

# AEP Generating Company

2010 Third 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.

<b>Term</b>	<b>Meaning</b>
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 <sub>2</sub>	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 Nine Months Ended September 30, 2010 and 2009  
(in thousands)  
(Unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>OPERATING REVENUES</b>	\$ 135,482	\$ 112,787	\$ 321,789	\$ 320,815
<b>EXPENSES</b>				
Fuel Used for Electric Generation	86,710	62,109	172,647	176,747
Rent - Rockport Plant Unit 2	17,070	17,070	51,212	51,212
Other Operation	6,502	6,094	23,960	17,680
Maintenance	3,366	4,809	12,024	12,280
Depreciation and Amortization	9,251	8,633	27,541	25,751
Taxes Other Than Income Taxes	1,430	1,099	2,806	3,298
<b>TOTAL EXPENSES</b>	<u>124,329</u>	<u>99,814</u>	<u>290,190</u>	<u>286,968</u>
<b>OPERATING INCOME</b>	11,153	12,973	31,599	33,847
<b>Other Income (Expense):</b>				
Other Income	3	9	38	5,106
Interest Expense	<u>(4,262)</u>	<u>(4,338)</u>	<u>(12,610)</u>	<u>(11,964)</u>
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	6,894	8,644	19,027	26,989
Income Tax Expense	<u>1,733</u>	<u>2,140</u>	<u>4,856</u>	<u>4,951</u>
<b>NET INCOME</b>	<u>\$ 5,161</u>	<u>\$ 6,504</u>	<u>\$ 14,171</u>	<u>\$ 22,038</u>

*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 Nine Months Ended September 30, 2010 and 2009**  
(in thousands)  
(Unaudited)

	<b>Common Stock</b>	<b>Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Total</b>
<b>TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2008</b>	\$ 1,000	\$ 233,184	\$ 54,289	\$ 288,473
Common Stock Dividends			(24,500)	<u>(24,500)</u>
<b>SUBTOTAL – COMMON SHAREHOLDER'S EQUITY</b>				<u>263,973</u>
<b>COMPREHENSIVE INCOME</b>				
<b>NET INCOME</b>			22,038	<u>22,038</u>
<b>TOTAL COMPREHENSIVE INCOME</b>				<u>22,038</u>
<b>TOTAL COMMON SHAREHOLDER'S EQUITY – SEPTEMBER 30, 2009</b>	<u>\$ 1,000</u>	<u>\$ 233,184</u>	<u>\$ 51,827</u>	<u>\$ 286,011</u>
<b>TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2009</b>	\$ 1,000	\$ 238,184	\$ 58,580	\$ 297,764
Common Stock Dividends			(15,000)	<u>(15,000)</u>
<b>SUBTOTAL – COMMON SHAREHOLDER'S EQUITY</b>				<u>282,764</u>
<b>COMPREHENSIVE INCOME</b>				
<b>NET INCOME</b>			14,171	<u>14,171</u>
<b>TOTAL COMPREHENSIVE INCOME</b>				<u>14,171</u>
<b>TOTAL COMMON SHAREHOLDER'S EQUITY – SEPTEMBER 30, 2010</b>	<u>\$ 1,000</u>	<u>\$ 238,184</u>	<u>\$ 57,751</u>	<u>\$ 296,935</u>

*See Condensed Notes to Condensed Financial Statements.*

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

	<b>2010</b>	<b>2009</b>
<b>CURRENT ASSETS</b>		
Accounts Receivable - Affiliated Companies	\$ 46,749	\$ 37,958
Fuel	56,026	50,004
Materials and Supplies	16,817	15,994
Accrued Tax Benefits	7,787	15,774
Prepayments and Other Current Assets	907	467
<b>TOTAL CURRENT ASSETS</b>	<b>128,286</b>	<b>120,197</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Electric:		
Production	1,450,566	1,443,263
Transmission	9,688	9,688
Other Property, Plant and Equipment	9,026	7,820
Construction Work in Progress	225,604	227,315
<b>Total Property, Plant and Equipment</b>	<b>1,694,884</b>	<b>1,688,086</b>
Accumulated Depreciation and Amortization	873,669	848,696
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT – NET</b>	<b>821,215</b>	<b>839,390</b>
<b>OTHER NONCURRENT ASSETS</b>		
Regulatory Assets	15,668	14,429
Deferred Charges and Other Noncurrent Assets	3,522	2,489
<b>TOTAL OTHER NONCURRENT ASSETS</b>	<b>19,190</b>	<b>16,918</b>
<b>TOTAL ASSETS</b>	<b>\$ 968,691</b>	<b>\$ 976,505</b>

*See Condensed Notes to Condensed Financial Statements.*

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

	<b>2010</b>	<b>2009</b>
<b>CURRENT LIABILITIES</b>	<b>(in thousands)</b>	
Advances from Affiliates	\$ 60,061	\$ 80,168
Accounts Payable:		
General	4,813	1,278
Affiliated Companies	28,082	32,175
Long-term Debt Due Within One Year – Nonaffiliated	52,273	7,273
Accrued Taxes	6,145	4,692
Accrued Rent - Rockport Plant Unit 2	23,427	4,963
Other Current Liabilities	1,251	4,890
<b>TOTAL CURRENT LIABILITIES</b>	<b>176,052</b>	<b>135,439</b>
<b>NONCURRENT LIABILITIES</b>		
Long-term Debt – Nonaffiliated	274,066	326,314
Deferred Income Taxes	73,071	64,443
Regulatory Liabilities and Deferred Investment Tax Credits	54,971	56,127
Deferred Gain on Sale and Leaseback - Rockport Plant Unit 2	67,872	72,050
Deferred Credits and Other Noncurrent Liabilities	25,724	24,368
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>495,704</b>	<b>543,302</b>
<b>TOTAL LIABILITIES</b>	<b>671,756</b>	<b>678,741</b>
Commitments and Contingencies (Note 2)		
<b>COMMON SHAREHOLDER'S EQUITY</b>		
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	57,751	58,580
<b>TOTAL COMMON SHAREHOLDER'S EQUITY</b>	<b>296,935</b>	<b>297,764</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>\$ 968,691</b>	<b>\$ 976,505</b>

*See Condensed Notes to Condensed Financial Statements.*

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

	<b>2010</b>	<b>2009</b>
<b>OPERATING ACTIVITIES</b>		
<b>Net Income</b>	\$ 14,171	\$ 22,038
<b>Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:</b>		
Depreciation and Amortization	27,541	25,751
Deferred Income Taxes	7,461	7,902
Deferred Investment Tax Credits	(2,462)	(2,462)
Amortization of Deferred Gain on Sale and Leaseback - Rockport Plant Unit 2	(4,178)	(4,179)
Allowance for Equity Funds Used During Construction	(35)	(5,166)
Property Taxes	(1,122)	(1,523)
Change in Other Noncurrent Assets	2,361	5,729
Change in Other Noncurrent Liabilities	1,517	5,555
<b>Changes in Certain Components of Working Capital:</b>		
Accounts Receivable	(8,791)	450
Fuel, Materials and Supplies	(6,845)	(5,921)
Accounts Payable	(577)	(858)
Accrued Taxes, Net	9,490	6,006
Accrued Interest	(3,689)	(3,937)
Accrued Rent - Rockport Plant Unit 2	18,464	18,464
Other Current Assets	(437)	(209)
Other Current Liabilities	(35)	(1,523)
<b>Net Cash Flows from Operating Activities</b>	<b>52,834</b>	<b>66,117</b>
<b>INVESTING ACTIVITIES</b>		
Construction Expenditures	(10,507)	(45,015)
Proceeds from Sales of Assets	258	-
<b>Net Cash Flows Used for Investing Activities</b>	<b>(10,249)</b>	<b>(45,015)</b>
<b>FINANCING ACTIVITIES</b>		
Change in Advances from Affiliates, Net	(20,107)	10,865
Retirement of Long-term Debt – Nonaffiliated	(7,273)	(7,273)
Principal Payments for Capital Lease Obligations	(205)	(194)
Dividends Paid on Common Stock	(15,000)	(24,500)
<b>Net Cash Flows Used For Financing Activities</b>	<b>(42,585)</b>	<b>(21,102)</b>
<b>Net Change in Cash and Cash Equivalents</b>	-	-
<b>Cash and Cash Equivalents at Beginning of Period</b>	-	-
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ -</b>	<b>\$ -</b>
<b>SUPPLEMENTARY INFORMATION</b>		
Cash Paid for Interest, Net of Capitalized Amounts	\$ 15,906	\$ 15,199
Net Cash Paid (Received) for Income Taxes	(8,180)	(2,248)
Noncash Acquisitions Under Capital Leases	103	1
Construction Expenditures Included in Accounts Payable at September 30,	156	461

*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 nine months ended September 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 November 1, 2010, the date that the 2010 third 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 September 30, 2010 and 2009 were \$2 million and \$3 million, respectively, and for the nine months ended September 30, 2010 and 2009 were both \$8 million. The carrying amount of liabilities associated with AEPSC as of September 30, 2010 and December 31, 2009 were \$1 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 (TVA). 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<sub>2</sub> 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<sub>2</sub> 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<sub>2</sub> emissions or that the Federal EPA could regulate CO<sub>2</sub> 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 defendants, excluding TVA, filed a petition for review with the U.S. Supreme Court in August 2010. The Solicitor General filed a brief in support of the petition on behalf of TVA. Responses to the petition are due in November 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<sub>2</sub> 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. Plaintiffs filed a petition with the U.S. Supreme Court asking the court to remand the case to the Fifth Circuit and reinstate the panel decision. Responses to the petition are due in November 2010.

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<sub>2</sub> 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 refile in state court. The plaintiffs appealed the decision. Briefing is complete and no date has been set for oral argument. 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 September 30, 2010 and December 31, 2009 are summarized in the following table:

	<b>September 30, 2010</b>		<b>December 31, 2009</b>	
	<b><u>Book Value</u></b>	<b><u>Fair Value</u></b>	<b><u>Book Value</u></b>	<b><u>Fair Value</u></b>
	<b>(in thousands)</b>			
Long-term Debt	\$ 326,339	\$ 361,754	\$ 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.

### *Federal Legislation*

The Small Business Jobs Act was enacted in September 2010. Included in this act was a one-year extension of the 50% bonus depreciation provision. The enacted provision will not have a material impact on AEGCo's net income or financial condition but will have a material favorable impact on cash flows.

## 6. FINANCING ACTIVITIES

### *Long-term Debt*

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

<u>Type of Debt</u>	<u>Principal Amount Paid</u> (in thousands)	<u>Interest Rate</u>	<u>Due Date</u>
Senior Unsecured Notes	\$ 7,273	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.

### *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.

### **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 September 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 nine months ended September 30, 2010 are described in the following table:

<b>Maximum Borrowings from Utility Money Pool</b>	<b>Maximum Loans to Utility Money Pool</b>	<b>Average Borrowings from Utility Money Pool</b>	<b>Average Loans to Utility Money Pool</b>	<b>Borrowings from Utility Money Pool as of September 30, 2010</b>	<b>Authorized Short-Term Borrowing Limit</b>
(in thousands)					
\$ 113,578	\$ -	\$ 69,242	\$ -	\$ 60,061	\$ 200,000

Maximum, minimum and average interest rates for funds either borrowed from or loaned to the Utility Money Pool for the nine months ended September 30, 2010 and 2009 are summarized in the following table:

	<b>Maximum Interest Rates for Funds Borrowed from the Utility Money Pool</b>	<b>Minimum Interest Rates for Funds Borrowed from the Utility Money Pool</b>	<b>Maximum Interest Rates for Funds Loaned to the Utility Money Pool</b>	<b>Minimum Interest Rates for Funds Loaned to the Utility Money Pool</b>	<b>Average Interest Rates for Funds Borrowed from the Utility Money Pool</b>	<b>Average Interest Rates for Funds Loaned to the Utility Money Pool</b>
2010	0.55 %	0.09 %	- %	- %	0.26 %	- %
2009	2.28 %	0.27 %	- %	- %	1.03 %	- %

### **7. COST REDUCTION INITIATIVES**

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

AEGCo 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.

<b>Expense Allocation</b>	<b>Incurred</b>	<b>Settled</b>	<b>Adjustments</b>	<b>Remaining Balance at September 30, 2010</b>
(in thousands)				
\$ 3,855	\$ -	\$ 4,766	\$ 1,048	\$ 137

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.