AEP Texas North Company and Subsidiary

2016 Third Quarter Report

Consolidated Financial Statements

TABLE OF CONTENTS

	Page Number
Glossary of Terms	1
Condensed Consolidated Statements of Income – Unaudited	2
Condensed Consolidated Statements of Comprehensive Income (Loss) – Unaudited	3
Condensed Consolidated Statements of Changes in Common Shareholder’s Equity – Unaudited	4
Condensed Consolidated Balance Sheets – Unaudited	5
Condensed Consolidated Statements of Cash Flows – Unaudited	7
Index of Condensed Notes to Condensed Consolidated Financial Statements – Unaudited	8

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	American Electric Power Company, Inc., an investor-owned electric public utility holding company which includes American Electric Power Company, Inc. (Parent) and majority owned consolidated subsidiaries and consolidated affiliates.
AEP System	American Electric Power System, an electric system, owned and operated by AEP subsidiaries.
AEPSC	American Electric Power Service Corporation, an AEP service subsidiary providing management and professional services to AEP and its subsidiaries.
AOCI	Accumulated Other Comprehensive Income.
ASU	Accounting Standards Update.
FASB	Financial Accounting Standards Board.
FERC	Federal Energy Regulatory Commission.
FTR	Financial Transmission Right, a financial instrument that entitles the holder to receive compensation for certain congestion-related transmission charges that arise when the power grid is congested resulting in differences in locational prices.
GAAP	Accounting Principles Generally Accepted in the United States of America.
IRS	Internal Revenue Service.
MTM	Mark-to-Market.
Nonutility Money Pool	Centralized funding mechanism AEP uses to meet the short-term cash requirements of certain nonutility subsidiaries.
OPEB	Other Postretirement Benefit Plans.
OTC	Over the counter.
Parent	American Electric Power Company, Inc., the equity owner of AEP subsidiaries within the AEP consolidation.
PUCT	Public Utility Commission of Texas.
Risk Management Contracts	Trading and nontrading derivatives, including those derivatives designated as cash flow and fair value hedges.
TCC	AEP Texas Central Company, an AEP electric utility subsidiary.
TNC	AEP Texas North Company, an AEP electric utility subsidiary.
Utility Money Pool	Centralized funding mechanism AEP uses to meet the short-term cash requirements of certain utility subsidiaries.
VIE	Variable Interest Entity.

AEP TEXAS NORTH COMPANY AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three and Nine Months Ended September 30, 2016 and 2015
(in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
REVENUES				
Electric Transmission and Distribution	$ 64,699	$ 63,391	$ 176,709	$ 174,664
Sales to AEP Affiliates	25,327	21,008	59,901	63,075
Other Revenues	192	73	765	679
TOTAL REVENUES	90,218	84,472	237,375	238,418
EXPENSES				
Fuel and Other Consumables Used for Electric Generation	14,216	9,257	24,747	25,246
Other Operation	26,983	28,580	74,744	75,522
Maintenance	5,239	7,877	17,474	25,145
Depreciation and Amortization	16,443	16,002	46,170	46,102
Taxes Other Than Income Taxes	5,143	5,077	14,593	14,544
TOTAL EXPENSES	68,024	66,793	177,728	186,559
OPERATING INCOME	22,194	17,679	59,647	51,859
Other Income (Expense):				
Other Income	463	58	1,950	147
Interest Expense	(6,097)	(4,956)	(17,818)	(14,768)
INCOME BEFORE INCOME TAX EXPENSE	16,560	12,781	43,779	37,238
Income Tax Expense	5,163	3,073	13,033	11,520
NET INCOME	$ 11,397	$ 9,708	$ 30,746	$ 25,718

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

See Condensed Notes to Condensed Consolidated Financial Statements beginning on page 8.

AEP TEXAS NORTH COMPANY AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Three and Nine Months Ended September 30, 2016 and 2015
(in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Net Income	$ 11,397	$ 9,708	$ 30,746	$ 25,718
OTHER COMPREHENSIVE INCOME, NET OF TAXES				
Cash Flow Hedges, Net of Tax of $117 and $117 for the Three Months Ended September 30, 2016 and 2015, Respectively, and $351 and $351 for the Nine Months Ended September 30, 2016 and 2015, Respectively	217	217	651	651
Amortization of Pension and OPEB Deferred Costs, Net of Tax of $37 and $40 for the Three Months Ended September 30, 2016 and 2015, Respectively, and $109 and $122 for the Nine Months Ended September 30, 2016 and 2015, Respectively	67	75	202	227
TOTAL OTHER COMPREHENSIVE INCOME	284	292	853	878
TOTAL COMPREHENSIVE INCOME	$ 11,681	$ 10,000	$ 31,599	$ 26,596

See Condensed Notes to Condensed Consolidated Financial Statements beginning on page 8.

AEP TEXAS NORTH COMPANY AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY
For the Nine Months Ended September 30, 2016 and 2015
(in thousands)
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2014	$ 137,214	$ 3,276	$ 249,195	$ (17,595)	$ 372,090
Capital Contribution from Parent		25,000			25,000
Common Stock Dividends			(18,000)		(18,000)
Net Income			25,718		25,718
Other Comprehensive Income				878	878
TOTAL COMMON SHAREHOLDER'S EQUITY – SEPTEMBER 30, 2015	$ 137,214	$ 28,276	$ 256,913	$ (16,717)	$ 405,686
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2015	$ 137,214	$ 28,276	$ 251,459	$ (16,276)	$ 400,673
Common Stock Dividends			(18,000)		(18,000)
Net Income			30,746		30,746
Other Comprehensive Income				853	853
TOTAL COMMON SHAREHOLDER'S EQUITY – SEPTEMBER 30, 2016	$ 137,214	$ 28,276	$ 264,205	$ (15,423)	$ 414,272

See Condensed Notes to Condensed Consolidated Financial Statements beginning on page 8.

AEP TEXAS NORTH COMPANY AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
ASSETS
September 30, 2016 and December 31, 2015
(in thousands)
(Unaudited)

	September 30, 2016	December 31, 2015
CURRENT ASSETS		
Advances to Affiliates	$ 8,641	$ 23,112
Accounts Receivable:		
Customers	16,136	13,265
Affiliated Companies	15,311	6,693
Accrued Unbilled Revenues	9,539	8,472
Miscellaneous	567	916
Allowance for Uncollectible Accounts	(851)	(355)
Total Accounts Receivable	40,702	28,991
Fuel	6,493	10,205
Materials and Supplies	12,957	14,184
Risk Management Assets	10	—
Accrued Tax Benefits	35,137	6,240
Prepayments and Other Current Assets	1,089	961
TOTAL CURRENT ASSETS	105,029	83,693
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	349,574	342,542
Transmission	687,387	630,759
Distribution	806,221	776,057
Other Property, Plant and Equipment	111,163	101,012
Construction Work in Progress	93,759	78,308
Total Property, Plant and Equipment	2,048,104	1,928,678
Accumulated Depreciation and Amortization	614,382	591,910
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	1,433,722	1,336,768
OTHER NONCURRENT ASSETS		
Regulatory Assets	60,184	55,730
Long-term Risk Management Assets	6	—
Deferred Charges and Other Noncurrent Assets	13,406	37,300
TOTAL OTHER NONCURRENT ASSETS	73,596	93,030
TOTAL ASSETS	$ 1,612,347	$ 1,513,491

See Condensed Notes to Condensed Consolidated Financial Statements beginning on page 8.

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

	September 30, 2016	December 31, 2015
	(in thousands)	
CURRENT LIABILITIES		
Advances from Affiliates	$ 46,938	$ —
Accounts Payable:		
General	26,415	27,402
Affiliated Companies	12,926	11,277
Long-term Debt Due Within One Year – Nonaffiliated	7	75,007
Risk Management Liabilities	—	111
Accrued Taxes	17,420	15,269
Accrued Interest	5,614	5,281
Other Current Liabilities	10,884	14,189
TOTAL CURRENT LIABILITIES	120,204	148,536
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	543,135	468,158
Deferred Income Taxes	231,212	205,617
Regulatory Liabilities and Deferred Investment Tax Credits	202,932	193,127
Oklaunion Purchase Power Agreement	51,207	50,217
Deferred Credits and Other Noncurrent Liabilities	49,385	47,163
TOTAL NONCURRENT LIABILITIES	1,077,871	964,282
TOTAL LIABILITIES	1,198,075	1,112,818
Rate Matters (Note 4)		
Commitments and Contingencies (Note 5)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – Par Value – $25 Per Share:		
Authorized – 7,800,000 Shares		
Outstanding – 5,488,560 Shares	137,214	137,214
Paid-in Capital	28,276	28,276
Retained Earnings	264,205	251,459
Accumulated Other Comprehensive Income (Loss)	(15,423)	(16,276)
TOTAL COMMON SHAREHOLDER'S EQUITY	414,272	400,673
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	$ 1,612,347	$ 1,513,491

See Condensed Notes to Condensed Consolidated Financial Statements beginning on page 8.

AEP TEXAS NORTH COMPANY AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2016 and 2015
(in thousands)
(Unaudited)

	Nine Months Ended September 30, 2016	2015
OPERATING ACTIVITIES		
Net Income	$ 30,746	$ 25,718
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	46,170	46,102
Deferred Income Taxes	23,828	5,645
Allowance for Equity Funds Used During Construction	(1,173)	5
Property Taxes	(3,527)	(3,401)
Change in Other Noncurrent Assets	(7,691)	(2,161)
Change in Other Noncurrent Liabilities	1,749	6,226
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	(11,711)	(1,863)
Fuel, Materials and Supplies	4,939	(2,895)
Accounts Payable	562	2,207
Accrued Taxes, Net	4,583	3,829
Other Current Assets	(597)	(135)
Other Current Liabilities	(2,840)	606
Net Cash Flows from Operating Activities	85,038	79,883
INVESTING ACTIVITIES		
Construction Expenditures	(130,862)	(109,008)
Change in Advances to Affiliates, Net	14,471	437
Proceeds from Sales of Assets	2,815	2,011
Other Investing Activities	274	821
Net Cash Flows Used for Investing Activities	(113,302)	(105,739)
FINANCING ACTIVITIES		
Capital Contribution from Parent	—	25,000
Issuance of Long-term Debt – Nonaffiliated	74,706	74,377
Change in Advances from Affiliates, Net	46,938	(55,098)
Retirement of Long-term Debt – Nonaffiliated	(75,005)	(5)
Principal Payments for Capital Lease Obligations	(765)	(578)
Dividends Paid on Common Stock	(18,000)	(18,000)
Other Financing Activities	390	160
Net Cash Flows from Financing Activities	28,264	25,856
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	$ 16,023	$ 12,847
Net Cash Paid (Received) for Income Taxes	(11,047)	5,517
Noncash Acquisitions Under Capital Leases	2,738	731
Construction Expenditures Included in Current Liabilities as of September 30,	19,948	11,103

See Condensed Notes to Condensed Consolidated Financial Statements beginning on page 8.

INDEX OF CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Page Number
Significant Accounting Matters	9
New Accounting Pronouncements	10
Comprehensive Income	12
Rate Matters	14
Commitments, Guarantees and Contingencies	15
Benefit Plans	16
Business Segments	17
Derivatives and Hedging	18
Fair Value Measurements	21
Income Taxes	23
Financing Activities	24
Variable Interest Entities	26
Property, Plant and Equipment	27

1. SIGNIFICANT ACCOUNTING MATTERS

General

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

Investment Tax Credits

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

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

Subsequent Events

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

2. NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

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

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

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

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

ASU 2016-02 “Accounting for Leases” (ASU 2016-02)

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

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

ASU 2016-09 “Compensation – Stock Compensation” (ASU 2016-09)

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

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

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

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

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

3. COMPREHENSIVE INCOME

Presentation of Comprehensive Income

The following tables provide the components of changes in AOCI and details of reclassifications from AOCI for the three and nine months ended September 30, 2016 and 2015. The amortization of pension and OPEB AOCI components are included in the computation of net periodic pension and OPEB costs. See Note 6 for additional details.

Changes in Accumulated Other Comprehensive Income (Loss) by Component
For the Three Months Ended September 30, 2016

	Cash Flow Hedges		
	Interest Rate and Foreign Currency	Pension and OPEB	Total
	(in thousands)		
Balance in AOCI as of June 30, 2016	$ (5,795)	$ (9,912)	$ (15,707)
Change in Fair Value Recognized in AOCI	—	—	—
Amount of (Gain) Loss Reclassified from AOCI			
Interest Expense	335	—	335
Amortization of Prior Service Cost (Credit)	—	(17)	(17)
Amortization of Actuarial (Gains)/Losses	—	120	120
Reclassifications from AOCI, before Income Tax (Expense) Credit	335	103	438
Income Tax (Expense) Credit	118	36	154
Reclassifications from AOCI, Net of Income Tax (Expense) Credit	217	67	284
Net Current Period Other Comprehensive Income	217	67	284
Balance in AOCI as of September 30, 2016	$ (5,578)	$ (9,845)	$ (15,423)

Changes in Accumulated Other Comprehensive Income (Loss) by Component
For the Three Months Ended September 30, 2015

	Cash Flow Hedges		
	Interest Rate and Foreign Currency	Pension and OPEB	Total
	(in thousands)		
Balance in AOCI as of June 30, 2015	$ (6,663)	$ (10,346)	$ (17,009)
Change in Fair Value Recognized in AOCI	—	—	—
Amount of (Gain) Loss Reclassified from AOCI			
Interest Expense	334	—	334
Amortization of Prior Service Cost (Credit)	—	(18)	(18)
Amortization of Actuarial (Gains)/Losses	—	133	133
Reclassifications from AOCI, before Income Tax (Expense) Credit	334	115	449
Income Tax (Expense) Credit	117	40	157
Reclassifications from AOCI, Net of Income Tax (Expense) Credit	217	75	292
Net Current Period Other Comprehensive Income	217	75	292
Balance in AOCI as of September 30, 2015	$ (6,446)	$ (10,271)	$ (16,717)

Changes in Accumulated Other Comprehensive Income (Loss) by Component
For the Nine Months Ended September 30, 2016

	Cash Flow Hedges		
	Interest Rate and Foreign Currency	Pension and OPEB	Total
	(in thousands)		
Balance in AOCI as of December 31, 2015	$ (6,229)	$ (10,047)	$ (16,276)
Change in Fair Value Recognized in AOCI	—	—	—
Amount of (Gain) Loss Reclassified from AOCI			
Interest Expense	1,003	—	1,003
Amortization of Prior Service Cost (Credit)	—	(50)	(50)
Amortization of Actuarial (Gains)/Losses	—	360	360
Reclassifications from AOCI, before Income Tax (Expense) Credit	1,003	310	1,313
Income Tax (Expense) Credit	352	108	460
Reclassifications from AOCI, Net of Income Tax (Expense) Credit	651	202	853
Net Current Period Other Comprehensive Income	651	202	853
Balance in AOCI as of September 30, 2016	$ (5,578)	$ (9,845)	$ (15,423)

Changes in Accumulated Other Comprehensive Income (Loss) by Component
For the Nine Months Ended September 30, 2015

	Cash Flow Hedges		
	Interest Rate and Foreign Currency	Pension and OPEB	Total
	(in thousands)		
Balance in AOCI as of December 31, 2014	$ (7,097)	$ (10,498)	$ (17,595)
Change in Fair Value Recognized in AOCI	—	—	—
Amount of (Gain) Loss Reclassified from AOCI			
Interest Expense	1,002	—	1,002
Amortization of Prior Service Cost (Credit)	—	(51)	(51)
Amortization of Actuarial (Gains)/Losses	—	400	400
Reclassifications from AOCI, before Income Tax (Expense) Credit	1,002	349	1,351
Income Tax (Expense) Credit	351	122	473
Reclassifications from AOCI, Net of Income Tax (Expense) Credit	651	227	878
Net Current Period Other Comprehensive Income	651	227	878
Balance in AOCI as of September 30, 2015	$ (6,446)	$ (10,271)	$ (16,717)

4. RATE MATTERS

As discussed in TNC's 2015 Annual Report, TNC is involved in rate and regulatory proceedings at the FERC and the PUCT. The Effects of Regulation note within TNC's 2015 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 2016 and updates TNC's 2015 Annual Report.

Regulatory Assets Pending Final Regulatory Approval

Noncurrent Regulatory Assets	September 30, 2016	December 31, 2015
	(in thousands)	
Regulatory Assets Currently Not Earning a Return		
Rate Case Expenses	$ 3	$ 3
Total Regulatory Assets Pending Final Regulatory Approval	$ 3	$ 3

If these costs are ultimately determined not to be recoverable, it could reduce future net income and cash flows and impact financial condition.

Distribution Cost Recovery Factor (DCRF)

In July 2016, the PUCT approved a settlement agreement between TNC and intervenors related to TNC's request for a DCRF rider to allow recovery of eligible net distribution investments. The settlement agreement included an annual revenue requirement of $11 million, effective September 2016. Amounts approved are subject to refund based upon a prudence review of the investments in TNC's next base rate case.

TCC and TNC Merger

In June 2016, TCC and TNC filed applications with the PUCT and FERC that requested approval to merge TCC and TNC into AEP Utilities, Inc. Upon merger, AEP Utilities, Inc. will change its name to AEP Texas Inc. The proposed merger would be effective December 31, 2016. The applications proposed no changes to current TCC and TNC rates. A hearing at the PUCT was held in August 2016. In September 2016, the FERC issued an order approving the merger application. In October 2016, the ALJ issued a proposal for decision that recommends approval of the merger provided certain post-merger conditions are imposed. The conditions recommended by the ALJ include a) the sharing of certain interest rate savings with customers and b) an annual credit to customers of approximately $630 thousand for savings resulting from an expected reduction in post-merger debt issuance costs, effective until the next base rate case. A decision from the PUCT is expected in the fourth quarter of 2016.

5. COMMITMENTS, GUARANTEES AND CONTINGENCIES

TNC is subject to certain claims and legal actions arising in its ordinary course of business. In addition, TNC's business activities are subject to extensive governmental regulation related to public health and the environment. The ultimate outcome of such pending or potential litigation against TNC cannot be predicted. Management accrues contingent liabilities only when management concludes that it is both probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. When management determines that it is not probable, but rather reasonably possible that a liability has been incurred at the date of the financial statements, management discloses such contingencies and the possible loss or range of loss if such estimate can be made. Any estimated range is based on currently available information and involves elements of judgment and significant uncertainties. Any estimated range of possible loss may not represent the maximum possible loss exposure. Circumstances change over time and actual results may vary significantly from estimates.

For current proceedings not specifically discussed below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on the financial statements. The Commitments, Guarantees and Contingencies note within TNC's 2015 Annual Report should be read in conjunction with this report.

GUARANTEES

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

Indemnifications and Other Guarantees

Contracts

TNC enters into certain types of contracts which require indemnifications. Typically these contracts include, but are not limited to, sale agreements, lease agreements, purchase agreements and financing agreements. Generally, these agreements may include, but are not limited to, indemnifications around certain tax, contractual and environmental matters. With respect to sale agreements, exposure generally does not exceed the sale price. As of September 30, 2016, there were no material liabilities recorded for any indemnifications.

Master Lease Agreements

TNC 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, TNC is committed to pay the difference between the actual fair value and the residual value guarantee. Historically, at the end of the lease term the fair value has been in excess of the unamortized balance. As of September 30, 2016, the maximum potential loss for these lease agreements was $2.7 million assuming the fair value of the equipment is zero at the end of the lease term.

6. BENEFIT PLANS

TNC participates in an AEP sponsored qualified pension plan and an unfunded nonqualified pension plan. Substantially all of TNC's employees are covered by the qualified plan or both the qualified and nonqualified pension plans. TNC also participates in OPEB plans sponsored by AEP to provide health and life insurance benefits for retired employees.

Components of Net Periodic Benefit Cost

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

	Pension Plans		Other Postretirement Benefit Plans	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Service Cost	$ 453	$ 461	$ 42	$ 47
Interest Cost	1,078	1,020	347	316
Expected Return on Plan Assets	(1,460)	(1,457)	(638)	(657)
Amortization of Prior Service Cost (Credit)	22	23	(394)	(394)
Amortization of Net Actuarial Loss	431	538	185	100
Net Periodic Benefit Cost (Credit)	$ 524	$ 585	$ (458)	$ (588)

	Pension Plans		Other Postretirement Benefit Plans	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Service Cost	$ 1,360	$ 1,383	$ 127	$ 142
Interest Cost	3,234	3,061	1,042	947
Expected Return on Plan Assets	(4,381)	(4,370)	(1,916)	(1,973)
Amortization of Prior Service Cost (Credit)	66	68	(1,183)	(1,183)
Amortization of Net Actuarial Loss	1,293	1,614	557	302
Net Periodic Benefit Cost (Credit)	$ 1,572	$ 1,756	$ (1,373)	$ (1,765)

7. BUSINESS SEGMENTS

TNC has one reportable segment, a generation and integrated electricity, transmission and distribution business. TNC's other activities are insignificant.

8. DERIVATIVES AND HEDGING

AEPSC is agent for and transacts on behalf of TNC.

Risk Management Strategies

TNC's vehicle fleet is exposed to gasoline and diesel fuel price volatility. TNC utilizes financial heating oil and gasoline derivative contracts in order to mitigate price risk of future fuel purchases. TNC does not hedge all fuel price risk. The gross notional volumes of TNC's outstanding derivative contracts for heating oil and gasoline as of September 30, 2016 and December 31, 2015 were 479 thousand gallons and 516 thousand gallons, respectively.

Cash Flow Hedging Strategies

TNC utilizes a variety of interest rate derivative transactions in order to manage interest rate risk exposure. TNC also utilizes interest rate derivative contracts to manage interest rate exposure related to future borrowings of fixed-rate debt. TNC does not hedge all interest rate exposure.

ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND THE IMPACT ON THE FINANCIAL STATEMENTS

According to the accounting guidance for "Derivatives and Hedging," TNC reflects the fair values of derivative instruments subject to netting agreements with the same counterparty net of related cash collateral. For certain risk management contracts, TNC is required to post or receive cash collateral based on third party contractual agreements and risk profiles. For the September 30, 2016 and December 31, 2015 balance sheets, TNC had no netting of cash collateral received from third parties against short-term and long-term risk management assets and $0 and $143 thousand, respectively, of cash collateral paid to third parties against short-term and long-term risk management liabilities.

The following tables represent the gross fair value impact of TNC's derivative activity on the balance sheets as of September 30, 2016 and December 31, 2015:

Fair Value of Derivative Instruments
September 30, 2016

Balance Sheet Location	Risk Management Contracts Commodity (a)	Gross Amounts Offset in the Statement of Financial Position (b)	Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c)
		(in thousands)	
Current Risk Management Assets	$ 37	$ (27)	$ 10
Long-term Risk Management Assets	7	(1)	6
Total Assets	44	(28)	16
Current Risk Management Liabilities	27	(27)	—
Long-term Risk Management Liabilities	1	(1)	—
Total Liabilities	28	(28)	—
Total MTM Derivative Contract Net Assets	$ 16	$ —	$ 16

Fair Value of Derivative Instruments
December 31, 2015

Balance Sheet Location	Risk Management Contracts Commodity (a)	Gross Amounts Offset in the Statement of Financial Position (b)	Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c)
		(in thousands)	
Current Risk Management Assets	$ —	$ —	$ —
Long-term Risk Management Assets	—	—	—
Total Assets	—	—	—
Current Risk Management Liabilities	254	(143)	111
Long-term Risk Management Liabilities	—	—	—
Total Liabilities	254	(143)	111
Total MTM Derivative Contract Net Assets (Liabilities)	$ (254)	$ 143	$ (111)

(a) Derivative instruments within this category are reported gross. These instruments are subject to master netting agreements and are presented on the balance sheets on a net basis in accordance with the accounting guidance for "Derivatives and Hedging."
(b) Amounts include counterparty netting of risk management and hedging contracts and associated cash collateral in accordance with the accounting guidance for "Derivatives and Hedging."
(c) There are no derivative contracts subject to a master netting arrangement or similar agreement which are not offset in the statement of financial position.

The table below presents TNC's activity of derivative risk management contracts for the three and nine months ended September 30, 2016 and 2015:

Amount of Gain (Loss) Recognized on
Risk Management Contracts
For the Three and Nine Months Ended September 30, 2016 and 2015

Location of Gain (Loss)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
	(in thousands)			
Other Operation Expense	$ (35)	$ (85)	$ (140)	$ (266)
Maintenance Expense	(37)	(69)	(151)	(200)
Regulatory Assets (a)	29	(120)	253	157
Regulatory Liabilities (a)	16	—	16	—
Total Loss on Risk Management Contracts	$ (27)	$ (274)	$ (22)	$ (309)

(a) Represents realized and unrealized gains and losses subject to regulatory accounting treatment recorded as either current or noncurrent on the balance sheets.

Certain qualifying derivative instruments have been designated as normal purchase or normal sale contracts, as provided in the accounting guidance for "Derivatives and Hedging." Derivative contracts that have been designated as normal purchases or normal sales under that accounting guidance are not subject to MTM accounting treatment and are recognized on the statements of income on an accrual basis.

TNC's accounting for the changes in the fair value of a derivative instrument depends on whether it qualifies for and has been designated as part of a hedging relationship and further, on the type of hedging relationship. Depending on the exposure, management designates a hedging instrument as a fair value hedge or a cash flow hedge.

For contracts that have not been designated as part of a hedging relationship, the accounting for changes in fair value depends on whether the derivative instrument is held for trading purposes. Unrealized and realized gains and losses on derivative instruments held for trading purposes are included in revenues on a net basis on TNC's statements of income. Unrealized and realized gains and losses on derivative instruments not held for trading purposes are included in revenues or expenses on TNC's statements of income depending on the relevant facts and circumstances. Certain derivatives that economically hedge future commodity risk are recorded in the same expense line item on the statements of income as that of the associated risk. However, unrealized and some realized gains and losses for both trading and non-trading derivative instruments are recorded as regulatory assets (for losses) or regulatory liabilities (for gains), in accordance with the accounting guidance for "Regulated Operations."

Accounting for Cash Flow Hedging Strategies

For cash flow hedges (i.e. hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), TNC initially reports the effective portion of the gain or loss on the derivative instrument as a component of Accumulated Other Comprehensive Income (Loss) on its balance sheets until the period the hedged item affects Net Income. TNC would record hedge ineffectiveness as a regulatory asset (for losses) or a regulatory liability (for gains) if applicable.

TNC reclassifies gains and losses on interest rate derivative hedges related to debt financings from Accumulated Other Comprehensive Income (Loss) on its balance sheets into Interest Expense on its statements of income in those periods in which hedged interest payments occur. During the three and nine months ended September 30, 2016 and 2015, TNC did not apply cash flow hedging to outstanding interest rate derivatives.

During the three and nine months ended September 30, 2016 and 2015, hedge ineffectiveness was immaterial or nonexistent for all cash flow hedge strategies discussed above.

For details on effective cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on TNC's balance sheets and the reasons for changes in cash flow hedges, see Note 3.

Cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on TNC's balance sheets as of September 30, 2016 and December 31, 2015 were:

Impact of Cash Flow Hedges on the Condensed Balance Sheet

	Interest Rate	
	September 30, 2016	**December 31, 2015**
	(in thousands)	
AOCI Loss Net of Tax	$ (5,578)	$ (6,229)
Portion Expected to be Reclassified to Net Income During the Next Twelve Months	(869)	(869)

The actual amounts that TNC reclassifies from Accumulated Other Comprehensive Income (Loss) to Net Income can differ from the estimate above due to market price changes. As of September 30, 2016, TNC is not hedging (with contracts subject to the accounting guidance for "Derivatives and Hedging") its exposure to variability in future cash flows related to forecasted transactions.

9. 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. The amount of risk taken is determined by the Commercial Operations and Finance groups in accordance with established risk management policies as approved by the Finance Committee of AEP's Board of Directors. AEPSC's market risk oversight staff independently monitors risk policies, procedures and risk levels and provides members of the Commercial Operations Risk Committee (Regulated Risk Committee) various reports regarding compliance with policies, limits and procedures. The Regulated Risk Committee consists of AEPSC's Chief Operating Officer, Chief Financial Officer, Executive Vice President of Generation, Senior Vice President of Commercial Operations and Chief Risk Officer.

For commercial activities, exchange traded derivatives, namely futures contracts, are generally fair valued based on unadjusted quoted prices in active markets and are classified as Level 1. Level 2 inputs primarily consist of OTC broker quotes in moderately active or less active markets, as well as exchange traded contracts where there is insufficient market liquidity to warrant inclusion in Level 1. Management verifies price curves using these broker quotes and classifies these fair values within Level 2 when substantially all of the fair value can be corroborated. Management typically obtains multiple broker quotes, which are nonbinding in nature but are based on recent trades in the marketplace. When multiple broker quotes are obtained, the quoted bid and ask prices are averaged. In certain circumstances, a broker quote may be discarded if it is a clear outlier. Management uses a historical correlation analysis between the broker quoted location and the illiquid locations. If the points are highly correlated, these locations are included within Level 2 as well. Certain OTC and bilaterally executed derivative instruments are executed in less active markets with a lower availability of pricing information. Illiquid transactions, complex structured transactions, FTRs and counterparty credit risk may require nonmarket based inputs. Some of these inputs may be internally developed or extrapolated and utilized to estimate fair value. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized as Level 3. The main driver of contracts being classified as Level 3 is the inability to substantiate energy price curves in the market. A portion of the Level 3 instruments have been economically hedged which limits potential earnings volatility.

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 TNC's Long-term Debt as of September 30, 2016 and December 31, 2015 are summarized in the following table:

	September 30, 2016		December 31, 2015	
	Book Value	Fair Value	Book Value	Fair Value
	(in thousands)			
Long-term Debt	$ 543,142	$ 621,626	$ 543,165	$ 566,317

Fair Value Measurements of Financial Assets and Liabilities

The following tables set forth, by level within the fair value hierarchy, TNC's financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2016 and December 31, 2015. As required by the accounting guidance for "Fair Value Measurements and Disclosures," 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. There have not been any significant changes in management's valuation techniques.

Assets and Liabilities Measured at Fair Value on a Recurring Basis
September 30, 2016

	Level 1	Level 2	Level 3	Other	Total
Assets:		(in thousands)			
Risk Management Assets					
Risk Management Commodity Contracts (a)	$ —	$ 45	$ —	$ (29)	$ 16
Liabilities:					
Risk Management Liabilities					
Risk Management Commodity Contracts (a)	$ —	$ 29	$ —	$ (29)	$ —

Assets and Liabilities Measured at Fair Value on a Recurring Basis
December 31, 2015

	Level 1	Level 2	Level 3	Other	Total
Liabilities:		(in thousands)			
Risk Management Liabilities					
Risk Management Commodity Contracts (a)	$ —	$ 254	$ —	$ (143)	$ 111

(a) Amounts in "Other" column primarily represent counterparty netting of risk management and hedging contracts and associated cash collateral under the accounting guidance for "Derivatives and Hedging."

As of December 31, 2015, TNC had no assets measured at fair value on a recurring basis.

There were no transfers between Level 1 and Level 2 during the three and nine months ended September 30, 2016 and 2015.

10. INCOME TAXES

AEP System Tax Allocation Agreement

TNC 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

TNC 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. TNC and other AEP subsidiaries received a Revenue Agents Report in April 2016, completing the 2011 through 2013 audit cycle indicating an agreed upon audit. The 2011 through 2013 audit was submitted to the Congressional Joint Committee on Taxation for approval. TNC and other AEP subsidiaries were informed that the IRS expects the Joint Committee to refer the audit back to the IRS exam team for further consideration. Although the outcome of tax audits is uncertain, in management's opinion, adequate provisions for federal income taxes have been made for potential liabilities resulting from such matters. In addition, TNC 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.

TNC and other AEP subsidiaries file income tax returns in various state and local jurisdictions. These taxing authorities routinely examine the tax returns. TNC 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. TNC is no longer subject to state or local income tax examinations by tax authorities for years before 2009.

State Tax Legislation

In March 2016, the Texas Comptroller of Public Accounts issued clarifying guidance regarding the treatment of transmission and distribution expenses included in the computation of taxable income for purposes of calculating the Texas gross margin tax. The guidance clarified which specific transmission and distribution expenses are included in the computation of the cost of goods sold deduction. This guidance resulted in a net favorable adjustment of $1 million during the first nine months of 2016 to TNC's net income.

11. FINANCING ACTIVITIES

Long-term Debt

Long-term debt issued, retired and principal payments made during the first nine months of 2016 are shown in the tables below:

Type of Debt	Principal Amount (a)	Interest Rate	Due Date
Issuances:	**(in thousands)**	**(%)**	
Other Long-term Debt	$ 75,000	Variable	2019

(a) Amounts indicated on the statements of cash flows are net of issuance costs and premium or discount and will not tie to the issuance amounts.

Type of Debt	Principal Amount Paid	Interest Rate	Due Date
Retirements and Principal Payments:	**(in thousands)**	**(%)**	
Other Long-term Debt	$ 5	4.50	2059
Other Long-term Debt	75,000	Variable	2016

Dividend Restrictions

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

Federal Power Act

The Federal Power Act prohibits TNC from participating "in the making or paying of any dividends of such public utility from any funds properly included in capital account." This restriction does not limit the ability of TNC to pay dividends out of retained earnings.

Leverage Restrictions

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

Corporate Borrowing Program - AEP System

The AEP System uses a corporate borrowing program to meet the short-term borrowing needs of AEP's subsidiaries. The corporate borrowing program includes a Utility Money Pool, which funds AEP's utility subsidiaries, and a Nonutility Money Pool, which funds a majority of AEP's nonutility 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 loans to or borrowings from the Utility Money Pool as of September 30, 2016 and December 31, 2015 are included in Advances to Affiliates and Advances from Affiliates, respectively, on TNC's balance sheets. TNC's Utility Money Pool activity and corresponding authorized borrowing limit for the nine months ended September 30, 2016 are described in the following table:

Maximum Borrowings from the Utility Money Pool	Maximum Loans to the Utility Money Pool	Average Borrowings from the Utility Money Pool	Average Loans to the Utility Money Pool	Borrowings from the Utility Money Pool as of September 30, 2016	Authorized Short-Term Borrowing Limit
		(in thousands)			
$ 55,694	$ 14,394	$ 35,323	$ 4,024	$ 46,938	$ 250,000

The activity in the above table does not include short-term lending activity of TNC's wholly-owned subsidiary, AEP Texas North Generation Company LLC (TNGC), which is a participant in the Nonutility Money Pool. The amounts of outstanding loans to the Nonutility Money Pool as of September 30, 2016 and December 31, 2015 are included in Advances to Affiliates on TNC's balance sheets. For the nine months ended September 30, 2016, TNGC had the following activity in the Nonutility Money Pool:

Maximum Borrowings from the Nonutility Money Pool	Maximum Loans to the Nonutility Money Pool	Average Borrowings from the Nonutility Money Pool	Average Loans to the Nonutility Money Pool	Loans to the Nonutility Money Pool as of September 30, 2016
		(in thousands)		
$ —	$ 8,719	$ —	$ 8,583	$ 8,641

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

Nine Months Ended September 30,	Maximum Interest Rate for Funds Borrowed from the Utility Money Pool	Minimum Interest Rate for Funds Borrowed from the Utility Money Pool	Maximum Interest Rate for Funds Loaned to the Utility Money Pool	Minimum Interest Rate for Funds Loaned to the Utility Money Pool	Average Interest Rate for Funds Borrowed from the Utility Money Pool	Average Interest Rate for Funds Loaned to the Utility Money Pool
2016	0.91%	0.69%	0.82%	0.69%	0.82%	0.76%
2015	0.59%	0.39%	—%	—%	0.47%	—%

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

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

12. 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 TNC is the primary beneficiary of a VIE, management considers factors such as equity at risk, the amount of the VIE's variability TNC 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. TNC is not the primary beneficiary of any VIE and has not provided financial or other support to any VIE that was not previously contractually required.

AEPSC provides certain managerial and professional services to AEP's subsidiaries. Parent is the sole equity owner of AEPSC. AEP management controls the activities of AEPSC. The costs of the services are based on a direct charge or on a prorated basis and billed to the AEP subsidiary companies at AEPSC's cost. AEP subsidiaries have not provided financial or other support outside the reimbursement of costs for services rendered. AEPSC finances its operations through cost reimbursement from other AEP subsidiaries. There are no other terms or arrangements between AEPSC and any of the AEP subsidiaries that could require additional financial support from an AEP subsidiary or expose them to losses outside of the normal course of business. AEPSC and its billings are subject to regulation by the FERC. AEP subsidiaries are exposed to losses to the extent they cannot recover the costs of AEPSC through their normal business operations. AEP subsidiaries are considered to have a significant interest in AEPSC due to their activity in AEPSC's cost reimbursement structure. However, AEP subsidiaries do not have control over AEPSC. AEPSC is consolidated by AEP. In the event AEPSC would require financing or other support outside the cost reimbursement billings, this financing would be provided by AEP. TNC's total billings from AEPSC for the three months ended September 30, 2016 and 2015 were $9.1 million and $10.3 million, respectively, and for the nine months ended September 30, 2016 and 2015 were $27.7 million and $27.1 million, respectively. The carrying amount of liabilities associated with AEPSC as of September 30, 2016 and December 31, 2015 was $3.2 million and $4.5 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

13. PROPERTY, PLANT AND EQUIPMENT

Asset Retirement Obligations (ARO)

TNC records ARO in accordance with the accounting guidance for "Asset Retirement and Environmental Obligations" for the retirement of ash disposal facilities and asbestos removal. TNC has identified, but not recognized, ARO liabilities related to electric transmission and distribution assets, as a result of certain easements on property on which assets are owned. Generally, such easements are perpetual and require only the retirement and removal of assets upon the cessation of the property's use. The retirement obligation is not estimable for such easements since TNC plans to use its facilities indefinitely. The retirement obligation would only be recognized if and when TNC abandons or ceases the use of specific easements, which is not expected.

The following is a reconciliation of the aggregate carrying amounts of ARO for TNC:

ARO as of December 31, 2015	Accretion Expense	Liabilities Incurred	Liabilities Settled	Revisions in Cash Flow Estimates		ARO as of September 30, 2016
		(in thousands)				
$ 21,564	$ 684	$ —	$ (35)	$ 504	(a)	$ 22,717

(a) Revisions related to Oklaunion ash ponds.