AEP Generating Company

2010 Second Quarter Report

Financial Statements

AEP AMERICAN ELECTRIC POWER®

TABLE OF CONTENTS

TABLE OF CONTENTS	Page
Glossary of Terms	AEGCo-i
Condensed Statements of Income – Unaudited	AEGCo-1
Condensed Statements of Changes in Common Shareholder’s Equity – Unaudited	AEGCo-2
Condensed Balance Sheets – Unaudited	AEGCo-3
Condensed Statements of Cash Flows – Unaudited	AEGCo-5
Condensed Notes to Condensed Financial Statements – Unaudited	AEGCo-6

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 or the 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.
CO_2	Carbon Dioxide and other greenhouse gases.
Federal EPA	United States Environmental Protection Agency.
FERC	Federal Energy Regulatory Commission.
GAAP	Accounting Principles Generally Accepted in the United States of America.
MW	Megawatt.
Rockport Plant	A generating plant, consisting of two 1,300 MW coal-fired generating units near Rockport, Indiana.
Utility Money Pool	AEP System's Utility Money Pool.
VIE	Variable Interest Entity.

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF INCOME
For the Three and Six Months Ended June 30, 2010 and 2009
(in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
	2010	**2009**	**2010**	**2009**
OPERATING REVENUES	$ 90,815	$ 101,313	$ 186,307	$ 208,028
EXPENSES				
Fuel Used for Electric Generation	39,292	54,671	85,937	114,638
Rent – Rockport Plant Unit 2	17,071	17,071	34,142	34,142
Other Operation	10,062	5,253	17,458	11,586
Maintenance	4,677	3,506	8,658	7,471
Depreciation and Amortization	9,150	8,578	18,290	17,118
Taxes Other Than Income Taxes	95	1,274	1,376	2,199
TOTAL EXPENSES	80,347	90,353	165,861	187,154
OPERATING INCOME	10,468	10,960	20,446	20,874
Other Income (Expense):				
Other Income	14	2,675	35	5,097
Interest Expense	(4,172)	(3,722)	(8,348)	(7,626)
INCOME BEFORE INCOME TAX EXPENSE	6,310	9,913	12,133	18,345
Income Tax Expense	1,343	1,290	3,123	2,811
NET INCOME	$ 4,967	$ 8,623	$ 9,010	$ 15,534

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

See Condensed Notes to Condensed Financial Statements.

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY
For the Six Months Ended June 30, 2010 and 2009
(in thousands)
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Total
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2008	$ 1,000	$ 233,184	$ 54,289	$ 288,473
Common Stock Dividends			(14,000)	(14,000)
SUBTOTAL – COMMON SHAREHOLDER'S EQUITY				274,473
COMPREHENSIVE INCOME				
NET INCOME			15,534	15,534
TOTAL COMPREHENSIVE INCOME				15,534
TOTAL COMMON SHAREHOLDER'S EQUITY – JUNE 30, 2009	$ 1,000	$ 233,184	$ 55,823	$ 290,007
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2009	$ 1,000	$ 238,184	$ 58,580	$ 297,764
Common Stock Dividends			(9,500)	(9,500)
SUBTOTAL – COMMON SHAREHOLDER'S EQUITY				288,264
COMPREHENSIVE INCOME				
NET INCOME			9,010	9,010
TOTAL COMPREHENSIVE INCOME				9,010
TOTAL COMMON SHAREHOLDER'S EQUITY – JUNE 30, 2010	$ 1,000	$ 238,184	$ 58,090	$ 297,274

See Condensed Notes to Condensed Financial Statements.

AEP GENERATING COMPANY
CONDENSED BALANCE SHEETS
ASSETS
June 30, 2010 and December 31, 2009
(in thousands)
(Unaudited)

	2010	2009
CURRENT ASSETS		
Accounts Receivable – Affiliated Companies	$ 39,609	$ 37,958
Fuel	64,998	50,004
Materials and Supplies	16,606	15,994
Accrued Tax Benefits	15,012	15,774
Prepayments and Other Current Assets	286	467
TOTAL CURRENT ASSETS	136,511	120,197
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Production	1,447,188	1,443,263
Transmission	9,688	9,688
Other Property, Plant and Equipment	8,328	7,820
Construction Work in Progress	228,171	227,315
Total Property, Plant and Equipment	1,693,375	1,688,086
Accumulated Depreciation and Amortization	866,314	848,696
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	827,061	839,390
OTHER NONCURRENT ASSETS		
Regulatory Assets	15,344	14,429
Deferred Charges and Other Noncurrent Assets	4,677	2,489
TOTAL OTHER NONCURRENT ASSETS	20,021	16,918
TOTAL ASSETS	$ 983,593	$ 976,505

See Condensed Notes to Condensed Financial Statements.

AEP GENERATING COMPANY
CONDENSED BALANCE SHEETS
LIABILITIES AND SHAREHOLDER'S EQUITY
June 30, 2010 and December 31, 2009
(Unaudited)

	2010	2009
	(in thousands)	
CURRENT LIABILITIES		
Advances from Affiliates	$ 90,269	$ 80,168
Accounts Payable:		
General	5,565	1,278
Affiliated Companies	25,236	32,175
Long-term Debt Due Within One Year – Nonaffiliated	7,273	7,273
Accrued Taxes	6,068	4,692
Accrued Rent – Rockport Plant Unit 2	4,963	4,963
Other Current Liabilities	4,826	4,890
TOTAL CURRENT LIABILITIES	144,200	135,439
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	322,694	326,314
Deferred Income Taxes	69,624	64,443
Regulatory Liabilities and Deferred Investment Tax Credits	55,313	56,127
Deferred Gain on Sale and Leaseback – Rockport Plant Unit 2	69,264	72,050
Deferred Credits and Other Noncurrent Liabilities	25,224	24,368
TOTAL NONCURRENT LIABILITIES	542,119	543,302
TOTAL LIABILITIES	686,319	678,741
Commitments and Contingencies (Note 2)		
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	238,184	238,184
Retained Earnings	58,090	58,580
TOTAL COMMON SHAREHOLDER'S EQUITY	297,274	297,764
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 983,593	$ 976,505

See Condensed Notes to Condensed Financial Statements.

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2010 and 2009
(in thousands)
(Unaudited)

	2010	2009
OPERATING ACTIVITIES		
Net Income	$ 9,010	$ 15,534
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	18,290	17,118
Deferred Income Taxes	4,306	179
Deferred Investment Tax Credits	(1,641)	(1,641)
Amortization of Deferred Gain on Sale and Leaseback – Rockport Plant Unit 2	(2,786)	(2,786)
Allowance for Equity Funds Used During Construction	(32)	(5,126)
Property Taxes	(2,216)	(2,695)
Change in Other Noncurrent Assets	2,517	5,551
Change in Other Noncurrent Liabilities	943	4,840
Changes in Certain Components of Working Capital:		
Accounts Receivable	(1,651)	3,285
Fuel, Materials and Supplies	(15,606)	(6,122)
Accounts Payable	(2,650)	(5,679)
Accrued Taxes, Net	2,188	7,588
Other Current Assets	182	116
Other Current Liabilities	(72)	(1,689)
Net Cash Flows from Operating Activities	10,782	28,473
INVESTING ACTIVITIES		
Construction Expenditures	(7,555)	(33,984)
Net Cash Flows Used for Investing Activities	(7,555)	(33,984)
FINANCING ACTIVITIES		
Change in Advances from Affiliates, Net	10,101	23,326
Retirement of Long-term Debt – Nonaffiliated	(3,636)	(3,636)
Principal Payments for Capital Lease Obligations	(192)	(179)
Dividends Paid on Common Stock	(9,500)	(14,000)
Net Cash Flows from (Used for) Financing Activities	(3,227)	5,511
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	$ 8,205	$ 7,288
Net Cash Paid (Received) for Income Taxes	(354)	816
Noncash Acquisitions Under Capital Leases	102	1
Construction Expenditures Included in Accounts Payable at June 30,	135	1,406

See Condensed Notes to Condensed Financial Statements.

INDEX TO CONDENSED NOTES TO CONDENSED FINANCIAL STATEMENTS

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

1. SIGNIFICANT ACCOUNTING MATTERS

General

The unaudited condensed financial statements and footnotes were prepared in accordance with GAAP for interim financial information. Accordingly, they do not include all 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, 2010 is not necessarily indicative of results that may be expected for the year ending December 31, 2010. The condensed financial statements are unaudited and should be read in conjunction with the audited 2009 financial statements and notes thereto, which are included in AEGCo's 2009 Annual Report.

Management reviewed subsequent events through July 30, 2010, the date that the 2010 second quarter report was issued.

Variable Interest Entities

The accounting guidance for "Variable Interest Entities" is a consolidation model that considers if a company has a controlling financial interest in a VIE. A controlling financial interest will have both (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Entities are required to consolidate a VIE when it is determined that they have a controlling financial interest in a VIE and therefore, are the primary beneficiary of that VIE, as defined by the accounting guidance for "Variable Interest Entities." In determining whether AEGCo is the primary beneficiary of a VIE, management considers factors such as equity at risk, the amount of the VIE's variability AEGCo absorbs, guarantees of indebtedness, voting rights including kick-out rights, power to direct the VIE and other factors. Management believes that significant assumptions and judgments were applied consistently. 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.

AEPSC provides certain managerial and professional services to AEGCo and other subsidiaries. AEP is the sole equity owner of AEPSC. AEP management controls the activities of AEPSC. The costs of the services are based on a direct charge or on a prorated basis and billed to AEGCo and other AEP subsidiaries at AEPSC's cost. AEGCo and other 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 AEGCo and other subsidiaries that could require additional financial support from AEGCo and other 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 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 AEPSC due to its activity in AEPSC's cost reimbursement structure. However, AEGCo does 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. Total billings from AEPSC for the three months ended June 30, 2010 and 2009 were $4 million and $3 million, respectively, and for the six months ended June 30, 2010 and 2009 were $6 million and $6 million, respectively. The carrying amount of liabilities associated with AEPSC as of June 30, 2010 and December 31, 2009 were $2 million and $690 thousand, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

2. 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 2009 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.

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 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 trial court dismissed the lawsuits.

In September 2009, the Second Circuit Court of Appeals issued a ruling on appeal remanding the cases to the Federal District Court for the Southern District of New York. The Second Circuit held that the issues of climate change and global warming do not raise political questions and that Congress' refusal to regulate CO_2 emissions does not mean that plaintiffs must wait for an initial policy determination by Congress or the President's administration to secure the relief sought in their complaints. The court stated that Congress could enact comprehensive legislation to regulate CO_2 emissions or that the Federal EPA could regulate CO_2 emissions under existing Clean Air Act authorities and that either of these actions could override any decision made by the district court under federal common law. The Second Circuit did not rule on whether the plaintiffs could proceed with their state common law nuisance claims. The defendants' petition for rehearing was denied. Management believes the actions are without merit and intends to continue to defend against the claims. The Solicitor General requested an extension of time to file a petition for review by the U.S. Supreme Court and the remaining defendants received a similar extension of time. Petitions are currently due on or before August 2, 2010.

In October 2009, the Fifth Circuit Court of Appeals reversed a decision by the Federal District Court for the District of Mississippi dismissing state common law nuisance claims in a putative class action by Mississippi residents asserting that CO_2 emissions exacerbated the effects of Hurricane Katrina. The Fifth Circuit held that there was no exclusive commitment of the common law issues raised in plaintiffs' complaint to a coordinate branch of government and that no initial policy determination was required to adjudicate these claims. The court granted petitions for rehearing. An additional recusal left the Fifth Circuit without a quorum to reconsider the decision and the appeal was dismissed, leaving the district court's decision in place. AEGCo was initially dismissed from this case without prejudice, but is named as a defendant in a pending fourth amended complaint. Unless the plaintiffs elect to file a petition for review by the U.S. Supreme Court, there will be no further proceedings in this case.

Management is unable to determine a range of potential losses that are reasonably possible of occurring.

Alaskan Villages' Claims

In 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 and 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. In October 2009, the judge dismissed plaintiffs' federal common law claim for nuisance, finding the claim barred by the political question doctrine and by plaintiffs' lack of standing to bring the claim. The judge also dismissed plaintiffs' state law claims without prejudice to refiling in state court. The plaintiffs appealed the decision. Management believes the action is without merit and intends to defend against the claims. Management is unable to determine a range of potential losses that are reasonably possible of occurring.

3. BUSINESS SEGMENTS

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

4. FAIR VALUE MEASUREMENTS

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 as of June 30, 2010 and December 31, 2009 are summarized in the following table:

	June 30, 2010		December 31, 2009	
	Book Value	Fair Value	Book Value	Fair Value
	(in thousands)			
Long-term Debt	$ 329,967	$ 345,228	$ 333,587	$ 338,602

5. 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 2001. 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. The years 2007 and 2008 are currently under examination. 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 and other AEP subsidiaries file 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 previously filed tax returns have positions that may be challenged by these tax authorities. However, management believes that the ultimate resolution of these audits will not 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.

6. FINANCING ACTIVITIES

Long-term Debt

Long-term debt principal payments made during the first six months of 2010 were:

Type of Debt	Principal Amount Paid (in thousands)	Interest Rate	Due Date
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, 2010 and December 31, 2009 is 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, 2010 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, 2010	Authorized Short-Term Borrowing Limit
		(in thousands)			
$ 110,426	$ -	$ 67,310	$ -	$ 90,269	$ 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, 2010 and 2009 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 Rates for Funds Borrowed from the Utility Money Pool	Average Interest Rates for Funds Loaned to the Utility Money Pool
2010	0.51%	0.09%	-%	-%	0.23%	-%
2009	2.28%	0.65%	-%	-%	1.30%	-%

Dividend Restrictions

Federal Power Act

The Federal Power Act prohibits AEGCo from participating "in the making or paying of any dividends of such public utility from any funds properly included in capital account." The term "capital account" is not defined in the Federal Power Act or its regulations. Management understands "capital account" to mean the par value of the common stock multiplied by the number of shares outstanding. This restriction does not limit the ability of AEGCo to pay dividends out of retained earnings.

7. COST REDUCTION INITIATIVES

In April 2010, management began initiatives to decrease both labor and non-labor expenditures with a goal of achieving significant reductions in operation and maintenance expenses. A total of 2,461 positions were eliminated as a result of process improvements, streamlined organizational designs and other efficiencies. Most of the affected employees terminated employment May 31, 2010. The severance program provides two weeks of base pay for every year of service along with other severance benefits.

Management recorded a charge to expense in the second quarter of 2010 primarily related to the headcount reduction initiatives.

AEGCo has no employees but receives allocated expenses.

Expense Allocation	Incurred	Settled	Remaining Balance at June 30, 2010
	(in thousands)		
$ 3,855	$ -	$ 19	$ 3,836

These costs relate primarily to severance benefits. They are included primarily in Other Operation on the income statement and Other Current Liabilities on the balance sheet.