement, above	x	
5	Operating Reserve - Spinning Reserve Service - billed under PJM Operating Agreement, above	x	
6	Operating Reserve - Supplemental Reserve Service - billed under PJM Operating Agreement, above	x	
6A	Black Start Service charges and credits	x	
7	NITS Service charges and credits, including Contract Demand Reservation Service		x
7	RTO Start-Up Costs		x
7& 8	Firm and Non-Firm Point-to-Point Transmission Service		x
12	Transmission Enhancement Charges		x
13	Expansion Cost Recovery charges and credits	x	
Attachment R	PJM/MISO and Intra-PJM SECA charges		x
Attachment X	PJM/MISO and Intra-PJM SECA credits	x	
ILDSA	Other Supporting Facilities		x
	AEP Inadvertent	x	
	Energy Imbalance	x	

CITY OF SOUTH HAVEN
VAN BUREN AND ALLEGAN COUNTIES, MICHIGAN

RESOLUTION NO. 2015-XX

A RESOLUTION AMENDING THE COST-BASED FORMULA RATE
AGREEMENT FOR FULL REQUIREMENTS ELECTRIC SERVICE
BY AND BETWEEN INDIANA MICHIGAN POWER COMPANY
AND THE CITY OF SOUTH HAVEN

Minutes of a regular meeting of the City Council of the City of South Haven, Van Buren and Allegan Counties, Michigan, held in the City Hall, 539 Phoenix Street, South Haven, Michigan 49090 on January 19, 2015 at 7:00 p.m. local time.

PRESENT: _____

ABSENT: _____

The following preamble and resolution was offered by Member _____ and supported by Member _____.

WHEREAS, on May 24, 2006, the City of South Haven entered into an Agreement with Indiana Michigan Power Company for Full Requirements Electric Service; and

WHEREAS, the Indiana and Michigan Municipal Distributors Association has negotiated a proposed Amendment to the Agreement on behalf of the City of South Haven and its other 10 members; and,

WHEREAS, in order to amend the terms of the Cost-Based Formula Rate Agreement for Full Requirements Electric Service, Indiana Michigan Power Company must file notice with the Federal Energy Regulatory Commission to terminate the existing agreement; and

WHEREAS, upon termination of the existing Cost-Based Formula Rate Agreement for Full Requirements Electric Service, Indiana Michigan Power Company will immediately begin serving the City under the Amended and Restated Cost-Based Formula Rate Agreement for Full Requirements Electric Service;

NOW, THEREFORE BE IT RESOLVED that the City of South Haven hereby approves the Amended and Restated Cost-Based Formula Rate Agreement for Full Requirements Electric Service with Indiana Michigan Power Company and authorizes the Mayor to execute the Amended Agreement on behalf of the City.

BE IT FURTHER RESOLVED that the City of South Haven hereby authorizes Indiana Michigan Power Company to file appropriate documentation with the Federal Energy Regulatory Commission terminating the existing Cost-Based Formula Rate Agreement for Full Requirements Electric Service (FERC Rate Schedule 108) dated May 24, 2006.

BE IT FURTHER RESOLVED, that this resolution shall take effect upon passage by the City Council.

RECORD OF VOTE:

Yeas: _____

Nays: _____

RESOLUTION DECLARED ADOPTED

Robert G. Burr, Mayor

CERTIFICATION

I hereby certify that the foregoing is a true and complete copy of a resolution adopted by the City Council at a meeting held on the 19th day of January, 2015, at which meeting a quorum was present, and that this resolution was ordered to take immediate effect. Public notice of said meeting was give pursuant to and in compliance with the Open Meetings Act, Act No. 167 of the Public Acts of Michigan 1976 (MCL 15.261 *et seq*).

Amanda Morgan, City Clerk

DRAFT



City of South Haven

Agenda Item # 7

Core City Secondary Upgrades – Phase 2

Background Information:

CONSTRUCTION SERVICES

At the July 29, 2013 Regular Meeting of the Board of Public Utilities, GRP Engineering, Inc. presented the Electric Distribution System Study & Five-Year Plan. This study reviewed the City of South Haven's substations and distribution system and provided recommendations for electrical system projects to significantly improve system reliability. The Board directed GRP Engineering to provide proposals for engineering services for four recommended projects. Core City Secondary Upgrades is one of those projects.

Project scope is to rebuild secondary lines within the core city area which are generally located in back lot areas. All poles and secondary conductor are scheduled to be replaced with primary conductor and transformers as determined through a complete inventory and design. The "core city" area is generally defined as the area bounded by Lake Michigan to the west, the river and Phoenix Street to the north, Blue Star Highway to the east, and Aylworth Avenue to the south.

Reconstruction will occur in several phases to spread out construction costs over time. Each phase will include several residential blocks (estimated 16 blocks), inventory and engineering design completed, material purchased, construction contract bid to qualified contractors based on a firm number of units, pole replacement and line reconstruction, final inspections and inventory for contractor invoicing.

On March 17, 2014, bids were opened for Phase 1 of the project. On March 31, 2014, the Board of Public Utilities reviewed and provided unanimous approval of a recommendation to City Council to award Core City Secondary Upgrades – Phase 1 Bids to Kent Power, Inc. of Kent City, Michigan. On April 1, 2014, City Council approved award of the contract. The Phase 1 work is nearing completion. GRP Engineering has prepared plans for Phase 2. Kent Power, Inc. has reviewed the plans and has agreed to maintain their Phase 1 unit prices for Phase 2. They have also agreed to install the secondary (backyard) poles on a Time and Material basis. Their original unit price for this item was \$3,000 per pole. On Phase 1, they have averaged three (3) poles per day. This would translate to approximately \$1,000 per pole, which would yield a total project cost of approximately \$807,899.49. GRP's

original total cost estimate was \$750,000. Attached are GRP's recommendation letter and the unit cost lists.

It is recommended that the contract of Kent Power, Inc. for Core City Secondary Upgrades – Phase 1 is extended for Core City Secondary Upgrades – Phase 2 utilizing the established unit prices, with secondary poles paid for on a Time and Material basis; for the following reasons:

- They have performed well on Phase 1 and have received compliments from residents and staff.
- They know the work and would need no learning curve.
- They know our system.
- The same bidding environment exists now as was occurring at the time of bidding Phase 1. There is a lot of work, contractors are busy, and a lot work is being bid. Therefore, contractors are not bidding on everything and bidding is high. There were only two bidders on Phase 1.

COMMUNITY OUTREACH AND COMMUNICATION SERVICES

Because most of the construction will occur on private property, this project will have a direct impact on customers and property owners. In order to ensure that the project moves forward in a smooth manner, a high level of communication with impacted property owners is needed. In order to ensure that an adequate effort is made to serve the needs of the customers and property owners within the project area, staff requested a proposal from Abonmarche to provide community outreach and coordination services during Phase 1.

On August 25, 2014, the Board of Public Utilities reviewed and provided unanimous approval of a recommendation to City Council to award a professional services contract for community outreach and coordination to Abonmarche. On September 2, 2014, City Council approved award of the contract. The attached proposal outlines the same services to be provided by Abonmarche for Phase 2. The primary purpose is the ensure that customers and property owners know what to expect both before and during the project and to assist in addressing any concerns related to tree trimming, tree removal, and yard restoration during and after the construction.

PRECONSTRUCTION VIDEOTAPING SERVICES

Abonmarche worked with City staff to obtain pricing for videotaping services throughout the Phase 1 project area. Services include videotaping front and backyards, landscaping, power lines, homes, sidewalks, driveways, etc. This service is critical to ensure that unwarranted claims are not made against the City for damage to private property that is not caused by Kent Power.

On September 15, 2014, City Council approved award of the contract for preconstruction videotaping services to Structures, Inc. The attached proposal outlines the same services to be provided by Structures, Inc. for Phase 2.

Funds are included in the Fiscal Year 2013-14 Adopted Budget for electrical system improvements.

Recommendation:

Approve a recommendation to City Council to award the following contracts for Core City Secondary Upgrade – Phase 2:

A. Extend the contract with Kent Power, Inc. of Kent City, Michigan for construction services. Labor and materials to be provided are defined in the contract documents prepared by GRP Engineering.

B. Award the contract for professional services for community outreach and communication to Abonmarche in the amount of \$33,500.

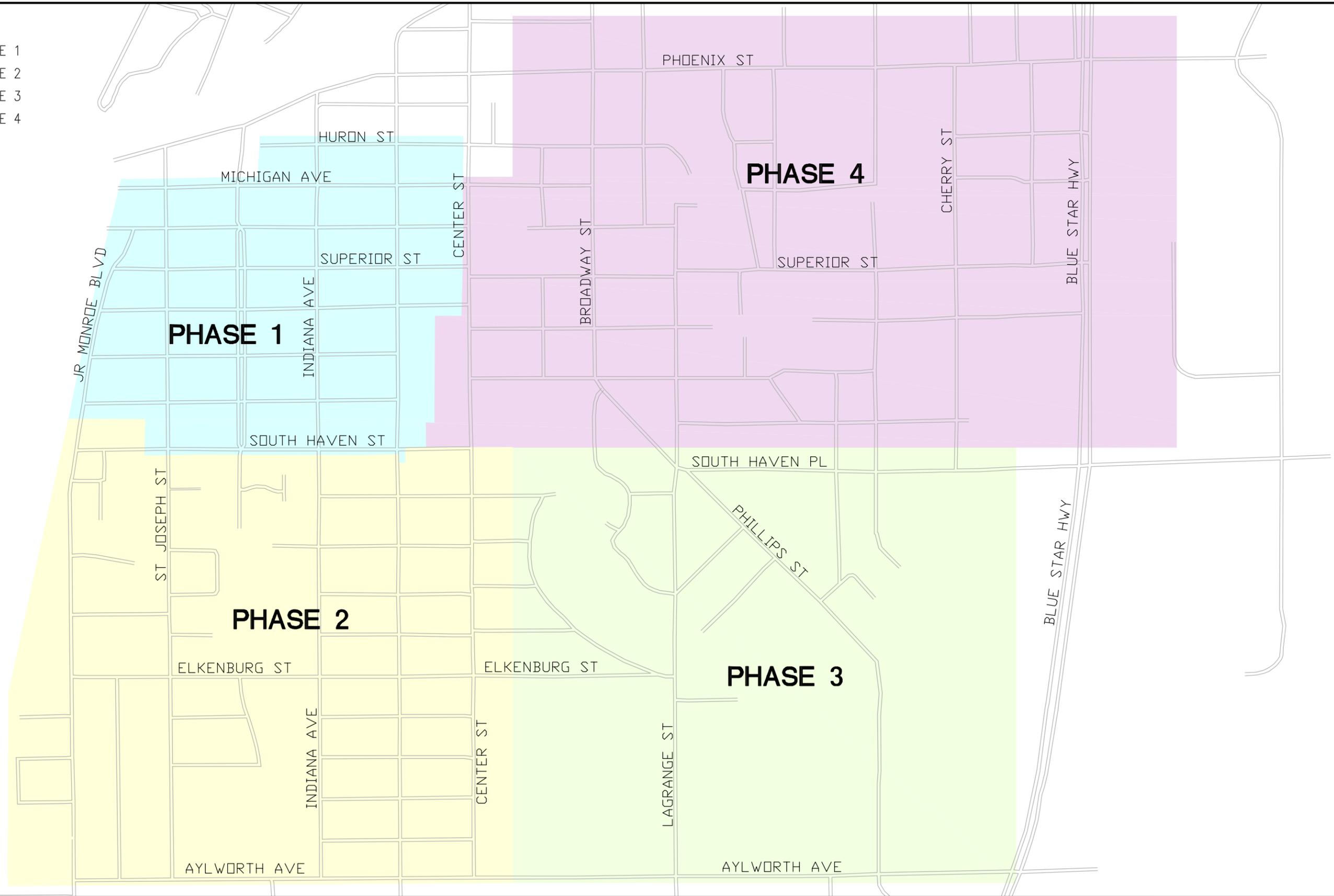
C. Award the contract for preconstruction videotaping services to Structures, Inc. in the not-to-exceed amount of \$18,923.

Support Material:

Core City Construction Phases Map
GRP Engineering Recommendation Letter
Unit Cost Lists
Abonmarche Proposal
Structures, Inc. Proposal

LEGEND

-  PHASE 1
-  PHASE 2
-  PHASE 3
-  PHASE 4



PROJECT NAME
CORE CITY SECONDARY UPGRADES
 CLIENT
CITY OF SOUTH HAVEN

PROPOSED CONSTRUCTION PHASES

GRP ENGINEERING, INC., GRAND RAPIDS / PETOSKEY, MI., 231-439-9683

DATE 08-22-2014	PROJECT NO. 14-0669.01
ENG MPM	DRAWING
DR. KMW	MAP

December 16, 2014
14-0669.01

Mr. Roger Huff
South Haven DPW
1199 8th Ave
South Haven, MI 49090

**RE: Core City Secondary Upgrade Phase 2
Recommendation**

Dear Roger:

GRP Engineering, Inc. has completed reviewing the options for proceeding with Phase 2 of the Core City Secondary Upgrade project. There were three options considered for the labor option of this project. The first option was to extend the contract with Kent Power as the phase 1 bids were originally received, option 2 was extend the contract with Kent Power but to negotiate a better price on the particular items that were viewed as overpriced in the original bid and option 3 was to bid out the project as a separate contract. Listed below is a simple overview of the reasoning behind the decisions that lead GRP Engineering and South Haven Staff to option 2.

Option three was ruled out because the current bid environment is similar to the situation that was encountered when Phase 1 was bid. At that time we only received 2 bids out of 5 contractors solicited and the prices were considered high.

Option one was ruled out because some of the prices submitted in the original bid were high. Based on our experiences in Phase 1 and other similar projects, GRP and City Staff felt that a significant savings could be achieved by working with Kent Power on some of the costs in the bid.

Option 2 was selected based on the info above regarding option 1 and 3 as well as couple of other items. First the overall Phase 1 project has been positive for all parties involved and most importantly with the customers of South Haven. Second in the interest of keeping the project moving and with goal of completing Phase 2 in the spring of 2015 it would be helpful to keep Kent Power on site and working therefore eliminating roughly 2 months of down time for the complete bidding/approval process as well as the learning curve for the contractor.

Kent Power Inc., GRP Engineering and South Haven Staff have successfully negotiated an extension to the Phase 1 project. Therefore GRP Engineering, Inc. recommends that South Haven extend the contract with Kent Power. The estimated cost for Kent Power will be \$622,899.49 with an estimated material cost of \$185,000.00 for a total cost of \$807,899.49.

The project unit list and estimate is attached to this letter.

Please contact me at 616.942.7183 should you have any questions regarding this evaluation.

Sincerely,
GRP Engineering, Inc.



Robert A. Shelley, P.E.
Electrical Engineer

**CITY OF SOUTH HAVEN
CORE CITY SECONDARY UPGRADE - PHASE 2
CONSTRUCTION COST ESTIMATE**

New Construction Labor	Removal Labor	Total Labor Estimate	Material	Phase 2 Total Estimate
\$550,224.03	\$72,675.46	\$622,899.49	\$185,000.00	\$807,899.49

**CITY OF SOUTH HAVEN
CORE CITY SECONDARY UPGRADE PHASE 2
NEW CONSTRUCTION UNIT LIST
BID #2014-03**

UNIT ITEM DESCRIPTION	UNIT	BID QUANTITY	UNIT LABOR	EXTENDED TOTAL
35-5	EA	123	\$1,000.00	\$123,000.00
40-4	EA	34	\$699.00	\$23,766.00
45-4	EA	6	\$710.00	\$4,260.00
A1	EA	10	\$48.00	\$480.00
A2	EA	2	\$69.00	\$138.00
A4	EA	4	\$180.00	\$720.00
A5	EA	6	\$148.00	\$888.00
A5-1	EA	4	\$175.00	\$700.00
A5-2	EA	1	\$150.00	\$150.00
A5-3	EA	1	\$148.00	\$148.00
A7	EA	1	\$180.00	\$180.00
A9	EA	1	\$120.00	\$120.00
A9-1	EA	1	\$85.00	\$85.00
C1	EA	4	\$145.00	\$580.00
C1-1	EA	1	\$170.00	\$170.00
C1-2	EA	3	\$126.00	\$378.00
C2	EA	2	\$195.00	\$390.00
C7A	EA	2	\$345.00	\$690.00
HD-SDE	EA	8	\$216.00	\$1,728.00
HD-T1-24	EA	14	\$135.00	\$1,890.00
E1-3Fi	EA	2	\$148.00	\$296.00
E1-3i	EA	86	\$135.00	\$11,610.00
E1-3SWI	EA	1	\$160.00	\$160.00
E2-3Fi	EA	2	\$205.00	\$410.00
E2-3i	EA	7	\$190.00	\$1,330.00
5.0' EXT.	EA	2	\$45.00	\$90.00
F1-3S	EA	86	\$145.00	\$12,470.00
TA-2H	EA	3	\$255.00	\$765.00
G25DB240	EA	6	\$215.00	\$1,290.00
G310	EA	1	\$215.00	\$215.00
G39	EA	9	\$215.00	\$1,935.00
G50DB240	EA	15	\$260.00	\$3,900.00
G75SDB240	EA	3	\$285.00	\$855.00
G9	EA	20	\$215.00	\$4,300.00
Transfer G25DB240	EA	4	\$320.00	\$1,280.00
#1/0 TX	LFT	1,503	\$2.70	\$4,058.10
#1/0 USE	LFT	320	\$3.50	\$1,120.00
#2 TX	LFT	8,550	\$2.65	\$22,657.50
#2 USE	LFT	40	\$3.50	\$140.00
#4 TX	LFT	78	\$160.00	\$12,480.00
#4/0 TX	LFT	10,760	\$3.20	\$34,432.00
#4/0 USE	LFT	500	\$4.00	\$2,000.00
#500 USE TX	LFT	2,150	\$5.05	\$10,857.50

**CITY OF SOUTH HAVEN
CORE CITY SECONDARY UPGRADE PHASE 2
NEW CONSTRUCTION UNIT LIST
BID #2014-03**

UNIT ITEM DESCRIPTION	UNIT	BID QUANTITY	UNIT LABOR	EXTENDED TOTAL
#6 DX	LFT	944	\$0.65	\$613.60
Transfer #1/0 TX	EA	4	\$160.00	\$640.00
Transfer #1/0 USE	EA	10	\$320.00	\$3,200.00
Transfer #2 TX	EA	187	\$195.00	\$36,465.00
Transfer #2 USE	EA	2	\$195.00	\$390.00
Transfer #4/0 QX	EA	1	\$205.00	\$205.00
Transfer #4/0 TX	EA	68	\$195.00	\$13,260.00
Transfer #4/0 USE	EA	53	\$320.00	\$16,960.00
Transfer #6 DX	EA	25	\$150.00	\$3,750.00
UM45-3 1/0	EA	16	\$85.00	\$1,360.00
UM45-3 2	EA	11	\$85.00	\$935.00
UM45-3 2/0	EA	13	\$85.00	\$1,105.00
UM45-3 4/0	EA	26	\$85.00	\$2,210.00
K10	EA	1	\$38.00	\$38.00
K14	EA	307	\$36.00	\$11,052.00
M2-11	EA	18	\$85.00	\$1,530.00
M2-11HD	EA	12	\$115.00	\$1,380.00
M5-10S	EA	27	\$160.00	\$4,320.00
M5-5	EA	1	\$35.00	\$35.00
M5-6	EA	7	\$65.00	\$455.00
M5-9	EA	9	\$90.00	\$810.00
Meter Socket	EA	3	\$700.00	\$2,100.00
Meter Socket & Disc Switch	EA	2	\$785.00	\$1,570.00
Street Light	EA	1	\$180.00	\$180.00
Transfer 1Ø #2 ACSR	EA	6	\$195.00	\$1,170.00
Transfer 1Ø #6 INS CU	EA	4	\$195.00	\$780.00
Transfer 3Ø #1/0 ACSR	EA	9	\$320.00	\$2,880.00
Transfer 3Ø #4 ACSR	EA	2	\$320.00	\$640.00
Transfer M5-26	EA	1	\$95.00	\$95.00
Transfer Meter Socket	EA	5	\$120.00	\$600.00
Transfer St. Lt. Messenger	EA	2	\$190.00	\$380.00
Transfer Street Light	EA	17	\$190.00	\$3,230.00
UA2A	EA	5	\$600.00	\$3,000.00
G100PAD1	EA	2	\$625.00	\$1,250.00
G25PAD72	EA	1	\$580.00	\$580.00
G50PAD1	EA	4	\$580.00	\$2,320.00
UM1-7NC	EA	7	\$460.00	\$3,220.00
UM1-7NC_1Ø SC	EA	2	\$460.00	\$920.00
UM3-14	EA	2	\$580.00	\$1,160.00
UK5	EA	3	\$155.00	\$465.00
UM5	EA	60	\$245.00	\$14,700.00
UM6-10	EA	1	\$25.00	\$25.00
UM6-1A	EA	12	\$90.00	\$1,080.00

**CITY OF SOUTH HAVEN
CORE CITY SECONDARY UPGRADE PHASE 2
NEW CONSTRUCTION UNIT LIST
BID #2014-03**

UNIT ITEM DESCRIPTION	UNIT	BID QUANTITY	UNIT LABOR	EXTENDED TOTAL
UM6-21	EA	2	\$60.00	\$120.00
UM48-2	EA	6	\$160.00	\$960.00
4" HDPE 90° Elbow 36" R	EA	35	\$325.00	\$11,375.00
UR-5 (4")	LFT	3,260	\$28.95	\$94,377.00
#1/0 15kV AL, 7 Strand Hendrix - Gray	LFT	2,340	\$1.00	\$2,340.00
#2 7/1 ACSR, "Sparate"	LFT	2,293	\$0.46	\$1,054.78
#6A CWC	LFT	306	\$0.75	\$229.50
052 AWA	LFT	2,340	\$1.00	\$2,340.00
#2 AL 15kV EPR Full C.N.	LFT	2	\$3.00	\$7.05
Insurance & Bonding	LS	1	\$5,250.00	\$5,250.00
NEW CONSTRUCTION SUBTOTAL:				\$550,224.03

¹All material required to be supplied by Contractor.

**CITY OF SOUTH HAVEN
CORE CITY SECONDARY UPGRADE PHASE 2
REMOVAL UNIT LIST
BID #2014-03**

ITEM DESCRIPTION	UNIT	BID QUANTITY	UNIT LABOR	EXTENDED TOTAL
25	EA	9	\$95.00	\$855.00
30	EA	66	\$105.00	\$6,930.00
35	EA	51	\$110.00	\$5,610.00
35-4	EA	1	\$110.00	\$110.00
35-5	EA	1	\$110.00	\$110.00
40	EA	32	\$115.00	\$3,680.00
40-4	EA	2	\$115.00	\$230.00
A1	EA	21	\$28.00	\$588.00
A2	EA	5	\$45.00	\$225.00
A4	EA	6	\$52.00	\$312.00
A5	EA	5	\$40.00	\$200.00
A5-1	EA	9	\$40.00	\$360.00
A5-2	EA	2	\$42.00	\$84.00
A5-3	EA	2	\$40.00	\$80.00
A6	EA	2	\$52.00	\$104.00
A7	EA	3	\$50.00	\$150.00
A8	EA	2	\$87.00	\$174.00
A9		6	\$80.00	\$480.00
A9-1	EA	4	\$50.00	\$200.00
A9-2		1	\$85.00	\$85.00
C1	EA	6	\$55.00	\$330.00
C1-1	EA	1	\$60.00	\$60.00
C2	EA	2	\$66.00	\$132.00
C7	EA	2	\$95.00	\$190.00
HD-SDE	EA	1	\$85.00	\$85.00
E	EA	77	\$54.00	\$4,158.00
E1-3SWI	EA	1	\$54.00	\$54.00
E2-2	EA	8	\$60.00	\$480.00
E2-3i	EA	1	\$60.00	\$60.00
F	EA	77	\$45.00	\$3,465.00
G	EA	35	\$125.00	\$4,375.00
G10DVDB240	EA	3	\$125.00	\$375.00
G10SDB240	EA	4	\$125.00	\$500.00
G25DB240	EA	18	\$125.00	\$2,250.00
G25DVDB240	EA	1	\$125.00	\$125.00
G310	EA	1	\$125.00	\$125.00
G50DB240	EA	4	\$125.00	\$500.00
G50DVDB240	EA	1	\$125.00	\$125.00
#1/0 TX	LFT	490	\$0.90	\$441.00
#2 TX	LFT	6,732	\$0.88	\$5,924.16
#4 TX	LFT	7,265	\$0.80	\$5,812.00
1OWS	LFT	116	\$1.00	\$116.00
2OWS	LFT	1,048	\$0.90	\$943.20

**CITY OF SOUTH HAVEN
CORE CITY SECONDARY UPGRADE PHASE 2
REMOVAL UNIT LIST
BID #2014-03**

ITEM DESCRIPTION	UNIT	BID QUANTITY	UNIT LABOR	EXTENDED TOTAL
3OWS	LFT	5,138	\$0.90	\$4,624.20
K10	EA	8	\$14.00	\$112.00
K13	EA	76	\$14.00	\$1,064.00
K14	EA	254	\$14.00	\$3,556.00
M5-10S	EA	31	\$52.00	\$1,612.00
M5-2	EA	2	\$18.00	\$36.00
M5-20	EA	2	\$33.00	\$66.00
M5-29	EA	1	\$65.00	\$65.00
M5-5	EA	3	\$21.00	\$63.00
M5-6	EA	7	\$38.00	\$266.00
M5-9	EA	12	\$48.00	\$576.00
M8-12		1	\$105.00	\$105.00
Meter Socket		5	\$115.00	\$575.00
Meter Socket & Disc Switch		1	\$125.00	\$125.00
Street Light	EA	1	\$80.00	\$80.00
UA2A	EA	1	\$215.00	\$215.00
UM5	EA	47	\$135.00	\$6,345.00
#2 7/1 ACSR, "Sparate"	LFT	3,266	\$0.28	\$914.48
#4 7/1 ACSR, "Swanate"	kFT	2	\$0.28	\$0.62
#6 INS CU	LFT	3,559	\$0.28	\$996.52
#6 Solid HDCU	kFT	2	\$0.28	\$0.60
#6A CWC	LFT	306	\$0.28	\$85.68
			REMOVAL SUBTOTAL:	\$72,675.46

November 5, 2014

Roger Huff, PE, Public Works Director
City of South Haven
1199 8th Avenue
South Haven, Michigan 49090

Re: Proposal for Professional Services – Core City Secondary Upgrade, Phase II

Dear Mr. Huff:

Abonmarche is pleased to present this proposal for community outreach and coordination services for Phase II for the City's Core Secondary Lines project. We are currently completing community outreach for Phase I of the electrical upgrade project and expect a similar scope of services for completion of the next phase.

We understand that Phase II of the Core Secondary Upgrade is currently being designed by GRP Engineering and is expected to be ready for construction after the first of the year. It is anticipated that all bidding, construction related inquiries regarding pay estimates, change orders, design revisions, and other electrical technical questions will be administered by GRP Engineering and not involve Abonmarche. GRP Engineering will serve as the construction manager for the project while Abonmarche's role will be focused on community outreach and property owner communication.

SCOPE OF SERVICES AND FEES

Pre-Construction Activities

Abonmarche will coordinate several pre-construction communication activities for the project. The items below outline the tasks associated with the pre-construction communication phase of the project.

A. Kickoff Meetings/Planning \$0

Abonmarche will attend any kickoff and/or preconstruction meetings as needed prior to starting construction of the project. During the preconstruction phase, a project resident log will be started to allow resident correspondence to be recorded at any time throughout the project. Abonmarche will also review the project limits with the City Arborist for tree trimming and removal areas anticipated for the project.

B. Project Informational Letter \$1,000

A project information letter will be completed and sent out to the impacted project area. This letter will offer as the project introduction to the property owners that will be affected by this project. Information items such as schedule, reasons for completing the project, what to expect during construction, public open house meeting dates, and project contact information will be included in this letter. We would expect the city to assist in the mailing of the letter to the project area as defined by City staff and GRP Engineering. Technical aspects of project will be provided by GRP Engineering and general project information will be provided by Abonmarche.

C. Public Open House Meetings..... \$3,000

Abonmarche staff will hold one open house meeting with city residents in the evening during the week. During the meeting, we will be available for questions, comments, and to address concerns and record property owners information for future correspondence. During the open house, contact information for the Abonmarche project representatives will be given out to the property owners for any future questions or comments.

Construction Activities

Abonmarche will play an active role in communications and facilitation between members of the project team with findings and observations resulting from resident and property owner comments and public meetings.

We expect the construction timeframe for Phase II is from January 1, 2015 to May 25, 2015 (Memorial Day)

A. Individual Property Review and Property Owner Meetings..... \$9,500

When property owners have issues or concerns, Abonmarche will record and coordinate the information with the project team, and discuss options to address. In some instances, an individual property review and/or owner meeting must be completed. This task item will include completing a property inspection, taking pictures and recording relevant property information, and coordinating and scheduling a meeting with the property owner if needed. Abonmarche will also coordinate video services with Structures, Inc. to complete video surveying existing conditions of properties within the Phase II areas.



B. Weekly Progress Meetings \$9,500

Abonmarche will complete weekly progress meetings with City Staff, GRP Engineering, and the contractor. The meeting will outline the previous week's work, define the schedule for the next week, record project issues and distribute minutes to the project team. During the progress meeting, the project team will decide if new project notifications (door hangers) will be needed and where they will be placed. It is anticipated that the construction timeframe is 20 weeks which includes attendance and coordination for 16 progress meetings.

C. Door Notifications..... \$3,500

Once kickoff and progress meetings are completed, individual door notifications will be delivered at specific locations that will remind property owners of upcoming work, tree trimming and contact information, and what to expect during construction within the areas that the contractor will be working. We have found in the past that these notifications are an effective method of getting additional communication updates out to the property owners. The notifications would generally be placed at the end of the week for items that would be occurring for the upcoming month. Individual service interruptions or general daily construction notifications would be expected to be completed by the contractor as they proceed with the construction of the electrical upgrades.

D. Communication Updates \$3,000

Abonmarche will develop project updates from the weekly progress meetings and provide to City Staff to post to the City Website. Public Safety can be copied to inform them of any resident issues and locations of the contractors work.

E. Tree Trimming Facilitation and Coordination..... \$4,000

Abonmarche will work with the City's Arborist throughout the project to define where tree removal and tree trimming will be completed. Abonmarche will communicate with property owners what is allowed by the City for tree removal and limbing related to the electrical grid and also coordinate with property owners to facilitate removal of other trees which may threat to the City's electrical system.



F. Restoration.....\$TBD

Additional services for restoration will be develop if issues develop with the property owners. It is our understanding that “backyard” machines will be utilized for a majority of the installation of the new facility and that disturbed areas will be kept to a minimum to reduce property impacts. If property issues arise concerning restoration, Abonmarche will meet with City staff to determine if further steps need to be taken on a case-by-case basis. For any warranted additional work, Abonmarche will use local contractors on a competitive bid basis. As the extent and amount of this activity is not known, it will be handled on a case by case basis with all costs approved by the City before being incurred.

Below is a summary of the fees associated with each task.

Tasks	Fees
Kickoff Meetings/Planning	\$0
Project Informational Letter	\$1,000
Public Open House Meetings	\$3,000
Individual Property Review	\$9,500
Weekly Progress Meetings	\$9,500
Door Notifications	\$3,500
Communication Updates	\$3,000
Tree Trimming Facilitation and Coordination	\$4,000
Restoration	TBD
Total	\$33,500

The above scope assumes the construction timeframe will run from January thru May (5 months) as basis in developing the scope and fees. If additional construction administration is needed after May (such as restoration and/or property issues) the original scope will need to be reviewed and additional work authorized prior to completion. Your signature in the space provided below will serve as authorization to proceed with this project.



Thank you for the opportunity to work with the City of South Haven. We look forward to assisting you with this project. If you have any questions, please do not hesitate to contact me at (269) 926-4565 or email at jmarquardt@abonmarche.com.

Sincerely,
ABONMARCHE



Jason W. Marquardt, P.E.
Senior Project Engineer



Christopher J. Cook, P.E.
President

Authorized By

Date

cc: Brian Disette
Timothy R. Drews, P.E.
Tony McGhee

City of South Haven
Abonmarche
Abonmarche



Structures, Inc.

259 Harbor View Lane
Petoskey, MI 49770
(231) 330-4941

Estimate

Date:	Estimate # :
10/29/2014	1005

Project: Video Taping Services for City of South Haven,
Core City Secondary Upgrade - Phase 2 , per print dated 09/18/2014

Description	Total
Video Taping entire project. Including front and backyards, landscaping, power lines, homes, sidewalks, driveways, etc.	\$8,948
Video Tape logging. This includes the time it takes to prepare the paper Log that will be provided with flash drive. (For example, if you want to see just one home out of the entire project, the log will tell you which flash drive and the exact spot on the flash drive to find it.)	\$9,850
Transferring files to flash drive and materials needed.	\$125
Notes: 1) Phase 2 is based on 497 homes. 2) City is responsible to give Notice to home owners prior to taping. 3) Our available start date is November 21, 2014. 4) We estimate taping to take 4 to 5 days.	
TOTAL:	\$18,923