AEP Generating Company

2015 First 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 or Parent	American Electric Power Company, Inc., an electric utility holding company.
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.
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 Months Ended March 31, 2015 and 2014
(in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2015	**2014**
REVENUES		
Sales to AEP Affiliates	$ 142,867	$ 168,999
Other Revenues – Affiliated	4,578	7,115
Other Revenues – Nonaffiliated	1,547	1,307
TOTAL REVENUES	148,992	177,421
EXPENSES		
Fuel and Other Consumables Used for Electric Generation	85,287	110,219
Rent – Rockport Plant, Unit 2	17,071	17,071
Other Operation	13,233	15,891
Maintenance	8,100	6,916
Depreciation and Amortization	10,581	10,487
Taxes Other Than Income Taxes	1,226	1,276
TOTAL EXPENSES	135,498	161,860
OPERATING INCOME	13,494	15,561
Other Income (Expense):		
Interest Income	—	2
Allowance for Equity Funds Used During Construction	540	6
Interest Expense	(2,916)	(3,257)
INCOME BEFORE INCOME TAX EXPENSE	11,118	12,312
Income Tax Expense	4,045	4,587
NET INCOME	$ 7,073	$ 7,725

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

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

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY
For the Three Months Ended March 31, 2015 and 2014
(in thousands)
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Total
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2013	$ 1,000	$ 260,487	$ 7,527	$ 269,014
Common Stock Dividends			(5,000)	(5,000)
Net Income			7,725	7,725
TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2014	$ 1,000	$ 260,487	$ 10,252	$ 271,739
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2014	$ 1,000	$ 260,487	$ 10,076	$ 271,563
Common Stock Dividends			(11,500)	(11,500)
Net Income			7,073	7,073
TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2015	$ 1,000	$ 260,487	$ 5,649	$ 267,136

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

AEP GENERATING COMPANY
CONDENSED BALANCE SHEETS
ASSETS
March 31, 2015 and December 31, 2014
(in thousands)
(Unaudited)

	March 31, 2015	December 31, 2014
CURRENT ASSETS		
Accounts Receivable:		
Customers	$ 3,917	$ 2,052
Affiliated Companies	46,153	45,122
Miscellaneous	7	540
Total Accounts Receivable	50,077	47,714
Fuel	38,531	35,007
Materials and Supplies	24,559	23,786
Prepayments and Other Current Assets	3,873	2,034
TOTAL CURRENT ASSETS	117,040	108,541
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	1,542,935	1,537,842
Transmission	9,688	9,688
Other Property, Plant and Equipment	38,852	38,760
Construction Work in Progress	128,996	116,698
Total Property, Plant and Equipment	1,720,471	1,702,988
Accumulated Depreciation and Amortization	1,031,265	1,021,688
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	689,206	681,300
OTHER NONCURRENT ASSETS		
Regulatory Assets	51,985	63,276
Deferred Charges and Other Noncurrent Assets	6,001	2,447
TOTAL OTHER NONCURRENT ASSETS	57,986	65,723
TOTAL ASSETS	$ 864,232	$ 855,564

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

AEP GENERATING COMPANY
CONDENSED BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY
March 31, 2015 and December 31, 2014
(Unaudited)

	March 31, 2015	December 31, 2014
CURRENT LIABILITIES	(in thousands)	
Advances from Affiliates	$ 38,771	$ 31,161
Accounts Payable:		
General	21,368	11,430
Affiliated Companies	25,765	30,215
Long-term Debt Due Within One Year – Nonaffiliated	52,273	52,273
Accrued Taxes	22,367	18,097
Accrued Rent – Rockport Plant, Unit 2	23,427	4,963
Other Current Liabilities	3,013	6,946
TOTAL CURRENT LIABILITIES	186,984	155,085
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	156,364	160,000
Deferred Income Taxes	85,761	81,643
Regulatory Liabilities and Deferred Investment Tax Credits	43,148	44,717
Deferred Gain on Sale-and-Leaseback – Rockport Plant, Unit 2	42,802	44,195
UMWA Pension Withdrawal Liability	30,574	40,186
Deferred Credits and Other Noncurrent Liabilities	51,463	58,175
TOTAL NONCURRENT LIABILITIES	410,112	428,916
TOTAL LIABILITIES	597,096	584,001
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	260,487	260,487
Retained Earnings	5,649	10,076
TOTAL COMMON SHAREHOLDER’S EQUITY	267,136	271,563
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	$ 864,232	$ 855,564

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

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2015 and 2014
(in thousands)
(Unaudited)

	Three Months Ended March 31, 2015	2014
OPERATING ACTIVITIES		
Net Income	$ 7,073	$ 7,725
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	10,581	10,487
Deferred Income Taxes	5,020	(162)
Amortization of Deferred Gain on Sale-and-Leaseback – Rockport Plant, Unit 2	(1,393)	(1,393)
Allowance for Equity Funds Used During Construction	(540)	(6)
Change in Other Noncurrent Assets	(3,866)	(3,322)
Change in Other Noncurrent Liabilities	(6,665)	1,034
Changes in Certain Components of Working Capital:		
Accounts Receivable	(2,363)	(10,006)
Fuel, Materials and Supplies	(4,297)	(1,656)
Accounts Payable	5,363	21,669
Accrued Taxes, Net	4,270	10,209
Accrued Rent – Rockport Plant, Unit 2	18,464	18,464
Other Current Assets	(1,718)	(1,423)
Other Current Liabilities	(3,999)	(1,723)
Net Cash Flows from Operating Activities	25,930	49,897
INVESTING ACTIVITIES		
Construction Expenditures	(18,151)	(15,950)
Net Cash Flows Used for Investing Activities	(18,151)	(15,950)
FINANCING ACTIVITIES		
Change in Advances from Affiliates, Net	7,610	(25,084)
Retirement of Long-term Debt – Nonaffiliated	(3,636)	(3,637)
Principal Payments for Capital Lease Obligations	(253)	(226)
Dividends Paid on Common Stock	(11,500)	(5,000)
Net Cash Flows Used for Financing Activities	(7,779)	(33,947)
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	$ 5,367	$ 5,813
Net Cash Paid for Income Taxes	116	—
Noncash Acquisitions Under Capital Leases	5	620
Construction Expenditures Included in Current Liabilities as of March 31,	234	79

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

INDEX OF CONDENSED NOTES TO CONDENSED FINANCIAL STATEMENTS

1. <u>SIGNIFICANT ACCOUNTING MATTERS</u>

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 months ended March 31, 2015 is not necessarily indicative of results that may be expected for the year ending December 31, 2015. The condensed financial statements are unaudited and should be read in conjunction with the audited 2014 financial statements and notes thereto, which are included in AEGCo's 2014 Annual Report.

Management reviewed subsequent events through April 23, 2015, the date that the first quarter 2015 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 2014-08 "Presentation of Financial Statements and Property, Plant and Equipment" (ASU 2014-08)

In April 2014, the FASB issued ASU 2014-08 changing the presentation of discontinued operations on the statements of income and other requirements for reporting discontinued operations. Under the new standard, a disposal of a component or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the component meets the criteria to be classified as held-for-sale or is disposed. The amendments in this update also require additional disclosures about discontinued operations and disposal of an individually significant component of an entity that does not qualify for discontinued operations. This standard must be prospectively applied to all reporting periods presented in financial reports issued after the effective date.

The new accounting guidance is effective for interim and annual periods beginning after December 15, 2014. If applicable, this standard will change the presentation of financial statements but will not affect the calculation of net income, comprehensive income or earnings per share. Management adopted ASU 2014-08 effective January 1, 2015. There were no events requiring the application of this new accounting guidance.

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, 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 new accounting guidance is effective for interim and annual periods beginning after December 15, 2016. Early adoption is not permitted. As applicable, this standard may change the amount of revenue recognized in the income statements in each reporting period. Management is analyzing the impact of this new standard and, at this time, cannot estimate the impact of adoption on revenue or net income. Management plans to adopt ASU 2014-09 effective January 1, 2017.

ASU 2015-01 "Income Statement – Extraordinary and Unusual Items" (ASU 2015-01)

In January 2015, the FASB issued ASU 2015-01 eliminating the concept of extraordinary items for presentation on the face of the income statement. Under the new standard, a material event or transaction that is unusual in nature, infrequent or both shall be reported as a separate component of income from continuing operations. Alternatively, it may be disclosed in the notes to financial statements.

The new accounting guidance is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted if applied from the beginning of a fiscal year. As applicable, this standard may change the presentation of amounts in the income statements. Management plans to adopt ASU 2015-01 effective January 1, 2016.

ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs" (ASU 2015-03)

In April 2015, the FASB issued ASU 2015-03 to simplify the presentation of debt issuance costs on the balance sheets. Under the new standard, debt issuance costs related to a recognized debt liability will be presented on the balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with discounts. AEGCo includes debt issuance costs in Deferred Charges and Other Noncurrent Assets on the balance sheets. Debt issuance costs represent less than 1% of total long-term debt.

The new accounting guidance is effective for interim and annual periods beginning after December 15, 2015 with early adoption permitted. Management intends to early adopt ASU 2015-03 for the 2015 Annual Report.

ASU 2015-05 "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement" (ASU 2015-05)

In April 2015, the FASB issued ASU 2015-05 to provide guidance to customers about whether a cloud computing arrangement includes a software license. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2015 with early adoption permitted. 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 2015-05 effective January 1, 2016.

3. COMMITMENTS, GUARANTEES AND CONTINGENCIES

AEGCo is subject to certain claims and legal actions arising in its ordinary course of business. In addition, AEGCo's business activities are subject to extensive governmental regulation related to public health and the environment. The ultimate outcome of such pending or potential litigation cannot be predicted. For current proceedings not specifically discussed below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on the financial statements. The Commitments, Guarantees and Contingencies note within AEGCo's 2014 Annual Report should be read in conjunction with this report.

GUARANTEES

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

Letters of Credit

AEGCo has $45 million of variable rate Pollution Control Bonds supported by bilateral letters of credit for $46 million. The letters of credit mature in July 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 March 31, 2015, 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 March 31, 2015, the maximum potential loss for these lease agreements was $14 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 New Source Review 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 the 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 plaintiffs' claims. Several claims remain, including the claim for breach of the participation agreement and a claim alleging breach of an implied covenant of good faith and fair dealing. Management will continue to defend against the remaining claims. Management is unable to determine a range of potential losses that are reasonably possible of occurring.

4. 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 table provides the components of AEGCo's net periodic benefit cost for the plans for the three months ended March 31, 2015 and 2014:

	Pension Plan		Other Postretirement Benefit Plans	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2015	2014	2015	2014
	(in thousands)			
Service Cost	$ 26	$ 20	$ 358	$ 315
Interest Cost	39	44	490	535
Expected Return on Plan Assets	(58)	(55)	(400)	(393)
Amortization of Prior Service Credit	—	—	(17)	(17)
Amortization of Net Actuarial Loss	20	24	227	281
Net Periodic Benefit Cost	$ 27	$ 33	$ 658	$ 721

5. BUSINESS SEGMENTS

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

6. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy and Valuation Techniques

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

Fair Value Measurements of Long-term Debt

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

The book values and fair values of AEGCo’s Long-term Debt as of March 31, 2015 and December 31, 2014 are summarized in the following table:

	March 31, 2015		December 31, 2014	
	Book Value	Fair Value	Book Value	Fair Value
	(in thousands)			
Long-term Debt	$ 208,637	$ 266,878	$ 212,273	$ 261,598

7. 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. 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.

8. FINANCING ACTIVITIES

Long-term Debt

Long-term debt principal payments made during the first three months of 2015 are shown in the table below:

Type of Debt	Principal Amount Paid (a)	Interest Rate	Due Date	
	(in thousands)	(%)		
Senior Unsecured Notes	$ 3,636	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." The term "capital account" is not defined in the Federal Power Act or its regulations. Management understands "capital account" to mean the book value of the common stock. This restriction does not limit the ability of AEGCo to pay dividends out of retained earnings.

Leverage Restrictions

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

Utility Money Pool – AEP System

The AEP System uses a corporate borrowing program to meet the short-term borrowing needs of 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 March 31, 2015 and December 31, 2014 are included in Advances from Affiliates on AEGCo's condensed balance sheets. AEGCo's Utility Money Pool activity and corresponding authorized borrowing limits for the three months ended March 31, 2015 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 March 31, 2015	Authorized Short-Term Borrowing Limit
		(in thousands)			
$ 56,676	$ —	$ 26,352	$ —	$ 38,771	$ 200,000

Maximum, minimum and average interest rates for funds either borrowed from or loaned to the Utility Money Pool for the three months ended March 31, 2015 and 2014 are summarized in the following table:

Three Months Ended March 31,	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
2015	0.59%	0.39%	—%	—%	0.46%	—%
2014	0.33%	0.28%	0.33%	0.28%	0.30%	0.32%

9. VARIABLE INTEREST ENTITIES

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

AEPSC provides certain managerial and professional services to AEP's subsidiaries. AEP is the sole equity owner of AEPSC. AEP management controls the activities of AEPSC. The costs of the services are based on a direct charge or on a prorated basis and billed to the AEP subsidiary companies at AEPSC's cost. AEP subsidiaries have not provided financial or other support outside the reimbursement of costs for services rendered. AEPSC finances its operations through cost reimbursement from other AEP subsidiaries. There are no other terms or arrangements between AEPSC and any of the AEP subsidiaries that could require additional financial support from an AEP subsidiary or expose them to losses outside of the normal course of business. AEPSC and its billings are subject to regulation by the FERC. AEP subsidiaries are exposed to losses to the extent they cannot recover the costs of AEPSC through their normal business operations. AEP subsidiaries are considered to have a significant interest in AEPSC due to their activity in AEPSC's cost reimbursement structure. However, AEP subsidiaries do not have control over AEPSC. AEPSC is consolidated by AEP. In the event AEPSC would require financing or other support outside the cost reimbursement billings, this financing would be provided by AEP. AEGCo's total billings from AEPSC for the three months ended March 31, 2015 and 2014 were $2 million and $3 million, respectively. The carrying amount of liabilities associated with AEPSC as of March 31, 2015 and December 31, 2014 was $1 million and $1 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

10. PROPERTY, PLANT AND EQUIPMENT

Coal Combustion Residual Rule

In 2010, the Federal EPA published a proposed rule to regulate the disposal and beneficial re-use of coal combustion residuals, including fly ash and bottom ash generated at coal-fired electric generating units and also flue gas desulfurization gypsum generated at some coal-fired plants. The final rule was published in the Federal Register in April 2015 and becomes effective six months after publication. Management is in the process of evaluating the impact of this rule and has not yet determined an estimate of the expected increase in asset retirement obligations. Upon completion of the evaluation, management expects to record an increase in asset retirement obligations in the second quarter of 2015 due to this publication.