AEP Generating Company

2012 Second Quarter Report

Financial Statements

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GLOSSARY OF TERMS

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below.

Term	Meaning
AEGCo	AEP Generating Company, an AEP electric utility subsidiary.
AEP or Parent	American Electric Power Company, Inc., a utility 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, an AEP service subsidiary providing management and professional services to AEP and its subsidiaries.
CO_2	Carbon dioxide and other greenhouse gases.
FERC	Federal Energy Regulatory Commission.
GAAP	Accounting Principles Generally Accepted in the United States of America.
IRS	Internal Revenue Service.
MW	Megawatt.
Rockport Plant	A generating plant, consisting of two 1,300 MW coal-fired generating units near Rockport, Indiana, owned by AEGCo and I&M.
Utility Money Pool	Centralized funding mechanism AEP uses to meet the short-term cash requirements of certain utility subsidiaries.
VIE	Variable Interest Entity.

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF INCOME
For the Three and Six Months Ended June 30, 2012 and 2011
(in thousands)
(Unaudited)

	Three Months Ended 2012	Three Months Ended 2011	Six Months Ended 2012	Six Months Ended 2011
OPERATING REVENUES - AFFILIATED	$ 121,900	$ 112,252	$ 264,400	$ 238,800
EXPENSES				
Fuel Used for Electric Generation	75,594	62,238	166,151	133,168
Rent - Rockport Plant Unit 2	17,071	17,071	34,142	34,142
Other Operation	6,763	6,428	13,164	12,739
Maintenance	5,141	5,818	9,332	13,745
Depreciation and Amortization	9,361	9,178	18,692	18,440
Taxes Other Than Income Taxes	1,182	337	2,354	1,593
TOTAL EXPENSES	115,112	101,070	243,835	213,827
OPERATING INCOME	6,788	11,182	20,565	24,973
Other Income (Expense):				
Interest Income	72	-	123	-
Allowance for Equity Funds Used During Construction	3	2,800	14	5,064
Interest Expense	(3,274)	(3,554)	(6,730)	(7,272)
INCOME BEFORE INCOME TAX EXPENSE	3,589	10,428	13,972	22,765
Income Tax Expense	2,734	2,911	3,923	5,573
NET INCOME	$ 855	$ 7,517	$ 10,049	$ 17,192

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

See Condensed Notes to Condensed Financial Statements beginning on page 7.

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY
For the Six Months Ended June 30, 2012 and 2011
(in thousands)
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Total
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2010	$ 1,000	$ 238,184	$ 57,220	$ 296,404
Common Stock Dividends			(17,000)	(17,000)
Subtotal - Common Shareholder's Equity				279,404
Net Income			17,192	17,192
TOTAL COMMON SHAREHOLDER'S EQUITY – JUNE 30, 2011	$ 1,000	$ 238,184	$ 57,412	$ 296,596
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2011	$ 1,000	$ 238,184	$ 14,354	$ 253,538
Common Stock Dividends			(8,000)	(8,000)
Subtotal - Common Shareholder's Equity				245,538
Net Income			10,049	10,049
TOTAL COMMON SHAREHOLDER'S EQUITY – JUNE 30, 2012	$ 1,000	$ 238,184	$ 16,403	$ 255,587

See Condensed Notes to Condensed Financial Statements beginning on page 7.

AEP GENERATING COMPANY
CONDENSED BALANCE SHEETS
ASSETS
June 30, 2012 and December 31, 2011
(in thousands)
(Unaudited)

		2012		2011
CURRENT ASSETS				
Advances to Affiliates	$	11,998	$	21,708
Accounts Receivable - Affiliated Companies		47,516		65,428
Fuel		40,369		33,188
Materials and Supplies		18,671		18,855
Prepayments and Other Current Assets		635		960
TOTAL CURRENT ASSETS		119,189		140,139
PROPERTY, PLANT AND EQUIPMENT				
Electric:				
Generation		1,484,399		1,478,867
Transmission		9,688		9,688
Other Property, Plant and Equipment		7,250		6,984
Construction Work in Progress		29,402		25,186
Total Property, Plant and Equipment		1,530,739		1,520,725
Accumulated Depreciation and Amortization		929,339		908,558
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET		601,400		612,167
OTHER NONCURRENT ASSETS				
Regulatory Assets		22,011		20,554
Deferred Charges and Other Noncurrent Assets		4,698		2,649
TOTAL OTHER NONCURRENT ASSETS		26,709		23,203
TOTAL ASSETS	$	747,298	$	775,509

See Condensed Notes to Condensed Financial Statements beginning on page 7.

AEP GENERATING COMPANY
CONDENSED BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY
June 30, 2012 and December 31, 2011
(Unaudited)

	2012	2011
CURRENT LIABILITIES	(in thousands)	
Accounts Payable:		
General	$ 12,549	$ 33,198
Affiliated Companies	24,123	28,918
Long-term Debt Due Within One Year – Nonaffiliated	52,273	52,273
Accrued Taxes	13,039	6,732
Accrued Rent – Rockport Plant Unit 2	4,963	4,963
Other Current Liabilities	3,976	4,809
TOTAL CURRENT LIABILITIES	110,923	130,893
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	178,182	181,818
Deferred Income Taxes	71,417	70,216
Regulatory Liabilities and Deferred Investment Tax Credits	43,457	48,325
Deferred Gain on Sale and Lease-back – Rockport Plant Unit 2	58,122	60,908
Deferred Credits and Other Noncurrent Liabilities	29,610	29,811
TOTAL NONCURRENT LIABILITIES	380,788	391,078
TOTAL LIABILITIES	491,711	521,971
Commitments and Contingencies (Note 3)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – Par Value – $1,000 Per Share:		
Authorized – 1,000 Shares		
Outstanding – 1,000 Shares	1,000	1,000
Paid-in Capital	238,184	238,184
Retained Earnings	16,403	14,354
TOTAL COMMON SHAREHOLDER’S EQUITY	255,587	253,538
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	$ 747,298	$ 775,509

See Condensed Notes to Condensed Financial Statements beginning on page 7.

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2012 and 2011
(in thousands)
(Unaudited)

	2012	2011
OPERATING ACTIVITIES		
Net Income	$ 10,049	$ 17,192
Adjustments to Reconcile Net Income to Net Cash Flows from (Used for) Operating Activities:		
Depreciation and Amortization	18,692	18,440
Deferred Income Taxes	(227)	3,509
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	(14)	(5,064)
Property Taxes	(2,195)	(2,087)
Change in Other Noncurrent Assets	575	(4,068)
Change in Other Noncurrent Liabilities	116	594
Changes in Certain Components of Working Capital:		
Accounts Receivable	10,607	8,033
Fuel, Materials and Supplies	(6,997)	7,085
Accounts Payable	(13,278)	(46,621)
Accrued Taxes, Net	6,307	3,079
Other Current Assets	319	778
Other Current Liabilities	(150)	(23)
Net Cash Flows from (Used for) Operating Activities	19,377	(3,580)
INVESTING ACTIVITIES		
Construction Expenditures	(17,091)	(49,252)
Change in Advances to Affiliates, Net	9,710	-
Net Cash Flows Used for Investing Activities	(7,381)	(49,252)
FINANCING ACTIVITIES		
Change in Advances from Affiliates, Net	-	73,780
Retirement of Long-term Debt – Nonaffiliated	(3,636)	(3,636)
Principal Payments for Capital Lease Obligations	(360)	(312)
Dividends Paid on Common Stock	(8,000)	(17,000)
Net Cash Flows from (Used for) Financing Activities	(11,996)	52,832
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	$ 6,407	$ 6,868
Net Cash Paid for Income Taxes	2,720	470
Noncash Acquisitions Under Capital Leases	-	557
Construction Expenditures Included in Current Liabilities at June 30,	71	17,365

See Condensed Notes to Condensed Financial Statements beginning on page 7.

INDEX OF CONDENSED NOTES TO CONDENSED FINANCIAL STATEMENTS

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

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, 2012 is not necessarily indicative of results that may be expected for the year ending December 31, 2012. The condensed financial statements are unaudited and should be read in conjunction with the audited 2011 financial statements and notes thereto, which are included in AEGCo's 2011 Annual Report.

Management reviewed subsequent events through July 27, 2012, the date that the second quarter 2012 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, the power to direct the VIE, variable interests held by related parties and other factors. Management believes that significant assumptions and judgments were applied consistently. AEGCo is not the primary beneficiary of any VIE and has not provided financial or other support to any VIE that was not previously contractually required.

AEPSC provides certain managerial and professional services to AEP's subsidiaries. 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. AEGCo's total billings from AEPSC for the three months ended June 30, 2012 and 2011 were $2 million and $4 million, respectively, and for the six months ended June 30, 2012 and 2011 were $3 million and $7 million, respectively. The carrying amount of liabilities associated with AEPSC as of June 30, 2012 and December 31, 2011 was $1 million and $2 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

2. RATE MATTERS

Rate matters can have a material impact on net income, cash flows and possibly financial condition. AEGCo's recent significant rate orders and pending rate filings are addressed in this note.

Regulatory Assets Not Yet Being Recovered

Noncurrent Regulatory Assets (excluding fuel)	June 30, 2012	December 31, 2011
	(in thousands)	
Regulatory assets not yet being recovered pending future proceedings to determine the recovery method and timing:		
Regulatory Assets Currently Not Earning a Return		
Asset Retirement Obligation	$ 2,794	$ 2,624
Total Regulatory Assets Not Yet Being Recovered	$ 2,794	$ 2,624

3. COMMITMENTS, GUARANTEES AND CONTINGENCIES

AEGCo is subject to certain claims and legal actions arising in its ordinary course of business. In addition, AEGCo's business activities are subject to extensive governmental regulation related to public health and the environment. The ultimate outcome of such pending or potential litigation cannot be predicted. For current proceedings not specifically discussed below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on the financial statements. The Commitments, Guarantees and Contingencies note within AEGCo's 2011 Annual Report should be read in conjunction with this report.

GUARANTEES

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

Letters of Credit

AEGCo has $45 million of variable rate Pollution Control Bonds supported by bilateral letters of credit for $46 million. The letters of credit mature in July 2014.

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. As of June 30, 2012, there were no material liabilities recorded for any indemnifications.

CONTINGENCIES

Carbon Dioxide Public Nuisance Claims

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. In March 2012, the court granted the defendants' motion for dismissal on several grounds, including the doctrine of collateral estoppel and the applicable statute of limitations. Plaintiffs appealed the decision to the Fifth Circuit Court of Appeals. Management will continue to 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 court heard oral argument in November 2011. Management believes the action is without merit and will continue to defend against the claims. Management is unable to determine a range of potential losses that are reasonably possible of occurring.

4. BUSINESS SEGMENTS

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

5. 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.

Fair Value Measurements of Long-term Debt

The fair values of Long-term Debt are based on quoted market prices, without credit enhancements, for the same or similar issues and the current interest rates offered for instruments with similar maturities classified as Level 2 measurement inputs. These instruments are not marked-to-market. The estimates presented are not necessarily indicative of the amounts that could be realized in a current market exchange.

The book values and fair values of AEGCo's Long-term Debt as of June 30, 2012 and December 31, 2011 are summarized in the following table:

	June 30, 2012		December 31, 2011	
	Book Value	Fair Value	Book Value	Fair Value
	(in thousands)			
Long-term Debt	$ 230,455	$ 285,457	$ 234,091	$ 287,723

6. INCOME TAXES

AEP System Tax Allocation Agreement

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.

Federal and State Income Tax Audit Status

AEGCo and other AEP subsidiaries are no longer subject to U.S. federal examination for years before 2009. AEGCo 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 did not have a material impact on AEGCo 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, 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 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 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, AEGCo is no longer subject to state or local income tax examinations by tax authorities for years before 2000.

Change in Effective Tax Rate

AEGCo's income tax expense for the three months ended June 2012 reflects a year-to-date adjustment due to a revised forecast for pretax income which increased AEGCo's effective income tax rate.

7. FINANCING ACTIVITIES

Long-term Debt

Long-term debt principal payments made during the first six months of 2012 are shown in the table below:

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 in 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

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

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 value of the common stock. This restriction does not limit the ability of AEGCo to pay dividends out of retained earnings.

Leverage Restrictions

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

Utility Money Pool – AEP System

The AEP System uses a corporate borrowing program to meet the short-term borrowing needs of the subsidiaries. The corporate borrowing program includes a Utility Money Pool, which funds AEP's 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 June 30, 2012 and December 31, 2011 is included in Advances to Affiliates on AEGCo's condensed balance sheets. AEGCo's Utility Money Pool activity and corresponding authorized borrowing limits for the six months ended June 30, 2012 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 June 30, 2012		Authorized Short-Term Borrowing Limit	
				(in thousands)							
$	12,416	$	66,282	$	12,416	$	38,841	$	11,998	$	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, 2012 and 2011 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
2012	0.47 %	0.47 %	0.56 %	0.45 %	0.47 %	0.49 %
2011	0.56 %	0.06 %	- %	- %	0.32 %	- %

8. SUSTAINABLE COST REDUCTIONS

In April 2012, management initiated a process to identify employee repositioning opportunities and efficiencies that will result in sustainable cost savings. The process will result in involuntary severances and is expected to be completed by the end of 2012. 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 2012 related to the sustainable cost reductions initiative. AEGCo has no employees but receives allocated expenses.

Expense Allocation from AEPSC	Incurred	Settled	Remaining Balance at June 30, 2012
	(in thousands)		
$ 134	$ 121	$ (255)	$ -

These expenses relate primarily to severance benefits. They are included primarily in Other Operation on the income statement. At this time, management is unable to estimate the total amount to be incurred in future periods related to this initiative or to quantify the effects on future earnings, cash flows and financial condition.