AEP Generating Company

2013 First Quarter Report

Financial Statements

AEP AMERICAN® ELECTRIC POWER

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GLOSSARY OF TERMS

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below.

Term	Meaning
AEGCo	AEP Generating Company, an AEP electric utility subsidiary.
AEP or Parent	American Electric Power Company, Inc., a utility holding company.
AEP System	American Electric Power System, an integrated electric utility system, owned and operated by AEP's electric utility subsidiaries.
AEPSC	American Electric Power Service Corporation, an AEP service subsidiary providing management and professional services to AEP and its subsidiaries.
CAA	Clean Air Act.
CO_2	Carbon dioxide and other greenhouse gases.
FERC	Federal Energy Regulatory Commission.
GAAP	Accounting Principles Generally Accepted in the United States of America.
I&M	Indiana Michigan Power Company, an AEP electric utility subsidiary.
IRS	Internal Revenue Service.
MW	Megawatt.
Rockport Plant	A generating plant, consisting of two 1,300 MW coal-fired generating units near Rockport, Indiana, owned by AEGCo and I&M.
Utility Money Pool	Centralized funding mechanism AEP uses to meet the short-term cash requirements of certain utility subsidiaries.
VIE	Variable Interest Entity.

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF INCOME
For the Three Months Ended March 31, 2013 and 2012
(in thousands)
(Unaudited)

	Three Months Ended March 31, 2013	2012
REVENUES		
Sales to AEP Affiliates	$ 122,332	$ 142,500
Other Revenues	53	-
TOTAL REVENUES	122,385	142,500
EXPENSES		
Fuel Used for Electric Generation	65,423	90,557
Rent - Rockport Plant Unit 2	17,071	17,071
Other Operation	6,133	6,401
Maintenance	10,047	4,191
Depreciation and Amortization	9,540	9,331
Taxes Other Than Income Taxes	1,264	1,172
TOTAL EXPENSES	109,478	128,723
OPERATING INCOME	12,907	13,777
Other Income (Expense):		
Interest Income	82	51
Allowance for Equity Funds Used During Construction	38	11
Interest Expense	(3,401)	(3,456)
INCOME BEFORE INCOME TAX EXPENSE	9,626	10,383
Income Tax Expense	3,101	1,189
NET INCOME	$ 6,525	$ 9,194

The common stock of AEGCo is wholly-owned by AEP.

See Condensed Notes to Condensed Financial Statements beginning on page 7.

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY
For the Three Months Ended March 31, 2013 and 2012
(in thousands)
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Total
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2011	$ 1,000	$ 238,184	$ 14,354	$ 253,538
Common Stock Dividends			(3,000)	(3,000)
Net Income			9,194	9,194
TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2012	$ 1,000	$ 238,184	$ 20,548	$ 259,732
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2012	$ 1,000	$ 238,184	$ 12,466	$ 251,650
Common Stock Dividends			(10,000)	(10,000)
Net Income			6,525	6,525
TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2013	$ 1,000	$ 238,184	$ 8,991	$ 248,175

See Condensed Notes to Condensed Financial Statements beginning on page 7.

AEP GENERATING COMPANY
CONDENSED BALANCE SHEETS
ASSETS
March 31, 2013 and December 31, 2012
(in thousands)
(Unaudited)

	March 31, 2013	December 31, 2012
CURRENT ASSETS		
Advances to Affiliates	$ 3,970	$ -
Accounts Receivable:		
Affiliated Companies	39,552	54,129
Miscellaneous	1,278	-
Total Accounts Receivable	40,830	54,129
Fuel	40,370	28,027
Materials and Supplies	19,527	19,395
Prepayments and Other Current Assets	567	509
TOTAL CURRENT ASSETS	105,264	102,060
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	1,497,104	1,483,614
Transmission	9,688	9,688
Other Property, Plant and Equipment	7,536	7,350
Construction Work in Progress	67,088	69,034
Total Property, Plant and Equipment	1,581,416	1,569,686
Accumulated Depreciation and Amortization	950,948	942,537
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	630,468	627,149
OTHER NONCURRENT ASSETS		
Regulatory Assets	28,377	29,015
Deferred Charges and Other Noncurrent Assets	5,859	2,306
TOTAL OTHER NONCURRENT ASSETS	34,236	31,321
TOTAL ASSETS	$ 769,968	$ 760,530

See Condensed Notes to Condensed Financial Statements beginning on page 7.

AEP GENERATING COMPANY
CONDENSED BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY
March 31, 2013 and December 31, 2012
(Unaudited)

	March 31, 2013	December 31, 2012
CURRENT LIABILITIES	(in thousands)	
Advances from Affiliates	$ -	$ 4,405
Accounts Payable:		
General	10,197	19,564
Affiliated Companies	32,679	32,767
Long-term Debt Due Within One Year – Nonaffiliated	55,909	52,273
Accrued Taxes	9,981	4,665
Accrued Rent – Rockport Plant Unit 2	23,427	4,963
Other Current Liabilities	6,767	3,998
TOTAL CURRENT LIABILITIES	138,960	122,635
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	170,909	174,546
Deferred Income Taxes	82,884	80,336
Regulatory Liabilities and Deferred Investment Tax Credits	45,738	46,509
Deferred Gain on Sale-and-Leaseback – Rockport Plant Unit 2	53,944	55,337
Deferred Credits and Other Noncurrent Liabilities	29,358	29,517
TOTAL NONCURRENT LIABILITIES	382,833	386,245
TOTAL LIABILITIES	521,793	508,880
Commitments and Contingencies (Note 3)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – Par Value – $1,000 Per Share:		
Authorized – 1,000 Shares		
Outstanding – 1,000 Shares	1,000	1,000
Paid-in Capital	238,184	238,184
Retained Earnings	8,991	12,466
TOTAL COMMON SHAREHOLDER’S EQUITY	248,175	251,650
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	$ 769,968	$ 760,530

See Condensed Notes to Condensed Financial Statements beginning on page 7.

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2013 and 2012
(in thousands)
(Unaudited)

	Three Months Ended March 31, 2013	2012
OPERATING ACTIVITIES		
Net Income	$ 6,525	$ 9,194
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	9,540	9,331
Deferred Income Taxes	2,876	(106)
Amortization of Deferred Gain on Sale-and-Leaseback – Rockport Plant Unit 2	(1,393)	(1,393)
Allowance for Equity Funds Used During Construction	(38)	(11)
Change in Other Noncurrent Assets	(4,032)	(3,056)
Change in Other Noncurrent Liabilities	(525)	(700)
Changes in Certain Components of Working Capital:		
Accounts Receivable	11,311	17,060
Fuel, Materials and Supplies	(12,475)	(6,184)
Accounts Payable	(588)	(10,034)
Accrued Taxes, Net	5,343	8,218
Accrued Rent – Rockport Plant Unit 2	18,464	18,464
Other Current Assets	143	133
Other Current Liabilities	2,805	2,879
Net Cash Flows from Operating Activities	37,956	43,795
INVESTING ACTIVITIES		
Construction Expenditures	(19,500)	(10,220)
Change in Advances to Affiliates, Net	(3,970)	(30,480)
Net Cash Flows Used for Investing Activities	(23,470)	(40,700)
FINANCING ACTIVITIES		
Change in Advances from Affiliates, Net	(4,405)	-
Principal Payments for Capital Lease Obligations	(81)	(95)
Dividends Paid on Common Stock	(10,000)	(3,000)
Net Cash Flows Used for Financing Activities	(14,486)	(3,095)
Net Change in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents at Beginning of Period	-	-
Cash and Cash Equivalents at End of Period	$ -	$ -
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest, Net of Capitalized Amounts	$ 312	$ 279
Net Cash Paid (Received) for Income Taxes	(764)	(581)
Noncash Acquisitions Under Capital Leases	48	-
Construction Expenditures Included in Current Liabilities as of March 31,	895	200

See Condensed Notes to Condensed Financial Statements beginning on page 7.

INDEX OF CONDENSED NOTES TO CONDENSED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING MATTERS

General

The unaudited condensed financial statements and footnotes were prepared in accordance with GAAP for interim financial information. Accordingly, they do not include all the information and footnotes required by GAAP for complete annual financial statements.

In the opinion of management, the unaudited condensed interim financial statements reflect all normal and recurring accruals and adjustments necessary for a fair presentation of the net income, financial position and cash flows for the interim periods. Net income for the three months ended March 31, 2013 is not necessarily indicative of results that may be expected for the year ending December 31, 2013. The condensed financial statements are unaudited and should be read in conjunction with the audited 2012 financial statements and notes thereto, which are included in AEGCo's 2012 Annual Report.

Management reviewed subsequent events through April 26, 2013, the date that the first quarter 2013 report was issued.

2. RATE MATTERS

Rate matters can have a material impact on net income, cash flows and possibly financial condition. The following discusses ratemaking developments in 2013 and updates AEGCo's 2012 Annual Report.

Regulatory Assets Not Yet Being Recovered

Noncurrent Regulatory Assets	March 31, 2013	December 31, 2012
	(in thousands)	
Regulatory assets not yet being recovered pending future proceedings:		
Regulatory Assets Currently Not Earning a Return		
Asset Retirement Obligation	$ -	$ 2,957
Total Regulatory Assets Not Yet Being Recovered	$ -	$ 2,957

3. COMMITMENTS, GUARANTEES AND CONTINGENCIES

AEGCo is subject to certain claims and legal actions arising in its ordinary course of business. In addition, AEGCo's business activities are subject to extensive governmental regulation related to public health and the environment. The ultimate outcome of such pending or potential litigation cannot be predicted. For current proceedings not specifically discussed below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on the financial statements. The Commitments, Guarantees and Contingencies note within AEGCo's 2012 Annual Report should be read in conjunction with this report.

GUARANTEES

Liabilities for guarantees are recorded in accordance with the accounting guidance for "Guarantees." There is no collateral held in relation to any guarantees. In the event any guarantee is drawn, there is no recourse to third parties unless specified below.

Letters of Credit

AEGCo has $45 million of variable rate Pollution Control Bonds supported by bilateral letters of credit for $46 million. The letters of credit mature in July 2014.

Indemnifications and Other Guarantees

Contracts

AEGCo enters into certain types of contracts which require indemnifications. Typically these contracts include, but are not limited to, sale agreements, lease agreements, purchase agreements and financing agreements. Generally, these agreements may include, but are not limited to, indemnifications around certain tax, contractual and environmental matters. With respect to sale agreements, exposure generally does not exceed the sale price. As of March 31, 2013, there were no material liabilities recorded for any indemnifications.

CONTINGENCIES

Carbon Dioxide Public Nuisance Claims

In October 2009, the Fifth Circuit Court of Appeals reversed a decision by the Federal District Court for the District of Mississippi dismissing state common law nuisance claims in a putative class action by Mississippi residents asserting that CO_2 emissions exacerbated the effects of Hurricane Katrina. The Fifth Circuit held that there was no exclusive commitment of the common law issues raised in plaintiffs' complaint to a coordinate branch of government and that no initial policy determination was required to adjudicate these claims. The court granted petitions for rehearing. An additional recusal left the Fifth Circuit without a quorum to reconsider the decision and the appeal was dismissed, leaving the district court's decision in place. Plaintiffs filed a petition with the U.S. Supreme Court asking the court to remand the case to the Fifth Circuit and reinstate the panel decision. The petition was denied in January 2011. Plaintiffs refiled their complaint in federal district court. The court ordered all defendants to respond to the refiled complaints in October 2011. In March 2012, the court granted the defendants' motion for dismissal on several grounds, including the doctrine of collateral estoppel and the applicable statute of limitations. Plaintiffs appealed the decision to the Fifth Circuit Court of Appeals. Management will continue to defend against the claims. Management is unable to determine a range of potential losses that are reasonably possible of occurring.

Alaskan Villages' Claims

In 2008, the Native Village of Kivalina and the City of Kivalina, Alaska filed a lawsuit in Federal Court in the Northern District of California against AEP, AEPSC and 22 other unrelated defendants including oil and gas companies, a coal company and other electric generating companies. The complaint alleges that the defendants' emissions of CO_2 contribute to global warming and constitute a public and private nuisance and that the defendants are acting together. The complaint further alleges that some of the defendants, including AEP, conspired to create a false scientific debate about global warming in order to deceive the public and perpetuate the alleged nuisance. The plaintiffs also allege that the effects of global warming will require the relocation of the village at an alleged cost of $95 million to $400 million. In October 2009, the judge dismissed plaintiffs' federal common law claim for nuisance, finding the claim barred by the political question doctrine and by plaintiffs' lack of standing to bring the claim. The judge also dismissed plaintiffs' state law claims without prejudice to refiling in state court. The plaintiffs appealed the decision. In September 2012, the Ninth Circuit Court of Appeals affirmed the trial court's decision, holding that the CAA displaced Kivalina's claims for damages. Plaintiffs filed seeking further review in the U.S. Supreme Court. Management believes the action is without merit and will continue to defend against the claims. Management is unable to determine a range of potential losses that are reasonably possible of occurring.

4. BUSINESS SEGMENTS

AEGCo has one reportable segment, an electricity generation business. AEGCo's other activities are insignificant.

5. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy and Valuation Techniques

The accounting guidance for "Fair Value Measurements and Disclosures" establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. When quoted market prices are not available, pricing may be completed using comparable securities, dealer values, operating data and general market conditions to determine fair value. Valuation models utilize various inputs such as commodity, interest rate and, to a lesser degree, volatility and credit that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, market corroborated inputs (i.e. inputs derived principally from, or correlated to, observable market data) and other observable inputs for the asset or liability.

Fair Value Measurements of Long-term Debt

The fair values of Long-term Debt are based on quoted market prices, without credit enhancements, for the same or similar issues and the current interest rates offered for instruments with similar maturities classified as Level 2 measurement inputs. These instruments are not marked-to-market. The estimates presented are not necessarily indicative of the amounts that could be realized in a current market exchange.

The book values and fair values of AEGCo's Long-term Debt as of March 31, 2013 and December 31, 2012 are summarized in the following table:

	March 31, 2013		December 31, 2012	
	Book Value	**Fair Value**	**Book Value**	**Fair Value**
	(in thousands)			
Long-term Debt	$ 226,818	$ 290,056	$ 226,819	$ 294,633

6. INCOME TAXES

AEP System Tax Allocation Agreement

AEGCo joins in the filing of a consolidated federal income tax return with its affiliates in the AEP System. The allocation of the AEP System's current consolidated federal income tax to the AEP System companies allocates the benefit of current tax losses to the AEP System companies giving rise to such losses in determining their current tax expense. The tax benefit of the Parent is allocated to its subsidiaries with taxable income. With the exception of the loss of the Parent, the method of allocation reflects a separate return result for each company in the consolidated group.

Federal and State Income Tax Audit Status

The IRS examination of years 2009 and 2010 started in October 2011. Although the outcome of tax audits is uncertain, in management's opinion, adequate provisions for federal income taxes have been made for potential liabilities resulting from such matters. In addition, AEGCo accrues interest on these uncertain tax positions. Management is not aware of any issues for open tax years that upon final resolution are expected to materially impact net income.

AEGCo and other AEP subsidiaries file income tax returns in various state and local jurisdictions. These taxing authorities routinely examine the tax returns and AEGCo and other AEP subsidiaries are currently under examination in several state and local jurisdictions. Management believes that previously filed tax returns have positions that may be challenged by these tax authorities. However, management believes that adequate provisions for income taxes have been made for potential liabilities resulting from such challenges and that the ultimate resolution of these audits will not materially impact net income. With few exceptions, AEGCo is no longer subject to state or local income tax examinations by tax authorities for years before 2008.

7. FINANCING ACTIVITIES

Long-term Debt

AEGCo did not have long-term debt issuances or retirements during the first three months of 2013.

In April 2013, AEGCo retired $3.6 million of 6.33% Senior Unsecured Notes due in 2037.

Dividend Restrictions

AEGCo pays dividends to Parent provided funds are legally available. Various financing arrangements and regulatory requirements may impose certain restrictions on the ability of AEGCo to transfer funds to Parent in the form of dividends.

Federal Power Act

The Federal Power Act prohibits AEGCo from participating "in the making or paying of any dividends of such public utility from any funds properly included in capital account." The term "capital account" is not defined in the Federal Power Act or its regulations. Management understands "capital account" to mean the book value of the common stock. This restriction does not limit the ability of AEGCo to pay dividends out of retained earnings.

Leverage Restrictions

Pursuant to the credit agreement leverage restrictions, AEGCo must maintain a percentage of debt to total capitalization at a level that does not exceed 67.5%.

Utility Money Pool – AEP System

The AEP System uses a corporate borrowing program to meet the short-term borrowing needs of the subsidiaries. The corporate borrowing program includes a Utility Money Pool, which funds AEP's utility subsidiaries. The AEP System Utility Money Pool operates in accordance with the terms and conditions of the AEP System Utility Money Pool agreement filed with FERC. The amount of outstanding loans (borrowings) to/from the Utility Money Pool as of March 31, 2013 and December 31, 2012 is included in Advances to/from Affiliates on AEGCo's condensed balance sheets. AEGCo's Utility Money Pool activity and corresponding authorized borrowing limits for the three months ended March 31, 2013 are described in the following table:

Maximum Borrowings from Utility Money Pool	Maximum Loans to Utility Money Pool	Average Borrowings from Utility Money Pool	Average Loans to Utility Money Pool	Loans to Utility Money Pool as of March 31, 2013	Authorized Short-Term Borrowing Limit
		(in thousands)			
$ 36,383	$ 18,443	$ 4,795	$ 8,063	$ 3,970	$ 200,000

Maximum, minimum and average interest rates for funds either borrowed from or loaned to the Utility Money Pool for the three months ended March 31, 2013 and 2012 are summarized in the following table:

Three Months Ended March 31,	Maximum Interest Rate for Funds Borrowed from Utility Money Pool	Minimum Interest Rate for Funds Borrowed from Utility Money Pool	Maximum Interest Rate for Funds Loaned to Utility Money Pool	Minimum Interest Rate for Funds Loaned to Utility Money Pool	Average Interest Rate for Funds Borrowed from Utility Money Pool	Average Interest Rate for Funds Loaned to Utility Money Pool
2013	0.43 %	0.35 %	0.38 %	0.35 %	0.39 %	0.36 %
2012	- %	- %	0.56 %	0.45 %	- %	0.51 %

8. VARIABLE INTEREST ENTITIES

The accounting guidance for "Variable Interest Entities" is a consolidation model that considers if a company has a controlling financial interest in a VIE. A controlling financial interest will have both (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Entities are required to consolidate a VIE when it is determined that they have a controlling financial interest in a VIE and therefore, are the primary beneficiary of that VIE, as defined by the accounting guidance for "Variable Interest Entities." In determining whether AEGCo is the primary beneficiary of a VIE, management considers factors such as equity at risk, the amount of the VIE's variability AEGCo absorbs, guarantees of indebtedness, voting rights including kick-out rights, the power to direct the VIE, variable interests held by related parties and other factors. Management believes that significant assumptions and judgments were applied consistently. AEGCo is not the primary beneficiary of any VIE and has not provided financial or other support to any VIE that was not previously contractually required.

AEPSC provides certain managerial and professional services to AEP's subsidiaries. AEP is the sole equity owner of AEPSC. AEP management controls the activities of AEPSC. The costs of the services are based on a direct charge or on a prorated basis and billed to the AEP subsidiary companies at AEPSC's cost. AEP subsidiaries have not provided financial or other support outside the reimbursement of costs for services rendered. AEPSC finances its operations through cost reimbursement from other AEP subsidiaries. There are no other terms or arrangements between AEPSC and any of the AEP subsidiaries that could require additional financial support from an AEP subsidiary or expose them to losses outside of the normal course of business. AEPSC and its billings are subject to regulation by the FERC. AEP subsidiaries are exposed to losses to the extent they cannot recover the costs of AEPSC through their normal business operations. AEP subsidiaries are considered to have a significant interest in AEPSC due to their activity in AEPSC's cost reimbursement structure. However, AEP subsidiaries do not have control over AEPSC. AEPSC is consolidated by AEP. In the event AEPSC would require financing or other support outside the cost reimbursement billings, this financing would be provided by AEP. AEGCo's total billings from AEPSC for the three months ended March 31, 2013 and 2012 were $1.7 million and $1.3 million, respectively. The carrying amount of liabilities associated with AEPSC as of March 31, 2013 and December 31, 2012 was $578 thousand and $1 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

9. SUSTAINABLE COST REDUCTIONS

In April 2012, management initiated a process to identify strategic repositioning opportunities and efficiencies that will result in sustainable cost savings. Management selected a consulting firm to facilitate an organizational and process evaluation and a second firm to evaluate current employee benefit programs. The process resulted in involuntary severances and was completed by the end of the first quarter of 2013. The severance program provides two weeks of base pay for every year of service along with other severance benefits.

AEGCo recorded a charge of $660 thousand to expense in 2012 related to the sustainable cost reductions initiative. AEGCo has no employees but receives allocated expenses. In addition, the sustainable cost reduction activity for the three months ended March 31, 2013 is described in the following table:

Balance as of December 31, 2012	Expense Allocation from AEPSC	Incurred	Settled	Adjustments	Remaining Balance as of March 31, 2013
		(in thousands)			
$ -	$ 139	$ -	$ (73)	$ (66)	$ -

These expenses, net of adjustments, relate primarily to severance benefits and are included primarily in Other Operation expense on the condensed statements of income. Management does not expect additional costs to be incurred related to this initiative.

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