AEP Generating Company

2009 Second 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.
AEP System	American Electric Power System, an integrated electric utility system, owned and operated by AEP's electric utility subsidiaries.
AEPSC	American Electric Power Service Corporation, a service subsidiary providing management and professional services to AEP and its subsidiaries.
APB	Accounting Principles Board Opinion.
CAA	Clean Air Act.
EITF	Financial Accounting Standards Board's Emerging Issues Task Force.
FASB	Financial Accounting Standards Board.
Federal EPA	United States Environmental Protection Agency.
FERC	Federal Energy Regulatory Commission.
FIN	FASB Interpretation No.
FIN 46R	FIN 46R, "Consolidation of Variable Interest Entities."
FSP	FASB Staff Position.
GAAP	Accounting Principles Generally Accepted in the United States of America.
I&M	Indiana Michigan Power Company, an AEP electric utility subsidiary.
MW	Megawatt.
Rockport Plant	A generating plant, consisting of two 1,300 MW coal-fired generating units near Rockport, Indiana owned by AEGCo and I&M.
SFAS	Statement of Financial Accounting Standards issued by the Financial Accounting Standards Board.
SFAS 157	Statement of Financial Accounting Standards No. 157, "Fair Value Measurements."
Utility Money Pool	AEP System's Utility Money Pool.

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF INCOME
For the Three and Six Months Ended June 30, 2009 and 2008
(in thousands)
(Unaudited)

	Three Months Ended 2009	Three Months Ended 2008	Six Months Ended 2009	Six Months Ended 2008
OPERATING REVENUES	$ 101,313	$ 106,944	$ 208,028	$ 215,956
EXPENSES				
Fuel Used for Electric Generation	54,671	58,604	114,638	119,295
Rent – Rockport Plant Unit 2	17,071	17,071	34,142	34,142
Other Operation	5,253	5,839	11,586	12,319
Maintenance	3,506	4,115	7,471	7,802
Depreciation and Amortization	8,578	8,363	17,118	16,667
Taxes Other Than Income Taxes	1,274	773	2,199	1,946
TOTAL EXPENSES	90,353	94,765	187,154	192,171
OPERATING INCOME	10,960	12,179	20,874	23,785
Other Income (Expense):				
Other Income	2,675	1,453	5,097	2,446
Interest Expense	(3,722)	(4,036)	(7,626)	(8,226)
INCOME BEFORE INCOME TAX EXPENSE	9,913	9,596	18,345	18,005
Income Tax Expense	1,290	2,033	2,811	3,632
NET INCOME	$ 8,623	$ 7,563	$ 15,534	$ 14,373

CONDENSED STATEMENTS OF RETAINED EARNINGS
For the Three and Six Months Ended June 30, 2009 and 2008
(in thousands)
(Unaudited)

	Three Months Ended 2009	Three Months Ended 2008	Six Months Ended 2009	Six Months Ended 2008
BALANCE AT BEGINNING OF PERIOD	$ 50,200	$ 38,532	$ 54,289	$ 34,722
Net Income	8,623	7,563	15,534	14,373
Cash Dividends Declared	(3,000)	(3,000)	(14,000)	(6,000)
BALANCE AT END OF PERIOD	$ 55,823	$ 43,095	$ 55,823	$ 43,095

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

See Condensed Notes to Condensed Financial Statements.

AEP GENERATING COMPANY
CONDENSED BALANCE SHEETS
ASSETS
June 30, 2009 and December 31, 2008
(in thousands)
(Unaudited)

	2009	2008
CURRENT ASSETS		
Accounts Receivable – Affiliated Companies	$ 34,436	$ 37,721
Fuel	38,890	33,468
Materials and Supplies	15,212	14,512
Prepayments and Other Current Assets	786	874
TOTAL CURRENT ASSETS	89,324	86,575
PROPERTY, PLANT AND EQUIPMENT		
Electric – Production	1,423,359	1,418,716
Other Property, Plant and Equipment	7,290	6,383
Construction Work in Progress	239,183	216,500
Total Property, Plant and Equipment	1,669,832	1,641,599
Accumulated Depreciation and Amortization	839,924	819,280
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	829,908	822,319
OTHER NONCURRENT ASSETS		
Regulatory Assets	11,279	6,651
Deferred Charges and Other Noncurrent Assets	5,756	3,065
TOTAL OTHER NONCURRENT ASSETS	17,035	9,716
TOTAL ASSETS	$ 936,267	$ 918,610

See Condensed Notes to Condensed Financial Statements.

AEP GENERATING COMPANY
CONDENSED BALANCE SHEETS
LIABILITIES AND SHAREHOLDER'S EQUITY
June 30, 2009 and December 31, 2008
(Unaudited)

	2009	2008
CURRENT LIABILITIES	(in thousands)	
Advances from Affiliates	$ 70,126	$ 46,800
Accounts Payable:		
General	2,986	12,692
Affiliated Companies	25,207	30,771
Long-term Debt Due Within One Year – Nonaffiliated	7,273	7,273
Accrued Taxes	11,202	3,614
Accrued Rent – Rockport Plant Unit 2	4,963	4,963
Other Current Liabilities	4,908	6,594
TOTAL CURRENT LIABILITIES	126,665	112,707
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	329,933	333,491
Deferred Income Taxes	34,371	29,420
Regulatory Liabilities and Deferred Investment Tax Credits	57,414	58,598
Deferred Gain on Sale and Leaseback – Rockport Plant Unit 2	74,835	77,621
Deferred Credits and Other Noncurrent Liabilities	23,042	18,300
TOTAL NONCURRENT LIABILITIES	519,595	517,430
TOTAL LIABILITIES	646,260	630,137
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	233,184	233,184
Retained Earnings	55,823	54,289
TOTAL COMMON SHAREHOLDER'S EQUITY	290,007	288,473
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 936,267	$ 918,610

See Condensed Notes to Condensed Financial Statements.

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2009 and 2008
(in thousands)
(Unaudited)

	2009	2008
OPERATING ACTIVITIES		
Net Income	$ 15,534	$ 14,373
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	17,118	16,667
Deferred Income Taxes	179	(632)
Deferred Investment Tax Credits	(1,641)	(1,636)
Amortization of Deferred Gain on Sale and Leaseback – Rockport Plant Unit 2	(2,786)	(2,785)
Allowance for Equity Funds Used During Construction	(5,126)	(2,431)
Deferred Property Taxes	(2,695)	(1,462)
Change in Other Noncurrent Assets	5,551	839
Change in Other Noncurrent Liabilities	4,840	1,656
Changes in Certain Components of Working Capital:		
Accounts Receivable	3,285	(5,235)
Fuel, Materials and Supplies	(6,122)	6,841
Accounts Payable	(5,679)	(2,470)
Accrued Taxes, Net	7,588	7,327
Other Current Assets	116	149
Other Current Liabilities	(1,689)	(49)
Net Cash Flows from Operating Activities	28,473	31,152
INVESTING ACTIVITIES		
Construction Expenditures	(33,984)	(34,862)
Net Cash Flows Used for Investing Activities	(33,984)	(34,862)
FINANCING ACTIVITIES		
Capital Contribution from Parent	-	6,500
Change in Advances from Affiliates, Net	23,326	7,018
Retirement of Long-term Debt – Nonaffiliated	(3,636)	(3,636)
Principal Payments for Capital Lease Obligations	(179)	(172)
Dividends Paid on Common Stock	(14,000)	(6,000)
Net Cash Flows from Financing Activities	5,511	3,710
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	$ 7,288	$ 7,991
Net Cash Paid for Income Taxes	816	3,146
Noncash Acquisitions Under Capital Leases	1	13
Construction Expenditures Included in Accounts Payable at June 30,	1,406	6,323

See Condensed Notes to Condensed Financial Statements.

CONDENSED NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Significant Accounting Matters
2. New Accounting Pronouncements
3. Commitments, Guarantees and Contingencies
4. Business Segments
5. Fair Value Measurements
6. Income Taxes
7. Financing Activities

1. SIGNIFICANT ACCOUNTING MATTERS

General

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

In the opinion of management, the unaudited condensed interim financial statements reflect all normal and recurring accruals and adjustments necessary for a fair presentation of the net income, financial position and cash flows for the interim periods. Net income for the three and six months ended June 30, 2009 are not necessarily indicative of results that may be expected for the year ending December 31, 2009. Management reviewed subsequent events through the August 4, 2009 issuance date of AEGCo's second quarter financial statements and footnotes. The accompanying condensed financial statements are unaudited and should be read in conjunction with the audited 2008 financial statements and notes thereto, which are included in AEGCo's 2008 Annual Report.

Variable Interest Entities

FIN 46R is a consolidation model that considers risk absorption of a variable interest entity (VIE), also referred to as variability. Entities are required to consolidate a VIE when it is determined that they are the primary beneficiary of that VIE, as defined by FIN 46R. 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 and other factors. Management believes that the significant assumptions and judgments were applied consistently and that there are no other reasonable judgments or assumptions that would result in a different conclusion. There have been no changes to the reporting of VIEs in the financial statements where it is concluded that AEGCo is the primary beneficiary. In addition, AEGCo has not provided financial or other support to any VIE that was not previously contractually required.

AEGCo holds a significant variable interest in AEPSC. AEPSC provides certain managerial and professional services to AEGCo. AEP is the sole equity owner of AEPSC. The costs of the services are based on a direct charge or on a prorated basis and billed to AEGCo and other AEP subsidiaries at AEPSC's cost. AEGCo and other AEP subsidiaries have not provided financial or other support outside the reimbursement of costs for services rendered. The cost reimbursement nature of AEPSC finances its operations. There are no other terms or arrangements between AEPSC and AEGCo and other AEP subsidiaries that could require additional financial support from AEGCo and other AEP subsidiaries or expose them to losses outside of the normal course of business. AEPSC and its billings are subject to regulation by the FERC. AEGCo and other AEP subsidiaries are exposed to losses to the extent they cannot recover the costs of AEPSC through their normal business operations. AEGCo is considered to have a significant interest in the variability of AEPSC due to its activity in AEPSC's cost reimbursement structure. 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. Total billings from AEPSC for the three months ended June 30, 2009 and 2008 were $3 million and $2 million, respectively, and for the six months ended June 30, 2009 and 2008 were $6 million and $4 million, respectively. The carrying amount of liabilities associated with AEPSC as of June 30, 2009 and December 31, 2008 were $881 thousand and $843 thousand, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

2. NEW ACCOUNTING PRONOUNCEMENTS

Upon issuance of final pronouncements, management reviews the new accounting literature to determine the relevance, if any, to AEGCo's business. The following represents a summary of new pronouncements issued or implemented in 2009 and standards issued but not implemented that management has determined relate to AEGCo's operations.

Pronouncements Adopted During 2009

The following standards were effective during the first six months of 2009. Consequently, the financial statements and footnotes reflect their impact.

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 established 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. The standard 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 can affect tax positions on previous acquisitions. AEGCo does not have any such tax positions that result in adjustments.

In April 2009, the FASB issued FSP SFAS 141(R)-1 "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies." The standard clarifies accounting and disclosure for contingencies arising in business combinations. It was effective January 1, 2009.

AEGCo adopted SFAS 141R, including the FSP, effective January 1, 2009. It is effective prospectively for business combinations with an acquisition date on or after January 1, 2009. AEGCo had no business combinations in 2009. AEGCo will apply it to any future business combinations.

SFAS 160 "Noncontrolling Interests 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. The statement 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.

AEGCo adopted SFAS 160 effective January 1, 2009. The adoption of this standard had no impact.

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 an entity accounts for derivative instruments and related hedged items and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The standard requires that objectives for using derivative instruments be disclosed in terms of the primary underlying risk and accounting designation.

AEGCo adopted SFAS 161 effective January 1, 2009. The adoption of this standard had no impact.

SFAS 165 "Subsequent Events" (SFAS 165)

In May 2009, the FASB issued SFAS 165 incorporating guidance on subsequent events into authoritative accounting literature and clarifying the time following the balance sheet date which management reviewed for events and transactions that may require disclosure in the financial statements.

AEGCo adopted this standard effective second quarter of 2009. The standard increased disclosure by requiring disclosure of the date through which subsequent events have been reviewed. The standard did not change management's procedures for reviewing subsequent events.

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 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. 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.

AEGCo adopted EITF 08-5 effective January 1, 2009. With the adoption of FSP SFAS 107-1 and APB 28-1, it is applied to the fair value of long-term debt. The application of this standard had an immaterial effect on the fair value of debt outstanding.

EITF Issue No. 08-6 "Equity Method Investment Accounting Considerations" (EITF 08-6)

In November 2008, the FASB ratified the consensus on equity method investment accounting including initial and allocated carrying values and subsequent measurements. It requires initial carrying value be determined using the SFAS 141R cost allocation method. When an investee issues shares, the equity method investor should treat the transaction as if the investor sold part of its interest.

AEGCo adopted EITF 08-6 effective January 1, 2009 with no impact on its financial statements. It was applied prospectively.

FSP SFAS 107-1 and APB 28-1 "Interim Disclosures about Fair Value of Financial Instruments" (FSP SFAS 107-1 and APB 28-1)

In April 2009, the FASB issued FSP SFAS 107-1 and APB 28-1 requiring disclosure about the fair value of financial instruments in all interim reporting periods. The standard requires disclosure of the method and significant assumptions used to determine the fair value of financial instruments.

AEGCo adopted the standard effective second quarter of 2009. This standard increased the disclosure requirements related to financial instruments. See Note 5.

FSP SFAS 115-2 and SFAS 124-2 "Recognition and Presentation of Other-Than-Temporary Impairments" (FSP SFAS 115-2 and SFAS 124-2)

In April 2009, the FASB issued FSP SFAS 115-2 and SFAS 124-2 amending the other-than-temporary impairment (OTTI) recognition and measurement guidance for debt securities. For both debt and equity securities, the standard requires disclosure for each interim reporting period of information by security class similar to previous annual disclosure requirements.

AEGCo adopted the standard effective second quarter of 2009. The adoption of this standard had no impact.

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. 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.

AEGCo adopted SFAS 142-3 effective January 1, 2009. The guidance is prospectively applied to intangible assets acquired after the effective date. The standard's disclosure requirements are applied prospectively to all intangible assets as of January 1, 2009. The adoption of this standard had no impact.

FSP SFAS 157-2 "Effective Date of FASB Statement No. 157" (SFAS 157-2)

In February 2008, the FASB issued 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). 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. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. In the absence of quoted prices for identical or similar assets or investments in active markets, fair value is estimated using various internal and external valuation methods including cash flow analysis and appraisals.

AEGCo adopted SFAS 157-2 effective January 1, 2009. AEGCo will apply these requirements to applicable fair value measurements which include new asset retirement obligations and impairment analyses related to long-lived assets, equity investments, goodwill and intangibles. AEGCo did not record any fair value measurements for nonrecurring nonfinancial assets and liabilities in the first six months of 2009.

FSP SFAS 157-4 "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP SFAS 157-4)

In April 2009, the FASB issued FSP SFAS 157-4 providing additional guidance on estimating fair value when the volume and level of activity for an asset or liability has significantly decreased, including guidance on identifying circumstances indicating when a transaction is not orderly. Fair value measurements shall be based on the price that would be received to sell an asset or paid to transfer a liability in an orderly (not a distressed sale or forced liquidation) transaction between market participants at the measurement date under current market conditions. The standard also requires disclosures of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, for both interim and annual periods.

AEGCo adopted the standard effective second quarter of 2009. The adoption of this standard had no impact.

Pronouncements Effective in the Future

The following standards will be effective in the future and their impacts will be disclosed at that time.

SFAS 167 "Amendments to FASB Interpretation No. 46(R)" (SFAS 167)

In June 2009, the FASB issued SFAS 167 amending the analysis an entity must perform to determine if it has a controlling interest in a variable interest entity (VIE). This new guidance provides that the primary beneficiary of a VIE must have both:

- The power to direct the activities of the VIE that most significantly impact the VIE's economic performance.
- The obligation to absorb the losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

The standard also requires separate presentation on the face of the statement of financial position for assets which can only be used to settle obligations of a consolidated VIE and liabilities for which creditors do not have recourse to the general credit of the primary beneficiary.

SFAS 167 is effective for interim and annual reporting in fiscal years beginning after November 15, 2009. Early adoption is prohibited. Management continues to review the impact of the changes in the consolidation guidance on the financial statements. This standard will increase disclosure requirements related to transactions with VIEs and change the presentation of consolidated VIE's assets and liabilities on AEGCo's balance sheets. AEGCo will adopt SFAS 167 effective January 1, 2010.

SFAS 168 "The FASB Accounting Standards Codification^{TM} and the Hierarchy of Generally Accepted Accounting Principles" (SFAS 168)

In June 2009, the FASB issued SFAS 168 establishing the FASB Accounting Standards Codification^{TM} as the authoritative source of accounting principles for preparation of financial statements and reporting in conformity with GAAP by nongovernmental entities.

This standard is effective for interim and annual reporting periods ending after September 15, 2009. It requires an update of all references to authoritative accounting literature. AEGCo will adopt SFAS 168 effective third quarter of 2009.

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, financial instruments, emission allowances, leases, insurance, hedge accounting, discontinued operations and income tax. 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. 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 adverse effect on the financial statements. The Commitments, Guarantees and Contingencies note within the 2008 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

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. There are no material liabilities recorded for any indemnifications.

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 concluded in 2006. 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 Supreme Court's decision on this case which were provided in 2007. 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.

4. BUSINESS SEGMENTS

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

5. FAIR VALUE MEASUREMENTS

With the adoption of a new accounting standard, AEGCo is required to provide certain fair value disclosures which were previously only required in the annual report. The new standard did not change the method to calculate the amounts reported on AEGCo's Condensed Balance Sheets.

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. 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 at June 30, 2009 and December 31, 2008 are summarized in the following table:

	June 30, 2009		December 31, 2008	
	Book Value	Fair Value	Book Value	Fair Value
	(in thousands)			
Long-term Debt	$ 337,206	$ 313,748	$ 340,764	$ 297,852

6. INCOME TAXES

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.

AEGCo and other AEP subsidiaries are no longer subject to U.S. federal examination for years before 2000. AEGCo and other AEP subsidiaries have completed the exam for the years 2001 through 2006 and have issues that are being pursued at the appeals level. 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, 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 have a material adverse effect on net income.

AEGCo, along with other AEP subsidiaries, files income tax returns in various state and local jurisdictions. These taxing authorities routinely examine the tax returns and AEGCo and other AEP subsidiaries are currently under examination in several state and local jurisdictions. Management believes that AEGCo 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, AEGCo is no longer subject to state or local income tax examinations by tax authorities for years before 2000.

Federal Tax Legislation

The American Recovery and Reinvestment Act of 2009 was signed into law by the President in February 2009. It provided for several new grant programs and expanded tax credits and an extension of the 50% bonus depreciation provision enacted in the Economic Stimulus Act of 2008. The enacted provisions are not expected to have a material impact on net income or financial condition. However, management forecasts the bonus depreciation provision could provide a significant favorable cash flow benefit in 2009.

7. FINANCING ACTIVITIES

Long-term Debt

Principal payments made during the first six months of 2009 were:

	Type of Debt	Principal Amount Paid (in thousands)	Interest Rate	Due Date
Principal Payments:	Senior Unsecured Notes	$ 3,636	6.33%	2037(a)

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

Utility Money Pool – AEP System

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 Utility Money Pool operates in accordance with the terms and conditions approved in a regulatory order. The amount of outstanding borrowings from the Utility Money Pool as of June 30, 2009 and December 31, 2008 are included in Advances from Affiliates on AEGCo's balance sheets. AEGCo's Utility Money Pool activity and corresponding authorized borrowing limits for the six months ended June 30, 2009 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 June 30, 2009	Authorized Short-Term Borrowing Limit
		(in thousands)			
$ 79,293	$ -	$ 51,992	$ -	$ 70,126	$ 200,000

Maximum, minimum and average interest rates for funds either borrowed from or loaned to the Utility Money Pool for the six months ended June 30, 2009 and 2008 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
2009	2.28%	0.65%	-%	-%	1.30%	-%
2008	5.37%	2.91%	-%	-%	3.67%	-%