AEP Generating Company

2016 Third Quarter Report

Financial Statements

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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	American Electric Power Company, Inc., an investor-owned electric public utility holding company which includes American Electric Power Company, Inc. (Parent) and majority owned consolidated subsidiaries and consolidated affiliates.
AEP System	American Electric Power System, an electric system, owned and operated by AEP subsidiaries.
AEPSC	American Electric Power Service Corporation, an AEP service subsidiary providing management and professional services to AEP and its subsidiaries.
ASU	Accounting Standards Update.
FASB	Financial Accounting Standards Board.
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.
OPEB	Other Postretirement Benefit Plans.
Parent	American Electric Power Company, Inc., the equity owner of AEP subsidiaries within the AEP consolidation.
Rockport Plant	A generation plant, consisting of two 1,310 MW coal-fired generating units near Rockport, Indiana. AEGCo and I&M jointly-own Unit 1. In 1989, AEGCo and I&M entered into a sale-and-leaseback transaction with Wilmington Trust Company, an unrelated, unconsolidated trustee for Rockport Plant, Unit 2.
UMWA	United Mine Workers of America.
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 and Nine Months Ended September 30, 2016 and 2015
(in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
REVENUES				
Sales to AEP Affiliates	$ 155,111	$ 147,120	$ 403,053	$ 422,638
Other Revenues – Affiliated	5,317	5,930	14,594	15,595
Other Revenues – Nonaffiliated	438	976	2,248	3,525
TOTAL REVENUES	160,866	154,026	419,895	441,758
EXPENSES				
Fuel and Other Consumables Used for Electric Generation	94,735	86,464	222,374	247,288
Rent – Rockport Plant, Unit 2	17,070	17,070	51,212	51,212
Other Operation	11,775	14,843	36,688	41,304
Maintenance	5,338	7,506	16,285	23,438
Depreciation and Amortization	12,781	11,567	37,959	33,229
Taxes Other Than Income Taxes	1,269	1,234	4,853	3,768
TOTAL EXPENSES	142,968	138,684	369,371	400,239
OPERATING INCOME	17,898	15,342	50,524	41,519
Other Income (Expense):				
Other Income (Expense)	(41)	28	324	1,089
Interest Expense	(3,012)	(3,072)	(8,806)	(8,766)
INCOME BEFORE INCOME TAX EXPENSE	14,845	12,298	42,042	33,842
Income Tax Expense	5,527	4,277	14,627	12,153
NET INCOME	$ 9,318	$ 8,021	$ 27,415	$ 21,689

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

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 Nine Months Ended September 30, 2016 and 2015
(in thousands)
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Total
TOTAL COMMON SHAREHOLDER'S EQUITY - DECEMBER 31, 2014	$ 1,000	$ 260,487	$ 10,076	$ 271,563
Common Stock Dividends			(25,950)	(25,950)
Net Income			21,689	21,689
TOTAL COMMON SHAREHOLDER'S EQUITY - SEPTEMBER 30, 2015	$ 1,000	$ 260,487	$ 5,815	$ 267,302
TOTAL COMMON SHAREHOLDER'S EQUITY - DECEMBER 31, 2015	$ 1,000	$ 260,487	$ 4,989	$ 266,476
Capital Contribution from Parent		25,000		25,000
Common Stock Dividends			(17,500)	(17,500)
Net Income			27,415	27,415
TOTAL COMMON SHAREHOLDER'S EQUITY - SEPTEMBER 30, 2016	$ 1,000	$ 285,487	$ 14,904	$ 301,391

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

AEP GENERATING COMPANY
CONDENSED BALANCE SHEETS
ASSETS
September 30, 2016 and December 31, 2015
(in thousands)
(Unaudited)

	September 30, 2016	December 31, 2015
CURRENT ASSETS		
Accounts Receivable:		
Customers	$ 140	$ 2,637
Affiliated Companies	48,592	43,845
Miscellaneous	3	17
Total Accounts Receivable	48,735	46,499
Fuel	48,553	46,522
Materials and Supplies	17,816	25,716
Accrued Tax Benefits	1,341	8,034
Assets Held for Sale	317,666	—
Prepayments and Other Current Assets	2,914	7,182
TOTAL CURRENT ASSETS	437,025	133,953
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	959,403	1,663,479
Transmission	—	9,688
Other Property, Plant and Equipment	35,673	37,887
Construction Work in Progress	104,177	73,630
Total Property, Plant and Equipment	1,099,253	1,784,684
Accumulated Depreciation and Amortization	639,320	1,056,847
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	459,933	727,837
OTHER NONCURRENT ASSETS		
Regulatory Assets	37,908	43,160
Deferred Charges and Other Noncurrent Assets	2,201	1,545
TOTAL OTHER NONCURRENT ASSETS	40,109	44,705
TOTAL ASSETS	$ 937,067	$ 906,495

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

AEP GENERATING COMPANY
CONDENSED BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY
September 30, 2016 and December 31, 2015
(Unaudited)

	September 30, 2016	December 31, 2015
CURRENT LIABILITIES	(in thousands)	
Advances from Affiliates	$ 106,470	$ 113,908
Accounts Payable:		
General	16,195	19,411
Affiliated Companies	18,727	32,915
Long-term Debt Due Within One Year – Nonaffiliated	62,279	52,273
Accrued Taxes	8,426	5,555
Accrued Rent – Rockport Plant, Unit 2	23,427	4,963
Liabilities Held for Sale	140,233	—
Other Current Liabilities	5,941	6,312
TOTAL CURRENT LIABILITIES	381,698	235,337
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	—	152,032
Deferred Income Taxes	88,809	87,636
Regulatory Liabilities and Deferred Investment Tax Credits	44,431	43,624
Deferred Gain on Sale-and-Leaseback – Rockport Plant, Unit 2	34,446	38,624
UMWA Pension Withdrawal Liability	38,617	38,617
Deferred Credits and Other Noncurrent Liabilities	47,675	44,149
TOTAL NONCURRENT LIABILITIES	253,978	404,682
TOTAL LIABILITIES	635,676	640,019
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	285,487	260,487
Retained Earnings	14,904	4,989
TOTAL COMMON SHAREHOLDER'S EQUITY	301,391	266,476
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	$ 937,067	$ 906,495

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

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2016 and 2015
(in thousands)
(Unaudited)

	Nine Months Ended September 30, 2016	2015
OPERATING ACTIVITIES		
Net Income	$ 27,415	$ 21,689
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	36,407	33,229
Deferred Income Taxes	7,615	6,023
Amortization of Deferred Gain on Sale-and-Leaseback – Rockport Plant, Unit 2	(4,178)	(4,178)
Allowance for Equity Funds Used During Construction	(331)	(1,089)
Change in Other Noncurrent Assets	2,405	95
Change in Other Noncurrent Liabilities	(4,247)	(7,379)
Changes in Certain Components of Working Capital:		
Accounts Receivable	(2,236)	2,475
Fuel, Materials and Supplies	(2,344)	8,203
Accounts Payable	(16,368)	4,646
Accrued Taxes, Net	9,449	(10,430)
Accrued Interest	(2,490)	(2,648)
Accrued Rent – Rockport Plant, Unit 2	18,464	18,464
Other Current Assets	4,013	(1,959)
Other Current Liabilities	2,014	(207)
Net Cash Flows from Operating Activities	75,588	66,934
INVESTING ACTIVITIES		
Construction Expenditures	(67,349)	(55,307)
Proceeds from Sales of Assets	152	177
Other Investing Activities	264	—
Net Cash Flows Used for Investing Activities	(66,933)	(55,130)
FINANCING ACTIVITIES		
Capital Contribution from Parent	25,000	—
Change in Advances from Affiliates, Net	(7,438)	22,362
Retirement of Long-term Debt – Nonaffiliated	(7,273)	(7,273)
Principal Payments for Capital Lease Obligations	(1,445)	(943)
Dividends Paid on Common Stock	(17,500)	(25,950)
Other Financing Activities	1	—
Net Cash Flows Used for Financing Activities	(8,655)	(11,804)
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	$ 10,757	$ 10,814
Net Cash Paid for Income Taxes	2,639	20,394
Noncash Acquisitions Under Capital Leases	11,951	6
Construction Expenditures Included in Current Liabilities as of September 30,	827	4,751

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 of 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 and nine months ended September 30, 2016 is not necessarily indicative of results that may be expected for the year ending December 31, 2016. The condensed financial statements are unaudited and should be read in conjunction with the audited 2015 financial statements and notes thereto, which are included in AEGCo's 2015 Annual Report.

Investment Tax Credits

Investment tax credits (ITC) were historically accounted for under the flow-through method, except where regulatory commissions reflected ITC in the rate-making process. In the third quarter of 2016, AEGCo and other AEP subsidiaries changed accounting for the recognition of ITC and elected to apply the preferred deferral methodology. Retrospective application is not necessary for reporting periods prior to 2016 as the financial impact to AEGCo was immaterial.

Deferred ITC is amortized to income tax expense over the life of the asset. Amortization of deferred ITC begins when the asset is placed into service, except where regulatory commissions reflect ITC in the rate-making process, then amortization begins when the cash tax benefit is recognized.

Subsequent Events

Management reviewed subsequent events through November 1, 2016, the date that the third quarter 2016 report was issued.

2. NEW ACCOUNTING PRONOUNCEMENTS

Upon issuance of final pronouncements, management reviews the new accounting literature to determine its relevance, if any, to AEGCo's business. The following final pronouncements will impact the financial statements.

ASU 2014-09 "Revenue from Contracts with Customers" (ASU 2014-09)

In May 2014, the FASB issued ASU 2014-09 clarifying the method used to determine the timing and requirements for revenue recognition on the statements of income. Under the new standard, an entity must identify the performance obligations in a contract, determine the transaction price and allocate the price to specific performance obligations to recognize the revenue when the obligation is completed. The amendments in this update also require disclosure of sufficient information to allow users to understand the nature, amount, timing and uncertainty of revenue and cash flow arising from contracts.

The FASB deferred implementation of ASU 2014-09 under the terms in ASU 2015-14, "Revenue from Contracts with Customers (Topic: 606): Deferral of the Effective Date." The new accounting guidance is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted for annual periods beginning after December 15, 2016. As applicable, this standard may change the amount of revenue recognized on the statements of income in each reporting period. Management is analyzing the impact of this new standard and the related ASUs that clarify guidance in the standard. At this time, management cannot estimate the impact of adoption on revenue or net income. Management plans to adopt ASU 2014-09 effective January 1, 2018.

ASU 2015-11 "Simplifying the Measurement of Inventory" (ASU 2015-11)

In July 2015, the FASB issued ASU 2015-11 simplifying the guidance on the subsequent measurement of inventory, excluding inventory measured using last-in, first-out or the retail inventory method. Under the new standard, inventory should be at the lower of cost and net realizable value. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2016 with early adoption permitted. Management does not expect the new standard to impact AEGCo's results of operations, financial position or cash flows. Management plans to adopt ASU 2015-11 prospectively, effective January 1, 2017.

ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities" (ASU 2016-01)

In January 2016, the FASB issued ASU 2016-01 enhancing the reporting model for financial instruments. Under the new standard, equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are required to be measured at fair value with changes in fair value recognized in net income. The new standard also amends disclosure requirements and requires separate presentation of financial assets and liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. The amendments also clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.

The new accounting guidance is effective for interim and annual periods beginning after December 15, 2017 with early adoption permitted. The amendments will be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. Management is analyzing the impact of this new standard and, at this time, cannot estimate the impact of adoption on net income. Management plans to adopt ASU 2016-01 effective January 1, 2018.

ASU 2016-02 "Accounting for Leases" (ASU 2016-02)

In February 2016, the FASB issued ASU 2016-02 increasing the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the new standard, an entity must recognize an asset and liability for operating leases on the balance sheets. Additionally, a capital lease will be known as a finance lease going forward. Leases with lease terms of 12 months or longer will be subject to the new requirements. Fundamentally, the criteria used to determine lease classification will remain the same, but will be more subjective under the new standard.

The new accounting guidance is effective for annual periods beginning after December 15, 2018 with early adoption permitted. The guidance will be applied by means of a modified retrospective approach. The modified retrospective approach will require lessees and lessors to recognize and measure leases at the beginning of the earliest period presented as well as a number of optional practical expedients that entities may elect to apply. Management is analyzing the impact of this new standard and, at this time, cannot estimate the impact of adoption. Management expects the new standard to impact AEGCo's financial position, but not AEGCo's results of operations or cash flows. Management plans to adopt ASU 2016-02 effective January 1, 2019.

ASU 2016-09 "Compensation – Stock Compensation" (ASU 2016-09)

In March 2016, the FASB issued ASU 2016-09 simplifying the accounting for share-based payment transactions including the income tax consequences, classification of awards as either equity or liabilities and classification on the statements of cash flows. Under the new standard, all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) should be recognized as income tax expense or benefit on the statements of income. Under current GAAP, excess tax benefits are recognized in additional paid-in capital while tax deficiencies are recognized either as an offset to accumulated excess tax benefits, if any, or on the statements of income.

The new accounting guidance is effective for annual periods beginning after December 15, 2016. Early adoption is permitted in any interim or annual period. Certain provisions require retrospective/modified retrospective transition while others are to be applied prospectively. Management is analyzing the impact of this new standard and, at this time, cannot estimate the impact of adoption. Management plans to adopt ASU 2016-09 effective January 1, 2017.

ASU 2016-13 "Measurement of Credit Losses on Financial Instruments" (ASU 2016-13)

In June 2016, the FASB issued ASU 2016-13 requiring an allowance to be recorded for all expected credit losses for financial assets. The allowance for credit losses is based on historical information, current conditions and reasonable and supportable forecasts. The new standard also makes revisions to the other than temporary impairment model for available-for-sale debt securities. Disclosures of credit quality indicators in relation to the amortized cost of financing receivables are further disaggregated by year of origination.

The new accounting guidance is effective for interim and annual periods beginning after December 15, 2019 with early adoption permitted for interim and annual periods beginning after December 15, 2018. The amendments will be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. Management is analyzing the impact of this new standard and, at this time, cannot estimate the impact of adoption on net income. Management plans to adopt ASU 2016-13 effective January 1, 2020.

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 against AEGCo cannot be predicted. Management accrues contingent liabilities only when management concludes that it is both probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. When management determines that it is not probable, but rather reasonably possible that a liability has been incurred at the date of the financial statements, management discloses such contingencies and the possible loss or range of loss if such estimate can be made. Any estimated range is based on currently available information and involves elements of judgment and significant uncertainties. Any estimated range of possible loss may not represent the maximum possible loss exposure. Circumstances change over time and actual results may vary significantly from estimates.

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 2015 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 $45.5 million. The letters of credit mature in July 2017.

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 September 30, 2016, there were no material liabilities recorded for any indemnifications.

Master Lease Agreements

AEGCo leases certain equipment under master lease agreements. Under the lease agreements, the lessor is guaranteed a residual value up to a stated percentage of either the unamortized balance or the equipment cost at the end of the lease term. If the actual fair value of the leased equipment is below the guaranteed residual value at the end of the lease term, AEGCo is committed to pay the difference between the actual fair value and the residual value guarantee. Historically, at the end of the lease term the fair value has been in excess of the unamortized balance. As of September 30, 2016, the maximum potential loss for these lease agreements was $44 thousand assuming the fair value of the equipment is zero at the end of the lease term.

CONTINGENCIES

Rockport Plant Litigation

In July 2013, the Wilmington Trust Company filed a complaint in U.S. District Court for the Southern District of New York against AEGCo and I&M alleging that it will be unlawfully burdened by the terms of the modified NSR consent decree after the Rockport Plant, Unit 2 lease expiration in December 2022. The terms of the consent decree allow the installation of environmental emission control equipment, repowering or retirement of the unit. The plaintiff further alleges that the defendants' actions constitute breach of the lease and participation agreement. The plaintiff seeks a judgment declaring that the defendants breached the lease, must satisfy obligations related to installation of emission control equipment and indemnify the plaintiff. The New York court granted a motion to transfer this case to the U.S. District Court for the Southern District of Ohio. In October 2013, a motion to dismiss the case was filed on behalf of AEGCo and I&M. In January 2015, the court issued an opinion and order granting the motion in part and denying the motion in part. The court dismissed certain of the plaintiff's claims. Several claims remained, including the claim for breach of the participation agreement and a claim alleging breach of an implied covenant of good faith and fair dealing. In June 2015, AEGCo and I&M filed a motion for partial judgment on the claims seeking dismissal of the breach of participation agreement claim as well as any claim for indemnification of costs associated with this case. The plaintiff subsequently filed an amended complaint to add another claim under the lease and also filed a motion for partial summary judgment. In November 2015, AEGCo and I&M filed a motion to strike the plaintiff's motion for partial judgment and filed a motion to dismiss the case for failure to state a claim. In March 2016, the court entered an opinion and order in favor of AEGCo and I&M, dismissing certain of the plaintiffs' claims for breach of contract and dismissing claims for breach of implied covenant of good faith and fair dealing, and further dismissing plaintiffs' claim for indemnification of costs. By the same order, the court permitted plaintiffs to move forward with their claim that AEGCo and I&M failed to exercise prudent utility practices in the maintenance and operation of Rockport Plant, Unit 2. In April 2016, the plaintiffs filed a notice of voluntary dismissal of all remaining claims with prejudice and the court subsequently entered a final judgment. In May 2016, Plaintiffs filed a notice of appeal on whether AEGCo and I&M are in breach of certain contract provisions that Plaintiffs allege operate to protect the Plaintiffs' residual interests in the unit and whether the trial court erred in dismissing Plaintiffs' claims that AEGCo and I&M breached the covenant of good faith and fair dealing. This matter is currently pending before the U.S. Court of Appeals for the Sixth Circuit. Management is unable to determine a range of potential losses that are reasonably possible of occurring.

4. ASSETS AND LIABILITIES HELD FOR SALE

2016

Lawrenceburg Plant

During the third quarter of 2016, AEP received bids and selected a buyer, received approval from AEP's Board of Directors and signed a Purchase and Sale Agreement to sell AEGCo's Lawrenceburg plant as well as other affiliated plants totaling 5,326 MW of competitive generation assets as one disposal group for approximately $2.2 billion to a nonaffiliated party. The sale is subject to regulatory approvals from the FERC, the IURC and federal clearance pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The sale is expected to close in the first quarter of 2017.

Upon evaluation, management concluded that the disposal group met the classification as held for sale in the third quarter of 2016. Accordingly, Lawrenceburg Plant's assets and liabilities have been recorded as Assets Held for Sale and Liabilities Held for Sale on AEGCo's balance sheet as of September 30, 2016 and as shown in the table below. The Income before Income Tax Expense of the plant was $9 million and $27 million for the three months and nine months ended September 30, 2016, respectively.

	September 30, 2016 (in thousands)
Assets:	
Materials and Supplies	$ 8,213
Property, Plant and Equipment - Net	309,453
Total Assets Classified as Held for Sale on the Balance Sheets	$ 317,666
Liabilities:	
Long-term Debt	$ 134,777
Other Classes of Liabilities That Are Not Major	5,456
Total Liabilities Classified as Held for Sale on the Balance Sheets	$ 140,233

5. BENEFIT PLANS

AEGCo participates in an AEP sponsored qualified pension plan. Substantially all of AEGCo's employees who are not UMWA members are covered by the qualified plan. AEGCo also participates in OPEB plans sponsored by AEP to provide health and life insurance benefits for retired employees.

Components of Net Periodic Benefit Cost

The following tables provide the components of AEGCo's net periodic benefit cost for the plans for the three and nine months ended September 30, 2016 and 2015:

	Pension Plan		Other Postretirement Benefit Plans	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Service Cost	$ 26	$ 26	$ 282	$ 357
Interest Cost	37	38	453	490
Expected Return on Plan Assets	(60)	(58)	(534)	(400)
Amortization of Prior Service Cost (Credit)	1	1	(17)	(17)
Amortization of Net Actuarial Loss	15	20	109	228
Net Periodic Benefit Cost	$ 19	$ 27	$ 293	$ 658

	Pension Plan		Other Postretirement Benefit Plans	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Service Cost	$ 78	$ 79	$ 847	$ 1,072
Interest Cost	113	116	1,360	1,470
Expected Return on Plan Assets	(181)	(174)	(1,602)	(1,200)
Amortization of Prior Service Cost (Credit)	1	1	(51)	(51)
Amortization of Net Actuarial Loss	44	59	327	682
Net Periodic Benefit Cost	$ 55	$ 81	$ 881	$ 1,973

6. BUSINESS SEGMENTS

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

7. 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 September 30, 2016 and December 31, 2015 are summarized in the following table:

	September 30, 2016		December 31, 2015	
	Book Value	Fair Value	Book Value	Fair Value
	(in thousands)			
Long-term Debt	$ 197,057	$ 247,577	$ 204,305	$ 247,738

8. 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

AEGCo and other AEP subsidiaries are no longer subject to U.S. federal examination for years before 2011. The IRS examination of years 2011, 2012 and 2013 started in April 2014. AEGCo and other AEP subsidiaries received a Revenue Agents Report in April 2016, completing the 2011 through 2013 audit cycle indicating an agreed upon audit. The 2011 through 2013 audit was submitted to the Congressional Joint Committee on Taxation for approval. AEGCo and other AEP subsidiaries were informed that the IRS expects the Joint Committee to refer the audit back to the IRS exam team for further consideration. 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. AEGCo and other AEP subsidiaries are currently under examination in several state and local jurisdictions. However, it is possible that previously filed tax returns have positions that may be challenged by these tax authorities. 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. AEGCo is no longer subject to state or local income tax examinations by tax authorities for years before 2009.

9. FINANCING ACTIVITIES

Long-term Debt

Long-term debt principal payments made during the first nine months of 2016 are shown in the table below:

Type of Debt	Principal Amount Paid (in thousands)	Interest Rate (%)	Due Date
Senior Unsecured Notes	$ 7,273	6.33	2037 (a)

(a) AEGCo's Senior Unsecured Notes due in 2037 are payable over the life of the notes as a $7.3 million annual principal amount plus accrued interest paid semiannually.

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." 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%.

Corporate Borrowing Program - AEP System

The AEP System uses a corporate borrowing program to meet the short-term borrowing needs of AEP's 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 the FERC. The amounts of outstanding borrowings from the Utility Money Pool as of September 30, 2016 and December 31, 2015 are included in Advances from Affiliates on AEGCo's balance sheets. AEGCo's Utility Money Pool activity and corresponding authorized borrowing limits for the nine months ended September 30, 2016 are described in the following table:

Maximum Borrowings from the Utility Money Pool	Maximum Loans to the Utility Money Pool	Average Borrowings from the Utility Money Pool	Average Loans to the Utility Money Pool	Borrowings from the Utility Money Pool as of September 30, 2016	Authorized Short-Term Borrowing Limit
		(in thousands)			
$ 165,758	$ —	$ 112,937	$ —	$ 106,470	$ 200,000

Maximum, minimum and average interest rates for funds either borrowed from or loaned to the Utility Money Pool are summarized in the following table:

Nine Months Ended September 30,	Maximum Interest Rate for Funds Borrowed from the Utility Money Pool	Minimum Interest Rate for Funds Borrowed from the Utility Money Pool	Maximum Interest Rate for Funds Loaned to the Utility Money Pool	Minimum Interest Rate for Funds Loaned to the Utility Money Pool	Average Interest Rate for Funds Borrowed from the Utility Money Pool	Average Interest Rate for Funds Loaned to the Utility Money Pool
2016	0.91%	0.69%	—%	—%	0.79%	—%
2015	0.59%	0.39%	—%	—%	0.47%	—%

10. 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. Parent 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 support would be provided by AEP. AEGCo's total billings from AEPSC for the three months ended September 30, 2016 and 2015 were $1.8 million and $3.2 million, respectively, and for the nine months ended September 30, 2016 and 2015 were $6.7 million and $6.7 million, respectively. The carrying amount of liabilities associated with AEPSC as of September 30, 2016 and December 31, 2015 was $0.5 million and $0.9 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.