AEP Texas Central Company

2008 Third Quarter Report

Consolidated 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
AEP or Parent	American Electric Power Company, Inc.
AEP Consolidated	AEP and its majority owned consolidated subsidiaries and consolidated affiliates.
AEP East companies	APCo, CSPCo, I&M, KPCo and OPCo.
AEP System or the System	American Electric Power System, an integrated electric utility system, owned and operated by AEP's electric utility subsidiaries.
AEP West companies	PSO, SWEPCo, TCC and TNC.
AEPSC	American Electric Power Service Corporation, a service subsidiary providing management and professional services to AEP and its subsidiaries.
ALJ	Administrative Law Judge.
APCo	Appalachian Power Company, an AEP electric utility subsidiary.
APSC	Arkansas Public Service Commission.
CAA	Clean Air Act.
CSPCo	Columbus Southern Power Company, an AEP electric utility subsidiary.
CSW	Central and South West Corporation, a subsidiary of AEP (Effective January 21, 2003, the legal name of Central and South West Corporation was changed to AEP Utilities, Inc.).
CSW Operating Agreement	Agreement dated January 1, 1997, by and among PSO, SWEPCo, TCC and TNC governing generating capacity allocation. This agreement was amended in May 2006 to remove TCC and TNC. AEPSC acts as the agent.
CTC	Competition Transition Charge.
EITF	Financial Accounting Standards Board's Emerging Issues Task Force.
ERCOT	Electric Reliability Council of Texas.
ETT	Electric Transmission Texas, LLC, a 50% equity interest joint venture with MidAmerican Energy Holding Company formed to own and operate electric transmission facilities in ERCOT.
FASB	Financial Accounting Standards Board.
Federal EPA	United States Environmental Protection Agency.
FERC	Federal Energy Regulatory Commission.
FIN	FASB Interpretation No.
FIN 48	FIN 48, "Accounting for Uncertainty in Income Taxes" and FASB Staff Position FIN 48-1 "Definition of *Settlement* in FASB Interpretation No. 48."
FSP	FASB Staff Position.
GAAP	Accounting Principles Generally Accepted in the United States of America.
IRS	Internal Revenue Service.
I&M	Indiana Michigan Power Company, an AEP electric utility subsidiary.
KPCo	Kentucky Power Company, an AEP electric utility subsidiary.
OCC	Corporation Commission of the State of Oklahoma.
OPCo	Ohio Power Company, an AEP electric utility subsidiary.
OPEB	Other Postretirement Benefit Plans.
OTC	Over-the-counter.
PSO	Public Service Company of Oklahoma, an AEP electric utility subsidiary.
PUCT	Public Utility Commission of Texas.
SEC	United States Securities and Exchange Commission.
SFAS	Statement of Financial Accounting Standards issued by the Financial Accounting Standards Board.
SFAS 133	Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities."
SWEPCo	Southwestern Electric Power Company, an AEP electric utility subsidiary.
TCC	AEP Texas Central Company, an AEP electric utility subsidiary.
Texas Restructuring Legislation	Legislation enacted in 1999 to restructure the electric utility industry in Texas.

Term	Meaning
TNC	AEP Texas North Company, an AEP electric utility subsidiary.
True-up Proceeding	A filing made under the Texas Restructuring Legislation to finalize the amount of stranded costs and other true-up items and the recovery of such amounts.
Utility Money Pool	AEP System's Utility Money Pool.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three and Nine Months Ended September 30, 2008 and 2007
(in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	2008	**2007**	**2008**	**2007**
REVENUES				
Electric Generation, Transmission and Distribution	$ 224,505	$ 230,816	$ 603,775	$ 597,130
Sales to AEP Affiliates	1,083	1,620	4,786	4,103
Other	6,085	3,213	17,143	14,090
TOTAL	231,673	235,649	625,704	615,323
EXPENSES				
Fuel and Other Consumables Used for Electric Generation	-	(597)	-	228
Purchased Electricity for Resale	-	707	559	2,918
Other Operation	60,859	55,349	180,100	170,215
Maintenance	11,082	10,413	29,666	26,944
Depreciation and Amortization	65,479	63,338	169,846	166,010
Taxes Other Than Income Taxes	19,216	18,975	53,770	56,624
TOTAL	156,636	148,185	433,941	422,939
OPERATING INCOME	75,037	87,464	191,763	192,384
Other Income (Expense):				
Interest Income	1,855	3,135	6,803	12,081
Allowance for Equity Funds Used During Construction	967	585	2,561	2,558
Interest Expense	(41,143)	(45,275)	(125,440)	(137,633)
INCOME BEFORE INCOME TAX EXPENSE	36,716	45,909	75,687	69,390
Income Tax Expense	13,416	15,951	26,826	23,770
NET INCOME	23,300	29,958	48,861	45,620
Preferred Stock Dividend Requirements	60	60	180	180
EARNINGS APPLICABLE TO COMMON STOCK	$ 23,240	$ 29,898	$ 48,681	$ 45,440

The common stock of TCC is owned by a wholly-owned subsidiary of AEP.

See Condensed Notes to Condensed Consolidated Financial Statements.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY
For the Nine Months Ended September 30, 2008 and 2007
(in thousands)
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Total
DECEMBER 31, 2006	$ 55,292	$ 132,606	$ 217,218	$ 405,116
FIN 48 Adoption, Net of Tax			(2,187)	(2,187)
Common Stock Dividends			(3,000)	(3,000)
Preferred Stock Dividends			(180)	(180)
Net Income			45,620	45,620
SEPTEMBER 30, 2007	$ 55,292	$ 132,606	$ 257,471	$ 445,369
DECEMBER 31, 2007	$ 55,292	$ 133,161	$ 270,741	$ 459,194
EITF 06-10 Adoption, Net of Tax of $402			(748)	(748)
Common Stock Dividends			(19,000)	(19,000)
Preferred Stock Dividends			(180)	(180)
Net Income			48,861	48,861
SEPTEMBER 30, 2008	$ 55,292	$ 133,161	$ 299,674	$ 488,127

See Condensed Notes to Condensed Consolidated Financial Statements.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
ASSETS
September 30, 2008 and December 31, 2007
(in thousands)
(Unaudited)

	2008	2007
CURRENT ASSETS		
Cash and Cash Equivalents	$ 203	$ 101
Other Cash Deposits	112,545	192,725
Advances to Affiliates	-	180,926
Accounts Receivable:		
Customers	82,561	54,355
Affiliated Companies	6,525	6,848
Accrued Unbilled Revenues	39,560	32,056
Miscellaneous	316	637
Allowance for Uncollectible Accounts	(622)	(273)
Total Accounts Receivable	128,340	93,623
Materials and Supplies	31,396	27,624
Accrued Tax Benefits	21,296	-
Prepayments and Other	11,201	4,813
TOTAL	304,981	499,812
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Transmission	1,011,770	962,859
Distribution	1,740,826	1,670,120
Other	244,404	231,571
Construction Work in Progress	168,522	122,666
Total	3,165,522	2,987,216
Accumulated Depreciation and Amortization	677,979	667,124
TOTAL - NET	2,487,543	2,320,092
OTHER NONCURRENT ASSETS		
Regulatory Assets	156,379	167,991
Securitized Transition Assets	2,080,457	2,107,510
Deferred Charges and Other	101,817	94,592
TOTAL	2,338,653	2,370,093
TOTAL ASSETS	$ 5,131,177	$ 5,189,997

See Condensed Notes to Condensed Consolidated Financial Statements.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND SHAREHOLDERS' EQUITY
September 30, 2008 and December 31, 2007
(Unaudited)

	2008	2007
CURRENT LIABILITIES	(in thousands)	
Advances from Affiliates	$ 54,728	$ -
Accounts Payable:		
General	37,839	21,629
Affiliated Companies	15,411	20,872
Long-term Debt Due Within One Year – Nonaffiliated	137,141	143,419
Customer Deposits	59,051	55,740
Accrued Taxes	33,373	31,344
Accrued Interest	40,459	69,595
Other	31,954	50,450
TOTAL	409,956	393,049
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	2,657,115	2,794,134
Deferred Income Taxes	1,050,452	1,030,015
Regulatory Liabilities and Deferred Investment Tax Credits	467,409	454,528
Deferred Credits and Other	52,197	53,156
TOTAL	4,227,173	4,331,833
TOTAL LIABILITIES	4,637,129	4,724,882
Cumulative Preferred Stock Not Subject to Mandatory Redemption	5,921	5,921
Commitments and Contingencies (Note 4)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – Par Value – $25 Per Share:		
Authorized – 12,000,000 Shares		
Outstanding – 2,211,678 Shares	55,292	55,292
Paid-in Capital	133,161	133,161
Retained Earnings	299,674	270,741
TOTAL	488,127	459,194
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 5,131,177	$ 5,189,997

See Condensed Notes to Condensed Consolidated Financial Statements.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2008 and 2007
(in thousands)
(Unaudited)

	2008	2007
OPERATING ACTIVITIES		
Net Income	$ 48,861	$ 45,620
Adjustments to Reconcile Net Income to Net Cash Flows from (Used for) Operating Activities:		
Depreciation and Amortization	169,846	166,010
Deferred Income Taxes	28,794	16,846
Allowance for Equity Funds Used During Construction	(2,561)	(2,558)
Deferred Property Taxes	(6,750)	(6,123)
Fuel Over/Under-Recovery, Net	(1,124)	(163,440)
Change in Other Noncurrent Assets	(77,922)	(50,242)
Change in Other Noncurrent Liabilities	7,541	16,364
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	(34,717)	(52,592)
Materials and Supplies	(3,772)	(1,008)
Accounts Payable	5,391	1,249
Customer Deposits	3,311	22,179
Accrued Taxes, Net	(19,267)	(33,329)
Accrued Interest	(29,136)	(9,114)
Other Current Assets	(8,126)	2,005
Other Current Liabilities	(29,041)	1,637
Net Cash Flows from (Used for) Operating Activities	51,328	(46,496)
INVESTING ACTIVITIES		
Construction Expenditures	(205,120)	(157,773)
Change in Other Cash Deposits, Net	80,180	2,307
Change in Advances to Affiliates, Net	180,926	238,659
Proceeds from Sales of Assets	3,715	46,110
Net Cash Flows from Investing Activities	59,701	129,303
FINANCING ACTIVITIES		
Issuance of Long-term Debt – Nonaffiliated	159,296	5,275
Change in Advances from Affiliates, Net	54,728	-
Retirement of Long-term Debt – Nonaffiliated	(304,574)	(84,557)
Principal Payments for Capital Lease Obligations	(1,197)	(1,074)
Dividends Paid on Common Stock	(19,000)	(3,000)
Dividends Paid on Cumulative Preferred Stock	(180)	(180)
Net Cash Flows Used for Financing Activities	(110,927)	(83,536)
Net Increase (Decrease) in Cash and Cash Equivalents	102	(729)
Cash and Cash Equivalents at Beginning of Period	101	779
Cash and Cash Equivalents at End of Period	$ 203	$ 50
SUPPLEMENTAL DISCLOSURE		
Cash Paid for Interest, Net of Capitalized Amounts	$ 144,830	$ 127,196
Net Cash Paid for Income Taxes	24,237	39,271
Noncash Acquisitions Under Capital Leases	624	770
Construction Expenditures Included in Accounts Payable at September 30,	11,415	5,353
Cash Paid for CTC Refunds	74,734	206,911

See Condensed Notes to Condensed Consolidated Financial Statements.

CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Matters
2. New Accounting Pronouncements
3. Rate Matters
4. Commitments, Guarantees and Contingencies
5. Disposition
6. Benefit Plans
7. Business Segments
8. Income Taxes
9. Financing Activities

1. SIGNIFICANT ACCOUNTING MATTERS

General

The accompanying unaudited condensed consolidated 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 consolidated 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. The net income for the three and nine months ended September 30, 2008 are not necessarily indicative of results that may be expected for the year ending December 31, 2008. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the audited 2007 financial statements and notes thereto, which are included in TCC's 2007 Annual Report.

Reclassifications

Certain prior period financial statement items have been reclassified to conform to current period presentation. These reclassifications had no impact on TCC's previously reported net income or changes in shareholders' equity.

2. NEW ACCOUNTING PRONOUNCEMENTS

Upon issuance of final pronouncements, management thoroughly reviews the new accounting literature to determine the relevance, if any, to TCC's business. The following represents a summary of new pronouncements issued or implemented in 2008 and standards issued but not implemented that management has determined relate to TCC's operations.

SFAS 141 (revised 2007) "Business Combinations" (SFAS 141R)

In December 2007, the FASB issued SFAS 141R, improving financial reporting about business combinations and their effects. It establishes how the acquiring entity recognizes and measures the identifiable assets acquired, liabilities assumed, goodwill acquired, any gain on bargain purchases and any noncontrolling interest in the acquired entity. SFAS 141R no longer allows acquisition-related costs to be included in the cost of the business combination, but rather expensed in the periods they are incurred, with the exception of the costs to issue debt or equity securities which shall be recognized in accordance with other applicable GAAP. SFAS 141R requires disclosure of information for a business combination that occurs during the accounting period or prior to the issuance of the financial statements for the accounting period.

SFAS 141R is effective prospectively for business combinations with an acquisition date on or after the beginning of the first annual reporting period after December 15, 2008. Early adoption is prohibited. TCC will adopt SFAS 141R effective January 1, 2009 and apply it to any business combinations on or after that date.

SFAS 157 "Fair Value Measurements" (SFAS 157)

In September 2006, the FASB issued SFAS 157, enhancing existing guidance for fair value measurement of assets and liabilities and instruments measured at fair value that are classified in shareholder's equity. The statement defines fair value, establishes a fair value measurement framework and expands fair value disclosures. It emphasizes that fair value is market-based with the highest measurement hierarchy level being market prices in active markets. The standard requires fair value measurements be disclosed by hierarchy level, an entity includes its own credit standing in the measurement of its liabilities and modifies the transaction price presumption. The standard also nullifies the consensus reached in EITF Issue No. 02-3 "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities" (EITF 02-3) that prohibited the recognition of trading gains or losses at the inception of a derivative contract, unless the fair value of such derivative is supported by observable market data.

In February 2008, the FASB issued FSP SFAS 157-1 "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" (SFAS 157-1) which amends SFAS 157 to exclude SFAS 13 "Accounting for Leases" (SFAS 13) and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS 13.

In February 2008, the FASB issued FSP SFAS 157-2 "Effective Date of FASB Statement No. 157" (SFAS 157-2) which delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

In October 2008, the FASB issued FSP SFAS 157-3 "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active" which clarifies application of SFAS 157 in markets that are not active and provides an illustrative example. The FSP was effective upon issuance. The adoption of this standard had no impact on TCC's financial statements.

TCC partially adopted SFAS 157 effective January 1, 2008. TCC will fully adopt SFAS 157 effective January 1, 2009 for items within the scope of FSP SFAS 157-2. Management expects that the adoption of FSP SFAS 157-2 will have an immaterial impact on the financial statements. Due to TCC's removal from the CSW Operating Agreement and the SIA in 2006, TCC no longer has Risk Management Assets or Liabilities. The provisions of SFAS 157 are applied prospectively, except for a) changes in fair value measurements of existing derivative financial instruments measured initially using the transaction price under EITF 02-3, b) existing hybrid financial instruments measured initially at fair value using the transaction price and c) blockage discount factors. Although the statement is applied prospectively upon adoption, in accordance with the provisions of SFAS 157 related to EITF 02-3, amounts for transition adjustment are recorded to beginning retained earnings. The impact of considering AEP's own credit risk when measuring the fair value of liabilities, including derivatives, had an immaterial impact on TCC's fair value measurements upon adoption.

In accordance with SFAS 157, assets and liabilities are classified based on the inputs utilized in the fair value measurement. SFAS 157 provides definitions for two types of inputs: observable and unobservable. Observable inputs are valuation inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are valuation inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information in the circumstances.

As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). SFAS 157 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).

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 inputs primarily consist of exchange traded contracts, listed equities and U.S. government treasury securities that exhibit sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs primarily consist of OTC broker quotes in moderately active or less active markets, exchange traded contracts where there was not sufficient market activity to warrant inclusion in Level 1, OTC broker quotes that are corroborated by the same or similar transactions that have occurred in the market and certain non-exchange-traded debt securities.

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that the observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Level 3 inputs primarily consist of unobservable market data or are valued based on models and/or assumptions.

The following table sets forth, by level within the fair value hierarchy, TCC's financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2008. As required by SFAS 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of September 30, 2008

	Level 1	Level 2	Level 3	Other	Total
Assets:			**(in thousands)**		
Other Cash Deposits (a)	$ 112,529	$ -	$ -	$ 16	$ 112,545

(a) Amounts in "Other" column primarily represent cash deposits with third-parties. Level 1 amounts primarily represent investments in money market funds.

SFAS 159 "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159)

In February 2007, the FASB issued SFAS 159, permitting entities to choose to measure many financial instruments and certain other items at fair value. The standard also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. If the fair value option is elected, the effect of the first remeasurement to fair value is reported as a cumulative effect adjustment to the opening balance of retained earnings. The statement is applied prospectively upon adoption.

TCC adopted SFAS 159 effective January 1, 2008. At adoption, TCC did not elect the fair value option for any assets or liabilities.

SFAS 160 "Noncontrolling Interest in Consolidated Financial Statements" (SFAS 160)

In December 2007, the FASB issued SFAS 160, modifying reporting for noncontrolling interest (minority interest) in consolidated financial statements. It requires noncontrolling interest be reported in equity and establishes a new framework for recognizing net income or loss and comprehensive income by the controlling interest. Upon deconsolidation due to loss of control over a subsidiary, the standard requires a fair value remeasurement of any remaining noncontrolling equity investment to be used to properly recognize the gain or loss. SFAS 160 requires specific disclosures regarding changes in equity interest of both the controlling and noncontrolling parties and presentation of the noncontrolling equity balance and income or loss for all periods presented.

SFAS 160 is effective for interim and annual periods in fiscal years beginning after December 15, 2008. The statement is applied prospectively upon adoption. Early adoption is prohibited. Upon adoption, prior period financial statements will be restated for the presentation of the noncontrolling interest for comparability. Management expects that the adoption of this standard will have an immaterial impact on the financial statements. TCC will adopt SFAS 160 effective January 1, 2009.

SFAS 161 "Disclosures about Derivative Instruments and Hedging Activities" (SFAS 161)

In March 2008, the FASB issued SFAS 161, enhancing disclosure requirements for derivative instruments and hedging activities. Affected entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. This standard is intended to improve upon the existing disclosure framework in SFAS 133.

SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Management expects this standard to increase the disclosure requirements related to derivative instruments and hedging activities. It encourages retrospective application to comparative disclosure for earlier periods presented. TCC will adopt SFAS 161 effective January 1, 2009.

SFAS 162 "The Hierarchy of Generally Accepted Accounting Principles" (SFAS 162)

In May 2008, the FASB issued SFAS 162, clarifying the sources of generally accepted accounting principles in descending order of authority. The statement specifies that the reporting entity, not its auditors, is responsible for its compliance with GAAP.

SFAS 162 is effective 60 days after the SEC approves the Public Company Accounting Oversight Board's amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." Management expects the adoption of this standard will have no impact on TCC's financial statements. TCC will adopt SFAS 162 when it becomes effective.

EITF Issue No. 06-10 "Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements" (EITF 06-10)

In March 2007, the FASB ratified EITF 06-10, a consensus on collateral assignment split-dollar life insurance arrangements in which an employee owns and controls the insurance policy. Under EITF 06-10, an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with SFAS 106 "Employers' Accounting for Postretirement Benefits Other Than Pension" or Accounting Principles Board Opinion No. 12 "Omnibus Opinion – 1967" if the employer has agreed to maintain a life insurance policy during the employee's retirement or to provide the employee with a death benefit based on a substantive arrangement with the employee. In addition, an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. EITF 06-10 requires recognition of the effects of its application as either (a) a change in accounting principle through a cumulative effect adjustment to retained earnings or other components of equity or net assets in the statement of financial position at the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. TCC adopted EITF 06-10 effective January 1, 2008 with a cumulative effect reduction of $1.2 million ($748 thousand, net of tax) to beginning retained earnings.

EITF Issue No. 06-11 "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards"(EITF 06-11)

In June 2007, the FASB ratified the EITF consensus on the treatment of income tax benefits of dividends on employee share-based compensation. The issue is how a company should recognize the income tax benefit received on dividends that are paid to employees holding equity-classified nonvested shares, equity-classified nonvested share units or equity-classified outstanding share options and charged to retained earnings under SFAS 123R, "Share-Based Payments." Under EITF 06-11, a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity-classified nonvested equity shares, nonvested equity share units and outstanding equity share options should be recognized as an increase to additional paid-in capital. EITF 06-11 is applied prospectively to the income tax benefits of dividends on equity-classified employee share-based payment awards that are declared in fiscal years after December 15, 2007.

TCC adopted EITF 06-11 effective January 1, 2008. The adoption of this standard had an immaterial impact on the financial statements.

EITF Issue No. 08-5 "Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement" (EITF 08-5)

In September 2008, the FASB ratified the EITF consensus on liabilities with third-party credit enhancements when the liability is measured and disclosed at fair value. The consensus treats the liability and the credit enhancement as two units of accounting. Under the consensus, the fair value measurement of the liability does not include the effect of the third-party credit enhancement. Consequently, changes in the issuer's credit standing without the support of the credit enhancement affect the fair value measurement of the issuer's liability. Entities will need to provide disclosures about the existence of any third-party credit enhancements related to their liabilities.

EITF 08-5 is effective for the first reporting period beginning after December 15, 2008. It will be applied prospectively upon adoption with the effect of initial application included as a change in fair value of the liability in the period of adoption. In the period of adoption, entities must disclose the valuation method(s) used to measure the fair value of liabilities within its scope and any change in the fair value measurement method that occurs as a result of its initial application. Early adoption is permitted. Although management has not completed an analysis, management expects that the adoption of this standard will have an immaterial impact on the financial statements. TCC will adopt this standard effective January 1, 2009.

FSP SFAS 133-1 and FIN 45-4 "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161" (SFAS 133-1 and FIN 45-4)

In September 2008, the FASB issued SFAS 133-1 and FIN 45-4 as amendments to original statements SFAS 133 and FIN 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Under the SFAS 133 requirements, the seller of a credit derivative shall disclose the following information for each derivative, including credit derivatives embedded in a hybrid instrument, even if the likelihood of payment is remote:

(a) The nature of the credit derivative.
(b) The maximum potential amount of future payments.
(c) The fair value of the credit derivative.
(d) The nature of any recourse provisions and any assets held as collateral or by third parties.

Further, the standard requires the disclosure of current payment status/performance risk of all FIN 45 guarantees. In the event an entity uses internal groupings, the entity shall disclose how those groupings are determined and used for managing risk.

The standard is effective for interim and annual reporting periods ending after November 15, 2008. Upon adoption, the guidance will be prospectively applied. Management expects that the adoption of this standard will have an immaterial impact on the financial statements but increase the FIN 45 guarantees disclosure requirements. TCC will adopt the standard effective December 31, 2008.

FSP SFAS 142-3 "Determination of the Useful Life of Intangible Assets" (SFAS 142-3)

In April 2008, the FASB issued SFAS 142-3 amending factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, "Goodwill and Other Intangible Assets." The standard is expected to improve consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure its fair value.

SFAS 142-3 is effective for interim and annual periods in fiscal years beginning after December 15, 2008. Early adoption is prohibited. Upon adoption, the guidance within SFAS 142-3 will be prospectively applied to intangible assets acquired after the effective date. Management expects that the adoption of this standard will have an immaterial impact on the financial statements. TCC will adopt SFAS 142-3 effective January 1, 2009.

FSP FIN 39-1 "Amendment of FASB Interpretation No. 39" (FIN 39-1)

In April 2007, the FASB issued FIN 39-1. It amends FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts" by replacing the interpretation's definition of contracts with the definition of derivative instruments per SFAS 133. It also requires entities that offset fair values of derivatives with the same party under a netting agreement to also net the fair values (or approximate fair values) of related cash collateral. The entities must disclose whether or not they offset fair values of derivatives and related cash collateral and amounts recognized for cash collateral payables and receivables at the end of each reporting period.

TCC adopted FIN 39-1 effective January 1, 2008. This standard changed the method of netting certain balance sheet amounts. It requires retrospective application as a change in accounting principle for all periods presented. It had no impact on TCC.

Future Accounting Changes

The FASB's standard-setting process is ongoing and until new standards have been finalized and issued by the FASB, management cannot determine the impact on the reporting of operations and financial position that may result from any such future changes. The FASB is currently working on several projects including revenue recognition, contingencies, liabilities and equity, emission allowances, leases, hedge accounting, consolidation policy, trading inventory and related tax impacts. Management also expects to see more FASB projects as a result of its desire to converge International Accounting Standards with GAAP. The ultimate pronouncements resulting from these and future projects could have an impact on future net income and financial position.

3. RATE MATTERS

As discussed in TCC's 2007 Annual Report, TCC is involved in rate and regulatory proceedings at the FERC and the PUCT. The Rate Matters note within the 2007 Annual Report should be read in conjunction with this report to gain a complete understanding of material rate matters still pending that could impact net income, cash flows and possibly financial condition. The following discusses ratemaking developments in 2008 and updates the 2007 Annual Report.

TEXAS RESTRUCTURING

TCC Texas Restructuring Appeals

Pursuant to PUCT orders, TCC securitized its net recoverable stranded generation costs of $2.5 billion and is recovering the principal and interest on the securitization bonds over a period ending in 2020. TCC has refunded its net other true-up regulatory liabilities of $375 million during the period October 2006 through June 2008 via a CTC credit rate rider. Cash paid for these CTC refunds for the nine months ended September 30, 2008 and 2007 was $75 million and $207 million, respectively. TCC appealed the PUCT stranded costs true-up and related orders seeking relief in both state and federal court on the grounds that certain aspects of the orders are contrary to the Texas Restructuring Legislation, PUCT rulemakings and federal law and fail to fully compensate TCC for its net stranded cost and other true-up items. The significant items appealed by TCC are:

- The PUCT ruling that TCC did not comply with the Texas Restructuring Legislation and PUCT rules regarding the required auction of 15% of its Texas jurisdictional installed capacity, which led to a significant disallowance of capacity auction true-up revenues.
- The PUCT ruling that TCC acted in a manner that was commercially unreasonable, because TCC failed to determine a minimum price at which it would reject bids for the sale of its nuclear generating plant and TCC bundled out-of-the-money gas units with the sale of its coal unit, which led to the disallowance of a significant portion of TCC's net stranded generation plant costs.
- Two federal matters regarding the allocation of off-system sales related to fuel recoveries and a potential tax normalization violation.

Municipal customers and other intervenors also appealed the PUCT true-up orders seeking to further reduce TCC's true-up recoveries.

In March 2007, the Texas District Court judge hearing the appeals of the true-up order affirmed the PUCT's April 2006 final true-up order for TCC with two significant exceptions. The judge determined that the PUCT erred by applying an invalid rule to determine the carrying cost rate for the true-up of stranded costs and remanded this matter to the PUCT for further consideration. The District Court judge also determined that the PUCT improperly reduced TCC's net stranded plant costs for commercial unreasonableness.

TCC, the PUCT and intervenors appealed the District Court decision to the Texas Court of Appeals. In May 2008, the Texas Court of Appeals affirmed the District Court decision in all but one major respect. It reversed the District Court's unfavorable decision finding that the PUCT erred by applying an invalid rule to determine the carrying cost rate. The favorable commercial unreasonableness decision was not reversed. The Texas Court of Appeals denied intervenors' motion for rehearing. In May 2008, TCC, the PUCT and intervenors filed petitions for review with the Texas Supreme Court.

Management cannot predict the outcome of these court proceedings and PUCT remand decisions. If TCC ultimately succeeds in its appeals, it could have a material favorable effect on future net income, cash flows and financial condition. If municipal customers and other intervenors succeed in their appeals it could have a substantial adverse effect on future net income, cash flows and financial condition.

TCC Deferred Investment Tax Credits and Excess Deferred Federal Income Taxes

Appeals remain outstanding related to the stranded costs true-up and related orders regarding whether the PUCT may require TCC to refund certain tax benefits to customers. The PUCT agreed to allow TCC to defer $103 million of the CTC other true-up items to refund to customers ($61 million in present value of the tax benefits associated with TCC's generation assets plus $42 million of related carrying costs) pending resolution of whether the PUCT's securitization refund is an IRS normalization violation. The deferral of the CTC refund negates the securitization reduction pending resolution of the normalization violation issue.

In March 2008, the IRS issued final regulations addressing Accumulated Deferred Investment Tax Credit (ADITC) and Excess Deferred Federal Income Tax (EDFIT) normalization requirements. Consistent with a Private Letter Ruling TCC received in 2006, the regulations clearly state that TCC will sustain a normalization violation if the PUCT orders TCC to flow the tax benefits to customers. TCC notified the PUCT that the final regulations were issued. In May 2008, as requested by the PUCT, the Texas Court of Appeals ordered a remand of the tax normalization issue for the consideration of this additional evidence.

TCC expects that the PUCT will allow TCC to retain and not refund these amounts. This will have a favorable effect on future net income and cash flows as TCC will record the ADITC and EDFIT tax benefits in income due to the sale of the generating plants that generated the tax benefits. Since management expects that the PUCT will allow TCC to retain the deferred CTC refund amounts in order to avoid an IRS normalization violation, management has not accrued any related interest expense should TCC ultimately be required to refund these amounts. If accrued, management estimates the interest expense would be approximately $2 million higher for the period July 1, 2008 through September 30, 2008 based on a CTC interest rate of 7.5%.

However, if the PUCT orders TCC to flow the tax benefits to customers, thereby causing TCC to violate the IRS' normalization regulations, it could result in TCC's repayment to the IRS of ADITC on all property, including transmission and distribution property. This amount approximates $103 million as of September 30, 2008. It will also lead to a loss of TCC's right to claim accelerated tax depreciation in future tax returns. If TCC is required to repay to the IRS its ADITC and is also required to refund ADITC to customers, it would have an unfavorable effect on future net income and cash flows. Tax counsel advised management that a normalization violation should not occur until all remedies under law have been exhausted and the tax benefits are actually returned to ratepayers under a nonappealable order. Management intends to continue to work with the PUCT to resolve the issue and avoid the adverse effects of a normalization violation on future net income, cash flows and financial condition.

TCC Excess Earnings

In 2005, a Texas appellate court issued a decision finding that a PUCT order requiring TCC to refund to the REPs excess earnings prior to and outside of the true-up process was unlawful under the Texas Restructuring Legislation. From 2002 to 2005, TCC refunded $55 million of excess earnings, including interest, under the overturned PUCT order. On remand, the PUCT must determine how to implement the Court of Appeals decision given that the unauthorized refunds were made in lieu of reducing stranded cost recoveries in the True-up Proceeding. It is possible that TCC's stranded cost recovery, which is currently on appeal, may be affected by a PUCT remedy.

In May 2008, the Texas Court of Appeals issued a decision in TCC's True-up Proceeding determining that even though excess earnings had been previously refunded to REPs, TCC still must reduce stranded cost recoveries in its True-up Proceeding. In 2005, TCC reflected the obligation to refund excess earnings to customers through the true-up process and recorded a regulatory asset of $55 million representing a receivable from the REPs for prior refunds to them by TCC. However, certain parties have taken positions that, if adopted, could result in TCC being required to refund additional amounts of excess earnings or interest through the true-up process without receiving a refund back from the REPs. If this were to occur it would have an adverse effect on future net income and cash flows. AEP sold its affiliate REPs in December 2002. While AEP owned the affiliate REPs, TCC refunded $11 million of excess earnings to the affiliate REPs. Management cannot predict the outcome of the excess earnings remand and whether it will adversely affect future net income and cash flows.

Texas Interim Transmission Rates

In March 2008, TCC filed an application with the PUCT for an interim update of wholesale-transmission rates. The PUCT issued an order in May 2008 that provided for increased interim transmission rates for TCC, subject to review during the next TCC base rate case. This review could result in a refund if the PUCT finds that TCC has not prudently incurred the transmission investment. The FERC approved the new interim transmission rates in May 2008 which increased annual transmission revenues by $9 million. TCC has not recorded any provision for refund regarding the interim transmission rates as management believes these new rates are reasonable and necessary to recover costs associated with new transmission plant. Management cannot predict the outcome of future proceedings related to the interim transmission rates. A refund of the interim transmission rates would have an adverse impact on net income and cash flows.

OTHER TEXAS RATE MATTERS

Hurricanes Dolly and Ike

In July and September 2008, TCC’s service territory in south Texas was hit by Hurricanes Dolly and Ike, respectively. TCC incurred $11 million and $1 million in incremental operation and maintenance costs related to service restoration efforts for Hurricanes Dolly and Ike, respectively. TCC has a PUCT-approved catastrophe reserve which permits TCC to collect $1.3 million on an annual basis with authority to continue the collection until the catastrophe reserve reaches $13 million. Any incremental operation and maintenance costs can be charged against the catastrophe reserve if the total incremental operation and maintenance costs for a storm exceed $500 thousand. In June 2008, prior to these hurricanes, TCC had approximately $2 million recorded in the catastrophe reserve account. Since the catastrophe reserve balance was less than the incremental operation and maintenance costs related to Hurricanes Dolly and Ike, TCC established a net regulatory asset for $10 million.

Under Texas law and as previously approved by the PUCT in prior base rate cases, the regulatory asset will be included in rate base in the next base rate filing. At that time, TCC will evaluate the existing catastrophe reserve amounts and review potential future events to determine the appropriate funding level to request.

ETT

In December 2007, TCC contributed $70 million of transmission facilities to ETT. The PUCT approved ETT's initial rates, its request for a transfer of facilities and a certificate of convenience and necessity to operate as a stand alone transmission utility in the ERCOT region. ETT was awarded a 9.96% after tax return on equity rate in those approvals. In 2008, intervenors filed a notice of appeal to the Travis County District Court. In October 2008, the court ruled that the PUCT exceeded its authority by approving ETT’s application as a stand alone transmission utility without a service area under the wrong section of the statute. Management believes that ruling is incorrect. Moreover, ETT provided evidence in its application that ETT has complied with what the court determined was the proper section of the statute. ETT is considering its options for responding to the ruling including an appeal of the Travis County District Court ruling. Depending upon the ultimate outcome of the Travis County District Court ruling, TCC may be required to reacquire transferred assets and projects under construction by ETT. Management cannot predict the outcome of this proceeding or its future effect on net income and cash flows.

FERC Rate Matters

Allocation of Off-system Sales Margins

In 2004, intervenors and the OCC staff argued that AEP had inappropriately under-allocated off-system sales credits to PSO by $37 million for the period June 2000 to December 2004 under a FERC-approved allocation agreement. An ALJ assigned to hear intervenor claims found that the OCC lacked authority to examine whether AEP deviated from the FERC-approved allocation methodology for off-system sales margins and held that any such complaints should be addressed at the FERC. In October 2007, the OCC adopted the ALJ's recommendation and orally directed the OCC staff to explore filing a complaint at the FERC alleging the allocation of off-system sales margins to PSO is not in compliance with the FERC-approved methodology which could result in an adverse effect on future net income and cash flows for AEP Consolidated, the AEP East companies and the AEP West companies. In June 2008, the ALJ issued a final recommendation and incorporated the prior finding that the OCC lacked authority to review AEP's application of a FERC-approved methodology. In June 2008, the Oklahoma Industrial Energy Consumers appealed the ALJ recommendation to the OCC. In August 2008, the OCC heard the appeal and a decision is pending. In August 2008, the OCC filed a complaint at the FERC alleging that AEPSC inappropriately allocated off-system trading margins between the AEP East companies and the AEP West companies and did not properly allocate off-system trading margins within the AEP West companies. The PUCT, the APSC and the Oklahoma Industrial Energy Consumers have all intervened in this filing.

TCC, TNC and the PUCT have been involved in litigation in the federal courts concerning whether the PUCT has the right to order a reallocation of off-system sales margins thereby reducing recoverable fuel costs in the final fuel reconciliation in Texas under the restructuring legislation. In 2005, TCC recorded a provision for refund after the PUCT ordered such reallocation. After receipt of favorable federal court decisions and the refusal of the U.S. Supreme Court to hear a PUCT appeal, TCC reversed its provision of $16 million in the third quarter of 2007.

Management cannot predict the outcome of these proceedings. However, management believes its allocations were in accordance with the then-existing FERC-approved allocation agreements and additional off-system sales margins should not be retroactively reallocated. The results of these proceedings could have an adverse effect on future net income and cash flows for AEP Consolidated, the AEP East companies and the AEP West companies.

4. COMMITMENTS, GUARANTEES AND CONTINGENCIES

TCC is subject to certain claims and legal actions arising in its ordinary course of business. In addition, 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 adverse effect on the financial statements. The Commitments, Guarantees and Contingencies note within the 2007 Annual Report should be read in conjunction with this report.

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.

Indemnifications and Other Guarantees

Contracts

TCC 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. Prior to September 30, 2008, TCC entered into sale agreements including indemnifications with a maximum exposure of $13 million related to the sale price of generation assets and ETT. See "Texas Plants – Oklaunion Power Station" and "Electric Transmission Texas LLC (ETT)" sections of Note 7 of the 2007 Annual Report. There are no material liabilities recorded for any indemnifications.

Master Operating Lease

TCC leases certain equipment under a master operating lease. Under the lease agreement, the lessor is guaranteed to receive up to 87% of the unamortized balance of the equipment at the end of the lease term. If the fair market value of the leased equipment is below the unamortized balance at the end of the lease term, TCC has committed to pay the difference between the fair market value and the unamortized balance, with the total guarantee not to exceed 87% of the unamortized balance. Historically, at the end of the lease term the fair market value has been in excess of the unamortized balance. Assuming the fair market value of the equipment is zero at the end of the lease term, the maximum potential loss for these lease agreements was approximately $6 million as of September 30, 2008.

CONTINGENCIES

Carbon Dioxide (CO_2) Public Nuisance Claims

In 2004, eight states and the City of New York filed an action in federal district court for the Southern District of New York against AEP, AEPSC, Cinergy Corp, Xcel Energy, Southern Company and Tennessee Valley Authority. The Natural Resources Defense Council, on behalf of three special interest groups, filed a similar complaint against the same defendants. The actions allege that CO_2 emissions from the defendants' power plants constitute a public nuisance under federal common law due to impacts of global warming, and sought injunctive relief in the form of specific emission reduction commitments from the defendants. The dismissal of this lawsuit was appealed to the Second Circuit Court of Appeals. Briefing and oral argument have concluded. In April 2007, the U.S. Supreme Court issued a decision holding that the Federal EPA has authority to regulate emissions of CO_2 and other greenhouse gases under the CAA, which may impact the Second Circuit's analysis of these issues. The Second Circuit requested supplemental briefs addressing the impact of the U.S. Supreme Court's decision on this case. Management believes the actions are without merit and intends to defend against the claims.

Alaskan Villages' Claims

In February 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 & 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. The defendants filed motions to dismiss the action. The motions are pending before the court. Management believes the action is without merit and intends to defend against the claims.

Claims by the City of Brownsville, Texas Against TCC

In July 2007, the City of Brownsville, Texas filed an original petition in litigation pending in the District Court of Dallas County, Texas. The petition seeks recovery against TCC based on allegations of breach of contract, breach of fiduciary duty, unjust enrichment, constructive trust, conversion, breach of the Texas theft liability act and fraud allegedly occurring in connection with a transaction in which Brownsville purchased TCC's interest in the Oklaunion electric generating station (see Note 5). In October 2007, the court heard various motions for partial summary judgment. No date for a ruling is indicated by the court. Management believes that the claims are without merit and intends to defend against them vigorously.

FERC Long-term Contracts

In 2002, the FERC held a hearing related to a complaint filed by Nevada Power Company and Sierra Pacific Power Company (the Nevada utilities). The complaint sought to break long-term contracts entered during the 2000 and 2001 California energy price spike which the customers alleged were "high-priced." The complaint alleged that TCC and other AEP subsidiaries sold power at unjust and unreasonable prices because the market for power was allegedly dysfunctional at the time such contracts were executed. In 2003, the FERC rejected the complaint. In 2006, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC order and remanded the case to the FERC for further proceedings. That decision was appealed to the U.S. Supreme Court. In June 2008, the U.S. Supreme Court affirmed the validity of contractually-agreed rates except in cases of serious harm to the public. The U.S. Supreme Court affirmed the Ninth Circuit's remand on two issues, market manipulation and excessive burden on consumers. Management is unable to predict the outcome of these proceedings or their impact on future net income and cash flows. Management asserted claims against certain companies that sold power to TCC and other AEP subsidiaries, which was resold to the Nevada utilities, seeking to recover a portion of any amounts that may be owed to the Nevada utilities.

5. DISPOSITION

Texas Plants – Oklaunion Power Station

In February 2007, TCC sold its 7.81% share of Oklaunion Power Station to the Public Utilities Board of the City of Brownsville for $43 million plus capital adjustments. The sale did not have a significant effect on TCC's net income. Management does not expect that the remaining litigation will have a significant impact on future net income. See "Claims by the City of Brownsville, Texas Against TCC" section of Note 4.

6. BENEFIT PLANS

TCC participates in AEP sponsored qualified pension plans and nonqualified pension plans. A substantial majority of employees are covered by either one qualified plan or both a qualified and a nonqualified pension plan. In addition, TCC participates in other postretirement benefit plans sponsored by AEP to provide medical and death benefits for retired employees.

Components of Net Periodic Benefit Cost

The following tables provide the components of AEP's net periodic benefit cost for the plans for the three and nine months ended September 30, 2008 and 2007:

	Pension Plans		Other Postretirement Benefit Plans	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Service Cost	$ 25	$ 24	$ 10	$ 11
Interest Cost	62	59	28	26
Expected Return on Plan Assets	(84)	(85)	(27)	(26)
Amortization of Transition Obligation	-	-	7	6
Amortization of Net Actuarial Loss	10	15	3	3
Net Periodic Benefit Cost	$ 13	$ 13	$ 21	$ 20

	Pension Plans		Other Postretirement Benefit Plans	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Service Cost	$ 75	$ 72	$ 31	$ 32
Interest Cost	187	176	84	78
Expected Return on Plan Assets	(252)	(254)	(83)	(78)
Amortization of Transition Obligation	-	-	21	20
Amortization of Net Actuarial Loss	29	44	8	9
Net Periodic Benefit Cost	$ 39	$ 38	$ 61	$ 61

The following table provides TCC's net periodic benefit cost for the plans for the three and nine months ended September 30, 2008 and 2007:

	Pension Plans		Other Postretirement Benefit Plans	
	2008	2007	2008	2007
	(in thousands)			
Three Months Ended September 30,	$ 208	$ 101	$ 1,540	$ 1,575
Nine Months Ended September 30,	624	303	4,545	4,724

AEP has significant investments in several trust funds to provide for future pension and OPEB payments. All of the trust funds' investments are well-diversified and managed in compliance with all laws and regulations. The value of the investments in these trusts has declined due to the decreases in the equity and fixed income markets. Although the asset values are currently lower, this decline has not affected the funds' ability to make their required payments.

7. BUSINESS SEGMENTS

TCC has one reportable segment, an integrated electricity transmission and distribution business. TCC's other activities are insignificant.

8. INCOME TAXES

TCC adopted FIN 48 as of January 1, 2007. As a result, TCC recognized an increase in the liabilities for unrecognized tax benefits, as well as related interest expense and penalties, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings.

TCC 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.

TCC and other AEP subsidiaries are no longer subject to U.S. federal examination for years before 2000. However, TCC and other AEP subsidiaries have filed refund claims with the IRS for years 1997 through 2000 for the CSW pre-merger tax period, which are currently being reviewed. TCC and other AEP subsidiaries have completed the exam for the years 2001 through 2003 and have issues that are being pursued at the appeals level. The returns for the years 2004 through 2006 are presently under audit by the IRS. Although the outcome of tax audits is uncertain, in management's opinion, adequate provisions for income taxes have been made for potential liabilities resulting from such matters. In addition, TCC 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 have a material adverse effect on net income.

TCC, along with other AEP subsidiaries, files income tax returns in various state and local jurisdictions. These taxing authorities routinely examine the tax returns and TCC and other AEP subsidiaries are currently under examination in several state and local jurisdictions. Management believes that TCC and other AEP subsidiaries have filed tax returns with positions that may be challenged by these tax authorities. However, management does not believe that the ultimate resolution of these audits will materially impact net income. With few exceptions, TCC is no longer subject to state or local income tax examinations by tax authorities for years before 2000.

Federal Tax Legislation

In October 2008, the Emergency Economic Stabilization Act of 2008 (the Act) was signed into law. The Act extended several expiring tax provisions and added new energy incentive provisions. The legislation impacted the availability of research credits, accelerated depreciation of smart meters, production tax credits and energy efficient commercial building deductions. Management has evaluated the impact of the law change and the application of the law change will not materially impact net income, cash flows or financial condition.

9. FINANCING ACTIVITIES

Long-term Debt

Long-term debt and other securities issued, retired and principal payments made during the first nine months of 2008 were:

	Type of Debt	Principal Amount (in thousands)	Interest Rate	Due Date
Issuances:	Pollution Control Bonds	$ 40,890	5.625%	2017
	Pollution Control Bonds	120,265	5.125%	2030

	Type of Debt	Principal Amount Paid (in thousands)	Interest Rate	Due Date
Retirements and Principal Payments:	First Mortgage Bonds	$ 18,581	7.125%	2008
	Securitization Bonds	28,920	5.01%	2008
	Securitization Bonds	74,731	4.98%	2010
	Securitization Bonds	21,188	5.56%	2010
	Pollution Control Bonds	40,890	Variable	2015
	Pollution Control Bonds	60,000	Variable	2028
	Pollution Control Bonds	60,265	Variable	2028

In the first quarter of 2008, TCC had $161 million of tax-exempt long-term debt (Pollution Control Bonds) sold at auction rates that reset every 7 or 35 days. This debt is insured by Financial Guaranty Insurance Co., which was previously AAA-rated. Due to the exposure that this bond insurer had in connection with recent developments in the subprime credit market, the credit rating of this insurer was downgraded or placed on negative outlook. These market factors contributed to higher interest rates in successful auctions and increasing occurrences of failed auctions, including auctions of TCC's tax-exempt long-term debt. The instruments under which the bonds are issued allow for conversion to other short-term variable-rate structures, term-put structures and fixed-rate structures. As of September 30, 2008, all $161 million of the prior auction rate debt was issued at fixed rates ranging from 5.125% to 5.625%.

Lines of Credit

The AEP System uses a corporate borrowing program to meet the short-term borrowing needs of its subsidiaries. The corporate borrowing program includes a Utility Money Pool, which funds the utility subsidiaries. The AEP System corporate borrowing program operates in accordance with the terms and conditions approved in a regulatory order. The amount of outstanding loans to/borrowings from the Utility Money Pool as of September 30, 2008 and December 31, 2007 are included in Advances to/from Affiliates on TCC's balance sheets. TCC's Utility Money Pool activity and corresponding authorized borrowing limit for the nine months ended September 30, 2008 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	Borrowings from Utility Money Pool as of September 30, 2008	Authorized Short-Term Borrowing Limit
(in thousands)					
$ 55,454	$ 183,166	$ 29,173	$ 80,300	$ 54,728	$ 200,000

Maximum, minimum and average interest rates for funds either borrowed from or loaned to the Utility Money Pool for the nine months ended September 30, 2008 and 2007 are summarized in the following table:

	Maximum Interest Rates for Funds Borrowed from the Utility Money Pool	Minimum Interest Rates for Funds Borrowed from the Utility Money Pool	Maximum Interest Rates for Funds Loaned to the Utility Money Pool	Minimum Interest Rates 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
2008	4.00%	2.91%	5.37%	2.91%	3.12%	4.09%
2007	-%	-%	5.94%	5.30%	-%	5.42%

Credit Facilities

In April 2008, TCC and certain other companies in the AEP System entered into a $650 million 3-year credit agreement and a $350 million 364-day credit agreement which were reduced by Lehman Brothers Holdings Inc.'s commitment amount of $23 million and $12 million, respectively, following its bankruptcy. Under the facilities, letters of credit may be issued. As of September 30, 2008, there were no outstanding amounts for TCC under either facility.