AEP Texas Central Company
and Subsidiaries

2011 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 Changes in Common Shareholder's Equity and Comprehensive Income (Loss) – Unaudited	3
Condensed Consolidated Balance Sheets – Unaudited	4
Condensed Consolidated Statements of Cash Flows – Unaudited	6
Index of Condensed Notes to Condensed Consolidated Financial Statements – Unaudited	7

- THIS PAGE INTENTIONALLY LEFT BLANK -

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 or Parent	American Electric Power Company, Inc., a holding company.
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.
AOCI	Accumulated Other Comprehensive Income.
ASU	Accounting Standard Update.
CAA	Clean Air Act.
CO_2	Carbon Dioxide and other greenhouse gases.
CTC	Competition Transition Charge, a transition charge applied to TCC's transmission and distribution rates for stranded costs and other true-up amounts as required by the Texas Restructuring Legislation.
ERCOT	Electric Reliability Council of Texas regional transmission organization.
ETT	Electric Transmission Texas, LLC, a 50% equity interest joint venture with MidAmerican Energy Holdings Company formed to own and operate electric transmission facilities in ERCOT.
FASB	Financial Accounting Standards Board.
Federal EPA	United States Environmental Protection Agency.
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.
OPEB	Other Postretirement Benefit Plans.
OTC	Over the counter.
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.
Texas Restructuring Legislation	Legislation enacted in 1999 to restructure the electric utility industry in Texas.
Transition Funding	AEP Texas Central Transition Funding I LLC and AEP Texas Central Transition Funding II LLC, wholly-owned subsidiaries of TCC and consolidated variable interest entities formed for the purpose of issuing and servicing securitization bonds related to Texas restructuring law.
True-up Proceeding	A filing made under the Texas Restructuring Legislation to finalize the amount of stranded costs and other true-up items and the recovery of such amounts.
Utility Money Pool	AEP System's Utility Money Pool is the centralized funding mechanism AEP uses to meet the short term cash requirements of pool participants.
VIE	Variable Interest Entity.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three and Nine Months Ended September 30, 2011 and 2010
(in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	2011	2010	2011	2010
REVENUES				
Electric Transmission and Distribution	$ 263,727	$ 248,357	$ 708,086	$ 685,949
Sales to AEP Affiliates	931	1,043	2,787	3,126
Other Revenues	296	573	1,316	1,314
TOTAL REVENUES	264,954	249,973	712,189	690,389
EXPENSES				
Other Operation	67,255	63,464	186,496	217,779
Maintenance	9,025	9,655	27,239	26,862
Depreciation and Amortization	85,600	76,081	218,701	203,380
Taxes Other Than Income Taxes	19,804	20,657	55,237	57,016
TOTAL EXPENSES	181,684	169,857	487,673	505,037
OPERATING INCOME	83,270	80,116	224,516	185,352
Other Income (Expense):				
Interest Income	2,605	122	3,417	308
Carrying Costs Income	261,396	-	261,396	-
Allowance for Equity Funds Used During Construction	604	3,419	1,611	4,066
Interest Expense	(34,374)	(34,983)	(106,760)	(111,345)
INCOME BEFORE INCOME TAX EXPENSE	313,501	48,674	384,180	78,381
Income Tax Expense	111,568	18,046	138,049	29,033
INCOME BEFORE EXTRAORDINARY ITEM	201,933	30,628	246,131	49,348
EXTRAORDINARY ITEM, NET OF TAX	273,452	-	273,452	-
NET INCOME	475,385	30,628	519,583	49,348
Preferred Stock Dividend Requirements	54	58	163	178
EARNINGS ATTRIBUTABLE TO COMMON STOCK	$ 475,331	$ 30,570	$ 519,420	$ 49,170

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

See Condensed Notes to Condensed Consolidated Financial Statements.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY AND COMPREHENSIVE INCOME (LOSS)
For the Nine Months Ended September 30, 2011 and 2010
(in thousands)
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2009	$ 55,292	$ 171,263	$ 368,126	$ 163	$ 594,844
Common Stock Dividends			(25,069)		(25,069)
Preferred Stock Dividends			(178)		(178)
Gain on Reacquired Preferred Stock		32			32
SUBTOTAL – COMMON SHAREHOLDER'S EQUITY					569,629
COMPREHENSIVE INCOME					
Other Comprehensive Loss, Net of Taxes:					
Cash Flow Hedges, Net of Tax of $83				(155)	(155)
NET INCOME			49,348		49,348
TOTAL COMPREHENSIVE INCOME					49,193
TOTAL COMMON SHAREHOLDER'S EQUITY – SEPTEMBER 30, 2010	$ 55,292	$ 171,295	$ 392,227	$ 8	$ 618,822
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2010	$ 55,292	$ 171,295	$ 394,337	$ 115	$ 621,039
Common Stock Dividends			(47,500)		(47,500)
Preferred Stock Dividends			(163)		(163)
Gain on Reacquired Preferred Stock		51			51
SUBTOTAL – COMMON SHAREHOLDER'S EQUITY					573,427
COMPREHENSIVE INCOME					
Other Comprehensive Loss, Net of Taxes:					
Cash Flow Hedges, Net of Tax of $130				(242)	(242)
NET INCOME			519,583		519,583
TOTAL COMPREHENSIVE INCOME					519,341
TOTAL COMMON SHAREHOLDER'S EQUITY – SEPTEMBER 30, 2011	$ 55,292	$ 171,346	$ 866,257	$ (127)	$ 1,092,768

See Condensed Notes to Condensed Consolidated Financial Statements.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
ASSETS
September 30, 2011 and December 31, 2010
(in thousands)
(Unaudited)

	2011	2010
CURRENT ASSETS		
Cash and Cash Equivalents	$ 200	$ 274
Restricted Cash for Securitized Transition Funding	123,170	184,040
Advances to Affiliates	15,968	141,584
Accounts Receivable:		
Customers	88,772	63,405
Affiliated Companies	5,716	6,090
Accrued Unbilled Revenues	51,845	41,880
Miscellaneous	15	50
Allowance for Uncollectible Accounts	(459)	(67)
Total Accounts Receivable	145,889	111,358
Materials and Supplies	30,018	25,626
Prepayments and Other Current Assets	4,809	1,880
TOTAL CURRENT ASSETS	320,054	464,762
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Transmission	1,107,248	1,067,604
Distribution	1,983,253	1,924,518
Other Property, Plant and Equipment	260,143	254,354
Construction Work in Progress	71,985	75,440
Total Property, Plant and Equipment	3,422,629	3,321,916
Accumulated Depreciation and Amortization	742,672	706,640
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	2,679,957	2,615,276
OTHER NONCURRENT ASSETS		
Regulatory Assets	964,394	278,373
Securitized Transition Assets (September 30, 2011 and December 31, 2010 amounts include $1,609,757 and $1,723,117, respectively, related to Transition Funding)	1,624,540	1,741,655
Deferred Charges and Other Noncurrent Assets	38,153	30,783
TOTAL OTHER NONCURRENT ASSETS	2,627,087	2,050,811
TOTAL ASSETS	$ 5,627,098	$ 5,130,849

See Condensed Notes to Condensed Consolidated Financial Statements.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND SHAREHOLDERS' EQUITY
September 30, 2011 and December 31, 2010
(dollars in thousands)
(Unaudited)

	2011	2010
CURRENT LIABILITIES		
Accounts Payable:		
General	$ 28,703	$ 27,929
Affiliated Companies	12,331	40,957
Long-term Debt Due Within One Year – Nonaffiliated (September 30, 2011 and December 31, 2010 amounts include $171,574 and $159,443, respectively, related to Transition Funding)	231,574	279,708
Customer Deposits	12,866	12,873
Accrued Taxes	70,383	49,861
Accrued Interest (September 30, 2011 and December 31, 2010 amounts include $21,826 and $48,609, respectively, related to Transition Funding)	36,388	63,136
Other Current Liabilities	30,849	28,299
TOTAL CURRENT LIABILITIES	423,094	502,763
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated (September 30, 2011 and December 31, 2010 amounts include $1,515,672 and $1,687,175, respectively, related to Transition Funding)	2,159,103	2,330,566
Deferred Income Taxes	1,253,655	1,013,232
Regulatory Liabilities and Deferred Investment Tax Credits	585,383	538,964
Deferred Credits and Other Noncurrent Liabilities	107,749	118,581
TOTAL NONCURRENT LIABILITIES	4,105,890	4,001,343
TOTAL LIABILITIES	4,528,984	4,504,106
Cumulative Preferred Stock Not Subject to Mandatory Redemption	5,346	5,704
Rate Matters (Note 3)		
Commitments and Contingencies (Note 4)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – Par Value – $25 Per Share:		
Authorized – 12,000,000 Shares		
Outstanding – 2,211,678 Shares	55,292	55,292
Paid-in Capital	171,346	171,295
Retained Earnings	866,257	394,337
Accumulated Other Comprehensive Income (Loss)	(127)	115
TOTAL COMMON SHAREHOLDER'S EQUITY	1,092,768	621,039
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 5,627,098	$ 5,130,849

See Condensed Notes to Condensed Consolidated Financial Statements.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2011 and 2010
(in thousands)
(Unaudited)

	2011	2010
OPERATING ACTIVITIES		
Net Income	$ 519,583	$ 49,348
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	218,701	203,380
Deferred Income Taxes	95,273	(23,751)
Extraordinary Item, Net of Tax	(273,452)	-
Carrying Costs Income	(261,396)	-
Allowance for Equity Funds Used During Construction	(1,611)	(4,066)
Property Taxes	(6,689)	(7,133)
Change in Other Noncurrent Assets	(6,061)	734
Change in Other Noncurrent Liabilities	8,238	11,875
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	(34,531)	(19,033)
Materials and Supplies	(4,392)	294
Accounts Payable	(21,714)	(8,712)
Customer Deposits	(7)	681
Accrued Taxes, Net	15,049	26,198
Accrued Interest	(26,748)	(26,786)
Other Current Assets	(722)	2,486
Other Current Liabilities	1,914	(12,099)
Net Cash Flows from Operating Activities	221,435	193,416
INVESTING ACTIVITIES		
Construction Expenditures	(153,170)	(119,367)
Change in Restricted Cash for Securitized Transition Funding	60,870	58,027
Change in Advances to Affiliates, Net	125,616	(24,638)
Proceeds from Sales of Assets	14,346	67,562
Other Investing Activities	66	(836)
Net Cash Flows from (Used for) Investing Activities	47,728	(19,252)
FINANCING ACTIVITIES		
Issuance of Long-term Debt – Nonaffiliated	59,656	-
Retirement of Long-term Debt – Nonaffiliated	(279,708)	(147,833)
Retirement of Cumulative Preferred Stock	(307)	(168)
Principal Payments for Capital Lease Obligations	(1,298)	(1,180)
Dividends Paid on Common Stock	(47,500)	(25,069)
Dividends Paid on Cumulative Preferred Stock	(163)	(178)
Other Financing Activities	83	264
Net Cash Flows Used for Financing Activities	(269,237)	(174,164)
Net Decrease in Cash and Cash Equivalents	(74)	-
Cash and Cash Equivalents at Beginning of Period	274	200
Cash and Cash Equivalents at End of Period	$ 200	$ 200
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest, Net of Capitalized Amounts	$ 127,807	$ 134,976
Net Cash Paid for Income Taxes	34,282	36,526
Noncash Acquisitions Under Capital Leases	559	550
Construction Expenditures Included in Current Liabilities at September 30,	11,876	11,224

See Condensed Notes to Condensed Consolidated Financial Statements.

INDEX OF CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Matters
2. New Accounting Pronouncements and Extraordinary Item
3. Rate Matters
4. Commitments, Guarantees and Contingencies
5. Dispositions
6. Benefit Plans
7. Business Segments
8. Derivatives and Hedging
9. Fair Value Measurements
10. Income Taxes
11. Financing Activities
12. Cost Reduction Initiatives

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

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, 2011 is not necessarily indicative of results that may be expected for the year ending December 31, 2011. The condensed consolidated financial statements are unaudited and should be read in conjunction with the audited 2010 financial statements and notes thereto, which are included in TCC's 2010 Annual Report.

Management reviewed subsequent events through October 28, 2011, the date that the third quarter 2011 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 TCC is the primary beneficiary of a VIE, management considers factors such as equity at risk, the amount of the VIE's variability TCC absorbs, guarantees of indebtedness, voting rights including kick-out rights, the 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 TCC is the primary beneficiary. In addition, TCC has not provided financial or other support to any VIE that was not previously contractually required.

AEP Texas Central Transition Funding I LLC and AEP Texas Central Transition Funding II LLC, wholly-owned subsidiaries of TCC, (collectively Transition Funding) were formed for the sole purpose of issuing and servicing securitization bonds related to Texas Restructuring Legislation. Management has concluded that TCC is the primary beneficiary of Transition Funding because TCC has the power to direct the most significant activities of the VIE and TCC's equity interest could potentially be significant. Therefore, TCC is required to consolidate Transition Funding. The securitized bonds totaled $1.7 billion and $1.8 billion at September 30, 2011 and December 31, 2010, respectively, and are included in current and long-term debt on the condensed balance sheets. Transition Funding has securitized transition assets of $1.6 billion and $1.7 billion at September 30, 2011 and December 31, 2010, respectively, which are presented separately on the face of the condensed balance sheets. The securitized transition assets represent the right to impose and collect Texas true-up costs from customers receiving electric transmission or distribution service from TCC under recovery mechanisms approved by the PUCT. The securitization bonds are payable only from and secured by the securitized transition assets. The bondholders have no recourse to TCC or any other AEP entity. TCC acts as the servicer for Transition Funding's securitized transition asset and remits all related amounts collected from customers to Transition Funding for interest and principal payments on the securitization bonds and related costs.

The balances below represent the assets and liabilities of Transition Funding that are consolidated. These balances include intercompany transactions that are eliminated upon consolidation.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
VARIABLE INTEREST ENTITIES
September 30, 2011 and December 31, 2010
(in millions)

	Transition Funding	
ASSETS	**2011**	**2010**
Current Assets	$ 162	$ 214
Other Noncurrent Assets	1,629	1,746
Total Assets	$ 1,791	$ 1,960
LIABILITIES AND EQUITY		
Current Liabilities	$ 206	$ 221
Noncurrent Liabilities	1,571	1,725
Equity	14	14
Total Liabilities and Equity	$ 1,791	$ 1,960

AEPSC provides certain managerial and professional services to AEP's subsidiaries. AEP is the sole equity owner of AEPSC. AEP management controls the activities of AEPSC. The costs of the services are based on a direct charge or on a prorated basis and billed to the AEP subsidiary companies at AEPSC's cost. AEP subsidiaries have not provided financial or other support outside the reimbursement of costs for services rendered. AEPSC finances its operations through cost reimbursement from other AEP subsidiaries. There are no other terms or arrangements between AEPSC and any of the AEP subsidiaries that could require additional financial support from an AEP subsidiary or expose them to losses outside of the normal course of business. AEPSC and its billings are subject to regulation by the FERC. AEP subsidiaries are exposed to losses to the extent they cannot recover the costs of AEPSC through their normal business operations. AEP subsidiaries are considered to have a significant interest in AEPSC due to their activity in AEPSC's cost reimbursement structure. However, AEP subsidiaries do not have control over AEPSC. AEPSC is consolidated by AEP. In the event AEPSC would require financing or other support outside the cost reimbursement billings, this financing would be provided by AEP. TCC's total billings from AEPSC for the three months ended September 30, 2011 and 2010 were $16 million and $15 million, respectively, and for the nine months ended September 30, 2011 and 2010 were $47 million and $60 million, respectively. The carrying amount of liabilities associated with AEPSC as of September 30, 2011 and December 31, 2010 was $7 million and $6 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

2. NEW ACCOUNTING PRONOUNCEMENTS AND EXTRAORDINARY ITEM

NEW ACCOUNTING PRONOUNCEMENTS

Upon issuance of final pronouncements, management reviews the new accounting literature to determine its relevance, if any, to TCC's business. The following represents a summary of final pronouncements that impact the financial statements.

Pronouncements Issued During 2011

The following standard was issued during the first nine months of 2011. The following paragraphs discuss its impact on future financial statements.

ASU 2011-05 "Presentation of Comprehensive Income" (ASU 2011-05)

In June 2011, the FASB issued ASU 2011-05 eliminating the option to present the components of other comprehensive income as a part of the statement of shareholders' equity. The standard requires other comprehensive income be presented as part of a single continuous statement of comprehensive income or in a statement of other comprehensive income immediately following the statement of net income.

The new accounting guidance is effective for interim and annual periods beginning after December 15, 2011. Early adoption is permitted. This standard must be retrospectively applied to all reporting periods presented in financial reports issued after the effective date. This standard will change the presentation of the financial statements but will not affect the calculation of net income or comprehensive income. The FASB is currently considering deferral of reclassification adjustment presentation provisions of ASU 2011-05. Absent a deferral of this accounting guidance in its entirety, management expects to adopt ASU 2011-05 for the 2011 Annual Report.

EXTRAORDINARY ITEM

In February 2006, the PUCT issued an order that denied recovery of capacity auction true-up amounts. Based on the February 2006 PUCT order, TCC recorded the disallowance as a $421 million ($273 million, net of tax) extraordinary loss in the December 31, 2005 financial statements. In July 2011, the Supreme Court of Texas reversed the PUCT's February 2006 disallowance of capacity auction true-up amounts. In September 2011, the PUCT issued a preliminary order in a remand proceeding. Based upon the Supreme Court of Texas opinion, TCC recorded a pretax gain of $421 million ($273 million, net of tax) in Extraordinary Item, Net of Tax on the condensed statements of income in the third quarter of 2011. See "Texas Restructuring" section of Note 3.

3. RATE MATTERS

As discussed in TCC's 2010 Annual Report, TCC is involved in rate and regulatory proceedings at the FERC and the PUCT. The Rate Matters note within TCC's 2010 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 2011 and updates TCC's 2010 Annual Report.

Regulatory Assets Not Yet Being Recovered

Noncurrent Regulatory Assets (excluding fuel)	September 30, 2011	December 31, 2010
	(in thousands)	
Regulatory assets not yet being recovered pending future proceedings to determine the recovery method and timing:		
Regulatory Assets Currently Earning a Return		
Capacity Auction True-Up	$ 682,092	$ -
Storm Related Costs	24,491	24,372
Regulatory Assets Currently Not Earning a Return		
Rate Case Expenses	145	139
Total Regulatory Assets Not Yet Being Recovered	$ 706,728	$ 24,511

TEXAS RESTRUCTURING

Texas Restructuring Appeals

Pursuant to PUCT restructuring orders, TCC securitized net recoverable stranded generation costs of $2.5 billion and is recovering the principal and interest on the securitization bonds through the end of 2020. TCC also refunded other net true-up regulatory liabilities of $375 million during the period October 2006 through June 2008 via a CTC credit rate rider under PUCT restructuring orders. TCC and intervenors appealed the PUCT's true-up related orders. After rulings from the Texas District Court and the Texas Court of Appeals, TCC, the PUCT and intervenors filed petitions for review with the Supreme Court of Texas. In July 2011, the Supreme Court of Texas granted review and issued its opinion. No parties filed for rehearing with the Supreme Court of Texas, and the case was remanded to the PUCT. The following issues were decided by the Supreme Court:

- The PUCT's 2006 order denying recovery of capacity auction true-up amounts was reversed. Based upon the Supreme Court of Texas' opinion, TCC recorded $421 million of pretax income ($273 million, net of tax) in Extraordinary Item, Net of Tax on the condensed statements of income in the third quarter of 2011. Further, in October 2011, the PUCT issued a preliminary order in the remand proceeding.

  Also in the third quarter of 2011, TCC recorded $261 million in pretax Carrying Costs Income on the condensed statements of income related to the debt component of carrying costs for the period from January 2002 through September 2011. This carrying costs income represents previously unrecorded earnings associated with restructuring in Texas since 2002. The total regulatory asset related to the capacity auction true-up as of September 30, 2011 was $682 million. In October 2011, TCC filed with the PUCT requesting a final determination of the amount to be securitized. In its filing, TCC presented three alternative carrying cost calculations through March 2012, the anticipated securitization date, where the debt and equity component of carrying costs ranged from $396 million to $756 million, including $280 million to $444 million for the debt component of carrying costs. As of September 30, 2011, the corresponding range of the debt and equity component of carrying costs was $368 million to $692 million, including $261 million to $410 million for the debt component of carrying costs. The final amount of carrying costs will be determined by the PUCT and could vary from the calculations presented by TCC. TCC plans to recognize debt carrying costs income prior to securitization and equity carrying costs income will be recognized as collected over the life of the securitization. A PUCT hearing is scheduled for November 2011.

- The Supreme Court of Texas reversed the Texas Court of Appeal's decision and found that the PUCT could adjust the net book value for what it determined to be commercially unreasonable conduct. This portion of the decision is unfavorable, but was already reflected in our financial statements.

- The Supreme Court of Texas affirmed the PUCT's finding that the sales price should be used to value TCC's nuclear generation. This portion of the decision is favorable, but this issue will have no impact on TCC's rate recovery as this was already reflected in our financial statements.

- The Supreme Court of Texas reversed the Texas Court of Appeal's decision and found it was appropriate for the PUCT to take into account previously refunded excess mitigation credits to affiliate retail electricity providers. This portion of the decision upheld the PUCT's decision. However, resolution of related issues will be addressed on remand in the excess earnings proceeding. See the "TCC Excess Earnings" section below.

- The PUCT decisions allowing recovery of construction work in progress balances and specifying the interest rate on stranded costs were upheld. These decisions are already reflected in our financial statements and were not addressed in the remand proceeding.

If TCC is not ultimately permitted to fully recover its deferrals, it would reduce future net income and cash flows and impact financial condition.

TCC Deferred Investment Tax Credits and Excess Deferred Federal Income Taxes

In 2006, the PUCT reduced recovery of the amount securitized by $103 million of tax benefits including associated carrying costs related to TCC's generation assets. In 2006, TCC obtained a private letter ruling from the IRS which confirmed that such a reduction was an IRS normalization violation. In order to avoid a normalization violation, the PUCT agreed to allow TCC to defer refunding the tax benefits of $103 million plus additional interest through the CTC refund period pending resolution of the normalization issue. In 2008, the IRS issued final regulations, which supported the IRS's private letter ruling which would make the refunding of or the reduction of the amount securitized by such tax benefits a normalization violation. After the IRS issued its final regulations, the Texas Court of Appeals, at the request of the PUCT, remanded the tax normalization issue to the PUCT for the consideration of additional evidence including the IRS regulations. The issue was not appealed to the Supreme Court of Texas but it was addressed in connection with the remand of the true-up proceeding. See the "Texas Restructuring Appeals" section above. In August 2011, the Supreme Court of Texas issued a mandate to return this proceeding and other true-up proceedings to the PUCT. The PUCT established a proceeding to address this issue along with other true-up remanded issues. TCC is not accruing interest on the $103 million because management believes it is not probable that the PUCT will order TCC to violate the normalization provision of the Internal Revenue Code. If interest were accrued, management estimates interest expense would have been approximately $30 million higher for the period July 2008 through September 2011.

Management believes that the PUCT will ultimately allow TCC to retain the deferred amounts, which would have a favorable effect on future net income and cash flows. Although unexpected, if the PUCT fails to issue a favorable order and orders TCC to return the tax benefits to customers, the resulting normalization violation could result in TCC's repayment to the IRS of Accumulated Deferred Investment Tax Credits (ADITC) on all property, including transmission and distribution property. This amount approximates $101 million as of September 30, 2011. It could also lead to a loss of TCC's right to claim accelerated tax depreciation in future tax returns. If TCC is required to repay its ADITC to the IRS and is also required to refund ADITC plus unaccrued interest to customers, it would reduce future net income and cash flows and impact financial condition.

TCC Excess Earnings

In 2005, a Texas appellate court issued a decision finding that a PUCT order requiring TCC to refund to the Texas Retail Electric Providers excess earnings prior to and outside of the true-up process was unlawful under the Texas Restructuring Legislation. From 2002 to 2005, TCC refunded $55 million of excess earnings, including interest, under the overturned PUCT order. In the true-up proceeding, the PUCT adjusted stranded costs for TCC's payment of excess earnings under the PUCT order. However, the PUCT did not properly recognize TCC's payment of interest under the prior order, causing TCC to refund interest twice. The Supreme Court of Texas approved the PUCT treatment of these matters in the true-up case, noting that TCC could pursue its additional interest claim in further proceedings related to the excess earnings order. TCC intends to assert its claims in a remand of this order to the PUCT.

4. COMMITMENTS, GUARANTEES AND CONTINGENCIES

TCC is subject to certain claims and legal actions arising in its ordinary course of business. In addition, TCC's business activities are subject to extensive governmental regulation related to public health and the environment. The ultimate outcome of such pending or potential litigation cannot be predicted. For current proceedings not specifically discussed below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on the financial statements. The Commitments, Guarantees and Contingencies note within TCC's 2010 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

TCC 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, 2011, there were no material liabilities recorded for any indemnifications.

Master Lease Agreements

TCC leases certain equipment under master lease agreements. In December 2010, management signed a new master lease agreement with GE Capital Commercial Inc. (GE) to replace existing operating and capital leases with GE. These assets were included in existing master lease agreements that were to be terminated in 2011 since GE exercised the termination provision related to these leases in 2008. Certain previously leased assets were not included in the 2010 refinancing, but were purchased in January 2011.

For equipment under the GE master lease agreements, the lessor is guaranteed receipt of up to 78% of the unamortized balance of the equipment at the end of the lease term. If the fair value of the leased equipment is below the unamortized balance at the end of the lease term, TCC is committed to pay the difference between the fair value and the unamortized balance, with the total guarantee not to exceed 78% of the unamortized balance. For equipment under other master 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, TCC is committed to pay the difference between the actual fair value and the residual value guarantee. At September 30, 2011, the maximum potential loss for these lease agreements was approximately $3 million assuming the fair value of the equipment is zero at the end of the lease term. Historically, at the end of the lease term the fair value has been in excess of the unamortized balance.

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. In 2010, the U.S. Supreme Court granted the defendants' petition for review. In June 2011, the U.S. Supreme Court reversed and remanded the case to the Court of Appeals, finding that plaintiffs' federal common law claims are displaced by the regulatory authority granted to the Federal EPA under the CAA. After the remand, the plaintiffs asked the Second Circuit to return the case to the district court so that they could withdraw their complaints. The cases have been returned to the district court and the parties have been ordered to advise the court in November 2011 how they intend to proceed.

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. 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. The petition was denied in January 2011. Plaintiffs refiled their complaint in federal district court. The court ordered all defendants to respond to the refiled complaints in October 2011 and set a status conference for December 1, 2011. Management believes the claims are without merit, and in addition to other defenses, are barred by the doctrine of collateral estoppel and the applicable statute of limitations. Management intends to vigorously defend against the claims. 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. The defendants requested that the court defer setting this case for oral argument until after the Supreme Court issues its decision in the CO_2 public nuisance case discussed above. The court entered an order deferring argument until after June 2011 and the parties requested supplemental briefing on the impact of the Supreme Court's decision. The court has set a November 2011 date 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.

Claims by the City of Brownsville, Texas Against TCC

In 2007, the City of Brownsville, Texas filed an original petition in litigation pending in the District Court of Dallas County, Texas. The petition seeks recovery against TCC based on allegations of breach of contract, breach of fiduciary duty, unjust enrichment, constructive trust, conversion, breach of the Texas theft liability act and fraud allegedly occurring in connection with a transaction in which Brownsville purchased TCC's interest in the Oklaunion electric generating station. The court signed the Final Summary Judgment in favor of TCC on Brownsville's claims against TCC and severed TCC's claims against Brownsville for further proceedings. Brownsville filed an appeal to the Dallas Court of Appeals. The Court of Appeals ordered the parties to mediate this dispute. Mediation was unsuccessful. Oral argument was heard by the Court of Appeals in December 2010. In July 2011, the Court of Appeals partially reversed the district court and remanded certain issues to the district court. TCC's motion for rehearing was denied by the Court of Appeals. In October 2011, TCC filed a petition for review of the court of appeals opinion in the Supreme Court of Texas. Management believes that the claims are without merit and intends to defend against them vigorously. Management is unable to determine a range of potential losses that are reasonably possible of occurring.

5. DISPOSITIONS

2011

During the nine months ended September 30, 2011, TCC sold, at cost, $10 million of transmission facilities to ETT.

2010

During the nine months ended September 30, 2010, TCC sold, at cost, $66 million of transmission facilities to ETT.

6. BENEFIT PLANS

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

Components of Net Periodic Benefit Cost

The following tables provide the components of TCC's net periodic benefit cost for the plans for the three and nine months ended September 30, 2011 and 2010:

	Pension Plans		Other Postretirement Benefit Plans	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2011	2010	2011	2010
	(in thousands)			
Service Cost	$ 1,250	$ 1,388	$ 555	$ 615
Interest Cost	4,130	4,648	1,700	1,783
Expected Return on Plan Assets	(5,453)	(6,432)	(1,775)	(1,727)
Amortization of Transition Obligation	-	-	-	866
Amortization of Prior Service Credit	(318)	(317)	(16)	-
Amortization of Net Actuarial Loss	2,118	1,631	440	445
Net Periodic Benefit Cost	$ 1,727	$ 918	$ 904	$ 1,982

	Pension Plans		Other Postretirement Benefit Plans	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in thousands)			
Service Cost	$ 3,750	$ 4,166	$ 1,664	$ 1,846
Interest Cost	12,390	13,944	5,098	5,349
Expected Return on Plan Assets	(16,358)	(19,296)	(5,325)	(5,182)
Amortization of Transition Obligation	-	-	-	2,601
Amortization of Prior Service Credit	(953)	(953)	(47)	-
Amortization of Net Actuarial Loss	6,354	4,892	1,320	1,334
Net Periodic Benefit Cost	$ 5,183	$ 2,753	$ 2,710	$ 5,948

7. BUSINESS SEGMENTS

TCC has one reportable segment, an integrated electricity transmission and distribution business. TCC's other activities are insignificant.

8. DERIVATIVES AND HEDGING

Cash Flow Hedging Strategies

TCC's vehicle fleet is exposed to gasoline and diesel fuel price volatility. AEPSC, on behalf of TCC, enters into financial heating oil and gasoline derivative contracts in order to mitigate price risk of future fuel purchases. Not all fuel price risk exposure is hedged. The gross notional volumes of TCC's outstanding derivative contracts for heating oil and gasoline as of September 30, 2011 and December 31, 2010 were 1 million gallons and 808 thousand gallons, respectively.

The following tables represent the gross fair value impact of TCC's derivative activity on the condensed balance sheets as of September 30, 2011 and December 31, 2010:

Fair Value of Derivative Instruments
September 30, 2011

Balance Sheet Location	Hedging Contracts (a)	Other (b)	Total
		(in thousands)	
Prepayments and Other Current Assets	$ 51	$ -	$ 51
Deferred Charges and Other Noncurrent Assets	-	-	-
Total Assets	51	-	51
Other Current Liabilities	232	(196)	36
Deferred Credits and Other Noncurrent Liabilities	59	(56)	3
Total Liabilities	291	(252)	39
Total MTM Derivative Contract Net Assets	$ (240)	$ 252	$ 12

Fair Value of Derivative Instruments
December 31, 2010

Balance Sheet Location	Hedging Contracts (a)	Other (b)	Total
		(in thousands)	
Prepayments and Other Current Assets	$ 175	$ -	$ 175
Deferred Charges and Other Noncurrent Assets	-	-	-
Total Assets	175	-	175
Other Current Liabilities	-	-	-
Deferred Credits and Other Noncurrent Liabilities	-	-	-
Total Liabilities	-	-	-
Total MTM Derivative Contract Net Assets	$ 175	$ -	$ 175

(a) Derivative instruments within these categories are reported gross. These instruments are subject to master netting agreements and are presented on the condensed 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." Amounts also include de-designated risk management contracts.

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), TCC 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 condensed balance sheets until the period the hedged item affects Net Income. TCC records hedge ineffectiveness as a regulatory asset (for losses) or a regulatory liability (for gains).

TCC reclassifies gains and losses on financial fuel derivative contracts designated as cash flow hedges from Accumulated Other Comprehensive Income (Loss) on its balance sheets into Other Operation expense, Maintenance expense or Depreciation and Amortization expense, as it relates to capital projects, on its condensed statements of income. During the three and nine months ended September 30, 2011 and 2010, TCC designated heating oil and gasoline derivatives as cash flow hedges. Hedge ineffectiveness was immaterial for this hedge strategy.

The following tables provide details on designated, effective cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on TCC's condensed balance sheets and the reasons for changes in cash flow hedges for the three and nine months ended September 30, 2011 and 2010. All amounts in the following tables are presented net of related income taxes.

Total Accumulated Other Comprehensive Income (Loss) Activity for Cash Flow Hedges
For the Three Months Ended September 30, 2011 and 2010

	2011	2010
	(in thousands)	
Balance in AOCI as of July 1,	$ 191	$ (52)
Changes in Fair Value Recognized in AOCI	(198)	85
Amount of (Gain) or Loss Reclassified from AOCI to Income Statement/within Balance Sheet:		
Other Operation Expense	(43)	(11)
Maintenance Expense	(31)	(6)
Property, Plant and Equipment	(46)	(8)
Balance in AOCI as of September 30,	$ (127)	$ 8

Total Accumulated Other Comprehensive Income (Loss) Activity for Cash Flow Hedges
For the Nine Months Ended September 30, 2011 and 2010

	2011	2010
	(in thousands)	
Balance in AOCI as of January 1,	$ 115	$ 163
Changes in Fair Value Recognized in AOCI	71	(50)
Amount of (Gain) or Loss Reclassified from AOCI to Income Statement/within Balance Sheet:		
Other Operation Expense	(113)	(46)
Maintenance Expense	(82)	(25)
Property, Plant and Equipment	(118)	(34)
Balance in AOCI as of September 30,	$ (127)	$ 8

Cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on TCC's condensed balance sheets at September 30, 2011 and December 31, 2010 were:

Impact of Cash Flow Hedges on the Condensed Balance Sheet
September 30, 2011 and December 31, 2010

	September 30, 2011	December 31, 2010
	(in thousands)	
Hedging Assets	$ 51	$ 175
Hedging Liabilities	291	-
AOCI Gain (Loss) Net of Tax	(127)	115
Portion Expected to be Reclassified to Net Income During the Next Twelve Months	(88)	115

The actual amounts that TCC 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, 2011, the maximum length of time that TCC is hedging (with contracts subject to the accounting guidance for "Derivatives and Hedging") exposure to variability in future cash flows related to forecasted transactions is 15 months.

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.

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 non-binding 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. Long-dated and illiquid complex or structured transactions and FTRs can introduce the need for internally developed modeling inputs based upon extrapolations and assumptions of observable market data to estimate fair value. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized as Level 3.

For Restricted Cash for Securitized Transition Funding, items classified as Level 1 are investments in money market funds. They are valued based on observable inputs primarily unadjusted quoted prices in active markets for identical assets.

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 TCC's Long-term Debt as of September 30, 2011 and December 31, 2010 are summarized in the following table:

	September 30, 2011		**December 31, 2010**	
	Book Value	**Fair Value**	**Book Value**	**Fair Value**
	(in thousands)			
Long-term Debt	$ 2,390,677	$ 2,733,017	$ 2,610,274	$ 2,827,552

Fair Value Measurements of Financial Assets and Liabilities

The following tables set forth, by level within the fair value hierarchy, TCC's financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2011 and December 31, 2010. 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, 2011

	Level 1	Level 2	Level 3	Other	Total
Assets:			(in thousands)		
Restricted Cash for Securitized Transition Funding (a)	$ 123,170	$ -	$ -	$ 14	$ 123,184
Risk Management Assets					
Cash Flow Hedges:					
Commodity Hedges	-	51	-	-	51
Total Assets	$ 123,170	$ 51	$ -	$ 14	$ 123,235
Liabilities:					
Risk Management Liabilities					
Cash Flow Hedges:					
Commodity Hedges (b)	$ -	$ 291	$ -	$ (252)	$ 39

Assets and Liabilities Measured at Fair Value on a Recurring Basis
December 31, 2010

	Level 1	Level 2	Level 3	Other	Total
Assets:			(in thousands)		
Restricted Cash for Securitized Transition Funding (a)	$ 184,040	$ -	$ -	$ 14	$ 184,054
Risk Management Assets					
Cash Flow Hedges:					
Commodity Hedges	-	175	-	-	175
Total Assets	$ 184,040	$ 175	$ -	$ 14	$ 184,229

(a) Amounts in "Other" column primarily represent cash deposits with third parties. Level 1 amounts primarily represent investments in money market funds.
(b) 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."

At December 31, 2010, TCC had no liabilities 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, 2011 and 2010.

10. INCOME TAXES

TCC 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.

TCC and other AEP subsidiaries are no longer subject to U.S. federal examination for years before 2009. TCC and other AEP subsidiaries completed the examination of the years 2007 and 2008 in April 2011 and settled all outstanding issues on appeal for the years 2001 through 2006 in October 2011. The settlements will not have a material impact on TCC and other AEP subsidiaries' net income, cash flows or financial condition. The IRS examination of years 2009 and 2010 started in October 2011. 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, TCC 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 effect on net income.

TCC and other AEP subsidiaries file income tax returns in various state and local jurisdictions. These taxing authorities routinely examine the tax returns and TCC 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 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. With few exceptions, TCC is no longer subject to state or local income tax examinations by tax authorities for years before 2000.

Federal Legislation

The Patient Protection and Affordable Care Act and the related Health Care and Education Reconciliation Act (Health Care Acts) were enacted in March 2010. The Health Care Acts amend tax rules so that the portion of employer health care costs that are reimbursed by the Medicare Part D prescription drug subsidy will no longer be deductible by the employer for federal income tax purposes effective for years beginning after December 31, 2012. Because of the loss of the future tax deduction, a reduction in the deferred tax asset related to the nondeductible OPEB liabilities accrued to date was recorded by TCC in March 2010. This reduction, which was offset by recording net tax regulatory assets, did not materially affect TCC's net income, cash flows or financial condition.

The Small Business Jobs Act (the Act) was enacted in September 2010. Included in the Act was a one-year extension of the 50% bonus depreciation provision. The Tax Relief, Unemployment Insurance Reauthorization and the Job Creation Act of 2010 extended the life of research and development, employment and several energy tax credits originally scheduled to expire at the end of 2010. In addition, the Act extended the time for claiming bonus depreciation and increased the deduction to 100% for part of 2010 and 2011. The enacted provisions will not have a material impact on TCC's net income or financial condition.

11. FINANCING ACTIVITIES

Long-term Debt

Long-term debt issued, retired and principal payments made during the first nine months of 2011 are shown in the table below:

	Type of Debt	Principal Amount		Interest Rate	Due Date
Issuances:		**(in thousands)**		**(%)**	
	Pollution Control Bonds	$ 60,000	(a)	1.125	2012

	Type of Debt	Principal Amount Paid	Interest Rate	Due Date
Retirements and		**(in thousands)**	**(%)**	
Principal Payments:	Securitization Bonds	$ 59,961	5.96	2013
	Securitization Bonds	99,482	4.98	2013
	Pollution Control Bonds	120,265	5.125	2011

(a) These pollution control bonds are subject to redemption earlier than the maturity date. Consequently, these bonds have been classified for maturity purposes as Long-term Debt Due Within One Year – Nonaffiliated on TCC's condensed balance sheets.

As of September 30, 2011, trustees held, on TCC's behalf, $60 million of its reacquired Pollution Control Bonds.

Dividend Restrictions

Federal Power Act

The Federal Power Act prohibits TCC 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 TCC to pay dividends out of retained earnings.

Charter and Leverage Restrictions

Provisions within the articles or certificates of incorporation of TCC relating to preferred stock or shares restrict the payment of cash dividends on common and preferred stock or shares.

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 loans to the Utility Money Pool as of September 30, 2011 and December 31, 2010 is included in Advances to Affiliates on TCC's balance sheets. TCC's Utility Money Pool activity and corresponding authorized borrowing limit for the nine months ended September 30, 2011 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	Loans to Utility Money Pool as of September 30, 2011	Authorized Short-Term Borrowing Limit
		(in thousands)			
$ 7,419	$ 141,586	$ 4,922	$ 59,174	$ 15,968	$ 250,000

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, 2011 and 2010 are summarized in the following table:

Year	Maximum Interest Rates for Funds Borrowed from Utility Money Pool	Minimum Interest Rates for Funds Borrowed from Utility Money Pool	Maximum Interest Rates for Funds Loaned to Utility Money Pool	Minimum Interest Rates for Funds Loaned to Utility Money Pool	Average Interest Rates for Funds Borrowed from Utility Money Pool	Average Interest Rates for Funds Loaned to Utility Money Pool
2011	0.42 %	0.39 %	0.56 %	0.06 %	0.41 %	0.29 %
2010	- %	- %	0.55 %	0.09 %	- %	0.25 %

12. 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 was eliminated across the AEP System 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 provided two weeks of base pay for every year of service along with other severance benefits.

TCC recorded a charge to Other Operation expense during the second quarter of 2010 primarily related to severance benefits as the result of headcount reduction initiatives. The total amount incurred in 2010 by TCC was $24.9 million.

TCC's cost reduction activity for the nine months ended September 30, 2011 is described in the following table:

Balance at December 31, 2010	Incurred	Settled	Adjustments	Balance at September 30, 2011
		(in thousands)		
$ 1,516	$ -	$ (1,191)	$ (67)	$ 258

The remaining accrual is included in Other Current Liabilities on the condensed balance sheets.

- THIS PAGE INTENTIONALLY LEFT BLANK -