AEP Texas North Company and Subsidiary

2015 Annual Report

Audited Consolidated 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
AEP	American Electric Power Company, Inc., an investor-owned electric public utility holding company which includes American Electric Power Company, Inc. (Parent) and majority owned consolidated subsidiaries and consolidated affiliates.
AEP System	American Electric Power System, an electric system, owned and operated by AEP subsidiaries.
AEPEP	AEP Energy Partners, Inc., a subsidiary of AEP dedicated to wholesale marketing and trading, asset management and commercial and industrial sales in the deregulated Texas market.
AEPSC	American Electric Power Service Corporation, an AEP service subsidiary providing management and professional services to AEP and its subsidiaries.
AFUDC	Allowance for Funds Used During Construction.
AOCI	Accumulated Other Comprehensive Income.
ASU	Accounting Standards Update.
CWIP	Construction Work in Progress.
EIS	Energy Insurance Services, Inc., a nonaffiliated captive insurance company and consolidated variable interest entity of AEP.
ERCOT	Electric Reliability Council of Texas regional transmission organization.
ETT	Electric Transmission Texas, LLC an equity interest joint venture between Parent and Berkshire Hathaway Energy 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.
Nonutility Money Pool	Centralized funding mechanism AEP uses to meet the short-term cash requirements of certain nonutility subsidiaries.
OPEB	Other Postretirement Benefit Plans.
OTC	Over the counter.
Parent	American Electric Power Company, Inc., the equity owner of AEP subsidiaries within the AEP consolidation.
PPA	Purchase Power and Sale Agreement.
PSO	Public Service Company of Oklahoma, an AEP electric utility subsidiary.
PUCT	Public Utility Commission of Texas.
REP	Texas Retail Electric Provider.
Risk Management Contracts	Trading and nontrading derivatives, including those derivatives designated as cash flow and fair value hedges.
Texas Restructuring Legislation	Legislation enacted in 1999 to restructure the electric utility industry in Texas.
TNC	AEP Texas North Company, an AEP electric utility subsidiary.
Utility Money Pool	Centralized funding mechanism AEP uses to meet the short-term cash requirements of certain utility subsidiaries.
VIE	Variable Interest Entity.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of
AEP Texas North Company:

We have audited the accompanying consolidated financial statements of AEP Texas North Company and subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income (loss), changes in common shareholder's equity, and cash flows for each of the three years in the period ended December 31, 2015, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AEP Texas North Company and subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

Columbus, Ohio
February 23, 2016

AEP TEXAS NORTH COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2015, 2014 and 2013
(in thousands)

	Years Ended December 31,		
	2015	2014	2013
REVENUES			
Electric Transmission and Distribution	$ 228,677	$ 222,230	$ 206,535
Sales to AEP Affiliates	82,234	96,047	103,593
Other Revenues	572	686	1,050
TOTAL REVENUES	311,483	318,963	311,178
EXPENSES			
Fuel and Other Consumables Used for Electric Generation	32,099	45,017	55,785
Other Operation	103,112	94,671	82,783
Maintenance	35,478	33,791	26,117
Depreciation and Amortization	62,129	57,092	54,667
Taxes Other Than Income Taxes	19,451	18,780	15,669
TOTAL EXPENSES	252,269	249,351	235,021
OPERATING INCOME	59,214	69,612	76,157
Other Income (Expense):			
Other Income	434	1,415	236
Interest Expense	(20,277)	(19,434)	(20,924)
INCOME BEFORE INCOME TAX EXPENSE	39,371	51,593	55,469
Income Tax Expense	13,107	18,280	18,556
NET INCOME	$ 26,264	$ 33,313	$ 36,913

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

See Notes to Consolidated Financial Statements beginning on page 9.

AEP TEXAS NORTH COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Years Ended December 31, 2015, 2014 and 2013
(in thousands)

	Years Ended December 31,		
	2015	2014	2013
Net Income	$ 26,264	$ 33,313	$ 36,913
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES			
Cash Flow Hedges, Net of Tax of $467, $448 and $897 in 2015, 2014 and 2013, Respectively	868	832	1,666
Amortization of Pension and OPEB Deferred Costs, Net of Tax of $163, $210 and $376 in 2015, 2014 and 2013, Respectively	303	391	700
Pension and OPEB Funded Status, Net of Tax of $80, $(216) and $1,310 in 2015, 2014 and 2013, Respectively	148	(399)	2,432
TOTAL OTHER COMPREHENSIVE INCOME	1,319	824	4,798
TOTAL COMPREHENSIVE INCOME	$ 27,583	$ 34,137	$ 41,711

See Notes to Consolidated Financial Statements beginning on page 9.

AEP TEXAS NORTH COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY
For the Years Ended December 31, 2015, 2014 and 2013
(in thousands)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2012	$ 137,214	$ 3,276	$ 218,969	$ (23,217)	$ 336,242
Common Stock Dividends			(10,000)		(10,000)
Net Income			36,913		36,913
Other Comprehensive Income				4,798	4,798
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2013	137,214	3,276	245,882	(18,419)	367,953
Common Stock Dividends			(30,000)		(30,000)
Net Income			33,313		33,313
Other Comprehensive Income				824	824
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2014	137,214	3,276	249,195	(17,595)	372,090
Capital Contribution from Parent		25,000			25,000
Common Stock Dividends			(24,000)		(24,000)
Net Income			26,264		26,264
Other Comprehensive Income				1,319	1,319
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2015	$ 137,214	$ 28,276	$ 251,459	$ (16,276)	$ 400,673

See Notes to Consolidated Financial Statements beginning on page 9.

AEP TEXAS NORTH COMPANY AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
ASSETS
December 31, 2015 and 2014
(in thousands)

	December 31, 2015	December 31, 2014
CURRENT ASSETS		
Advances to Affiliates	$ 23,112	$ 9,620
Accounts Receivable:		
Customers	13,265	13,283
Affiliated Companies	6,693	16,526
Accrued Unbilled Revenues	8,472	8,089
Miscellaneous	916	12
Allowance for Uncollectible Accounts	(355)	(45)
Total Accounts Receivable	28,991	37,865
Fuel	10,205	3,988
Materials and Supplies	14,184	14,399
Accrued Tax Benefits	6,240	801
Prepayments and Other Current Assets	961	1,531
TOTAL CURRENT ASSETS	83,693	68,204
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	342,542	314,382
Transmission	630,759	576,907
Distribution	776,057	725,201
Other Property, Plant and Equipment	101,012	101,344
Construction Work in Progress	78,308	57,580
Total Property, Plant and Equipment	1,928,678	1,775,414
Accumulated Depreciation and Amortization	591,910	570,866
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	1,336,768	1,204,548
OTHER NONCURRENT ASSETS		
Regulatory Assets	55,730	54,022
Deferred Charges and Other Noncurrent Assets	37,300	40,862
TOTAL OTHER NONCURRENT ASSETS	93,030	94,884
TOTAL ASSETS	$ 1,513,491	$ 1,367,636

See Notes to Consolidated Financial Statements beginning on page 9.

AEP TEXAS NORTH COMPANY AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY
December 31, 2015 and 2014

	December 31, 2015	December 31, 2014
	(in thousands)	
CURRENT LIABILITIES		
Advances from Affiliates	$ —	$ 72,715
Accounts Payable:		
General	27,402	12,242
Affiliated Companies	11,277	14,784
Long-term Debt Due Within One Year – Nonaffiliated	75,007	7
Risk Management Liabilities	111	349
Accrued Taxes	15,269	14,513
Accrued Interest	5,281	4,470
Other Current Liabilities	14,189	11,685
TOTAL CURRENT LIABILITIES	148,536	130,765
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	468,158	418,444
Deferred Income Taxes	205,617	190,337
Regulatory Liabilities and Deferred Investment Tax Credits	193,127	185,573
Oklaunion Purchase Power Agreement	50,217	48,048
Deferred Credits and Other Noncurrent Liabilities	47,163	22,379
TOTAL NONCURRENT LIABILITIES	964,282	864,781
TOTAL LIABILITIES	1,112,818	995,546
Commitments and Contingencies (Note 5)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – Par Value – $25 Per Share:		
Authorized – 7,800,000 Shares		
Outstanding – 5,488,560 Shares	137,214	137,214
Paid-in Capital	28,276	3,276
Retained Earnings	251,459	249,195
Accumulated Other Comprehensive Income (Loss)	(16,276)	(17,595)
TOTAL COMMON SHAREHOLDER'S EQUITY	400,673	372,090
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	$ 1,513,491	$ 1,367,636

See Notes to Consolidated Financial Statements beginning on page 9.

AEP TEXAS NORTH COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015, 2014 and 2013
(in thousands)

	Years Ended December 31,		
	2015	**2014**	**2013**
OPERATING ACTIVITIES			
Net Income	$ 26,264	$ 33,313	$ 36,913
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:			
Depreciation and Amortization	62,129	57,092	54,667
Deferred Income Taxes	15,065	9,630	(3,019)
Change in Other Noncurrent Assets	(4,327)	(9,726)	(2,683)
Change in Other Noncurrent Liabilities	7,823	10,459	(11,682)
Changes in Certain Components of Working Capital:			
Accounts Receivable, Net	8,874	(3,905)	1,540
Fuel, Materials and Supplies	(6,002)	221	8,508
Accounts Payable	(665)	(2,111)	2,081
Accrued Taxes, Net	(4,684)	7,215	(7,758)
Other Current Assets	(25)	770	(167)
Other Current Liabilities	2,620	(6,485)	4,066
Net Cash Flows from Operating Activities	107,072	96,473	82,466
INVESTING ACTIVITIES			
Construction Expenditures	(149,369)	(121,304)	(104,689)
Change in Advances to Affiliates, Net	(13,492)	557	614
Proceeds from Sales of Assets	2,584	4,052	7,306
Other Investing Activities	1,163	1,423	2,856
Net Cash Flows Used for Investing Activities	(159,114)	(115,272)	(93,913)
FINANCING ACTIVITIES			
Capital Contribution from Parent	25,000	—	—
Issuance of Long-term Debt – Nonaffiliated	124,369	—	273,513
Change in Advances from Affiliates, Net	(72,715)	49,182	(26,828)
Retirement of Long-term Debt – Nonaffiliated	(7)	(7)	(225,006)
Principal Payments for Capital Lease Obligations	(768)	(740)	(589)
Dividends Paid on Common Stock	(24,000)	(30,000)	(10,000)
Other Financing Activities	163	364	357
Net Cash Flows from Financing Activities	52,042	18,799	11,447
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	$ 17,329	$ 17,170	$ 18,988
Net Cash Paid for Income Taxes	5,125	4,017	27,669
Noncash Acquisitions Under Capital Leases	2,765	1,070	1,338
Construction Expenditures Included in Current Liabilities as of December 31,	20,209	7,851	5,472

See Notes to Consolidated Financial Statements beginning on page 9.

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

As a public utility, TNC engages in the transmission and distribution of electric power to 189,000 retail customers through REPs in its service territory in western and central Texas. TNC consolidates AEP Texas North Generation Company, LLC, its wholly-owned subsidiary.

Under the Texas Restructuring Legislation, TNC exited the generation business and ceased serving retail load. However, TNC continues as part owner in the Oklaunion Plant operated by PSO but has leased its entire portion of the output of the plant through 2027 to a non-utility affiliate.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rates and Service Regulation

TNC's transmission and distribution operations and related rates are regulated by the PUCT. The FERC regulates TNC's affiliated transactions, including AEPSC intercompany service billings which are generally at cost, under the 2005 Public Utility Holding Company Act and the Federal Power Act. The FERC also has jurisdiction over the issuances and acquisitions of securities of the public utility subsidiaries, the acquisition or sale of certain utility assets and mergers with another electric utility or holding company. For non-power goods and services, the FERC requires a nonregulated affiliate to bill an affiliated public utility company at no more than market while a public utility must bill the higher of cost or market to a nonregulated affiliate. The PUCT also regulates certain intercompany transactions under its affiliate statutes. Both the FERC and state regulatory commissions are permitted to review and audit the relevant books and records of companies within a public utility holding company system.

The PUCT also regulates TNC's wholesale transmission operations and rates. The FERC claims jurisdiction over retail transmission rates when retail rates are unbundled in connection with restructuring. TNC's retail transmission rates in Texas are unbundled. Although TNC's retail transmission rates in Texas are unbundled, retail transmission rates are regulated, on a cost basis, by the PUCT.

Principles of Consolidation

TNC's consolidated financial statements include TNC and its wholly-owned subsidiary. Intercompany items are eliminated in consolidation. TNC also has a generating unit that is jointly-owned with an affiliated company and nonaffiliated companies. TNC's proportionate share of the operating costs associated with that facility is included in the financial statements and the assets and liabilities are reflected in the balance sheets. See "Oklaunion PPA between TNC and AEP Energy Partners" section within Note 13 for detail of TNC's agreement to sell its portion of the Oklaunion generation to AEPEP. See Note 14 - Variable Interest Entities.

Accounting for the Effects of Cost-Based Regulation

As a rate-regulated electric public utility company, TNC's financial statements reflect the actions of regulators that result in the recognition of certain revenues and expenses in different time periods than enterprises that are not rate-regulated. In accordance with accounting guidance for "Regulated Operations," TNC records regulatory assets (deferred expenses) and regulatory liabilities (deferred revenue reductions or refunds) to reflect the economic effects of regulation in the same accounting period by matching expenses with their recovery through regulated revenues and by matching income with its passage to customers in cost-based regulated rates.

Use of Estimates

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates include, but are not limited to, inventory valuation, allowance for doubtful accounts, long-lived asset impairment, unbilled electricity revenue, valuation of long-term

energy contracts, the effects of regulation, long-lived asset recovery, storm costs, the effects of contingencies and certain assumptions made in accounting for pension and postretirement benefits. The estimates and assumptions used are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results could ultimately differ from those estimates.

Inventory

Fossil fuel inventories are carried at the lower of average cost or market. Materials and supplies inventories are carried at average cost.

Accounts Receivable

Customer accounts receivable primarily includes receivables from REPs and receivables related to other revenue-generating activities.

Revenue is recognized when power is delivered. To the extent that deliveries have occurred but a bill has not been issued, TNC accrues and recognizes, as Accrued Unbilled Revenues on the balance sheets, an estimate of the revenues for deliveries since the last billing.

Allowance for Uncollectible Accounts

TNC records bad debt reserves using the specific identification of receivable balances greater than 120 days delinquent, and for those balances less than 120 days where the collection is doubtful. For miscellaneous accounts receivable, bad debt expense is recorded for all amounts outstanding 180 days or greater at 100%, unless specifically identified. Miscellaneous accounts receivable items open less than 180 days may be reserved using specific identification for bad debt reserves.

Concentrations of Credit Risk and Significant Customers

TNC has significant customers which on a combined basis account for the following percentages of total operating revenues for the years ended December 31 and Accounts Receivable - Customers as of December 31:

Significant Customers of TNC: Centrica and Reliant Energy	2015	2014	2013
Percentage of Operating Revenues	21%	20%	19%
Percentage of Accounts Receivable – Customers	36%	35%	30%

Management monitors credit levels and the financial condition of TNC's customers on a continuing basis to minimize credit risk. The PUCT allows recovery in rates for a reasonable level of bad debt costs. Management believes adequate provision for credit loss has been made in the accompanying financial statements.

Property, Plant and Equipment

Regulated

Electric utility property, plant and equipment for TNC's rate-regulated transmission and distribution operations are stated at original cost. Additions, major replacements and betterments are added to the plant accounts. Under the group composite method of depreciation, continuous interim routine replacements of items such as poles, transformers, etc. result in original cost retirements, less salvage, being charged to accumulated depreciation. The group composite method of depreciation assumes that on average, asset components are retired at the end of their useful lives and thus there is no gain or loss. The equipment in each primary electric plant account is identified as a separate group. The depreciation rates that are established take into account the past history of interim capital replacements and the amount of removal cost incurred and salvage received. These rates and the related lives are subject to periodic review. Removal costs are charged to regulatory liabilities. The costs of labor, materials and overhead incurred to operate and maintain plant and equipment are included in operating expenses.

Long-lived assets are required to be tested for impairment when it is determined that the carrying value of the assets may no longer be recoverable or when the assets meet the held-for-sale criteria under the accounting guidance for "Impairment or Disposal of Long-lived Assets." When it becomes probable that an asset in service or an asset under construction will be abandoned and regulatory cost recovery has been disallowed, the cost of that asset shall be removed from plant-in-service or CWIP and charged to expense.

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, as opposed to a forced or liquidation sale. Quoted market prices in active markets are the best evidence of fair value and are used as the basis for the measurement, if available. In the absence of quoted prices for identical or similar assets in active markets, fair value is estimated using various internal and external valuation methods including cash flow analysis and appraisals.

Nonregulated

The generation operations of TNC generally follow the policies of its rate-regulated operations listed above but with the following exceptions. Property, plant and equipment are stated at fair value at acquisition (or as adjusted for any applicable impairments) plus the original cost of property acquired or constructed since the acquisition, less disposals. Normal and routine retirements from the plant accounts, net of salvage, are charged to accumulated depreciation under the group composite method of depreciation. A gain or loss would be recorded if the retirement is not considered an interim routine replacement. Removal costs are charged to expense.

Allowance for Funds Used During Construction and Interest Capitalization

For TNC's regulated operations, AFUDC represents the estimated cost of borrowed and equity funds used to finance construction projects that is capitalized and recovered through depreciation over the service life of regulated electric utility plant. TNC records the equity component of AFUDC in Other Income (Expense) and the debt component of AFUDC as a reduction to Interest Expense. For TNC's nonregulated operations, interest is capitalized during construction in accordance with the accounting guidance for "Capitalization of Interest."

Valuation of Nonderivative Financial Instruments

The book values of Advances to/from Affiliates, Accounts Receivable and Accounts Payable approximate fair value because of the short-term maturity of these instruments.

Fair Value Measurements of Assets and Liabilities

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. The amount of risk taken is determined by the Commercial Operations and Finance groups in accordance with established risk management policies as approved by the Finance Committee of AEP's Board of Directors. The AEP System's market risk oversight staff independently monitors risk policies, procedures and risk levels and provides members of the Commercial Operations Risk Committee (Regulated Risk Committee) various reports regarding compliance with policies, limits and procedures. The Regulated Risk Committee consists of AEPSC's Chief Operating Officer, Chief Financial Officer, Executive Vice President of Generation, Senior Vice President of Commercial Operations and Chief Risk Officer.

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 nonbinding 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. Illiquid transactions, complex structured transactions, FTRs and counterparty credit risk may require nonmarket based inputs. Some of these inputs may be internally developed or extrapolated and utilized to estimate fair value. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized as Level 3. The main driver of contracts being classified as Level 3 is the inability to substantiate energy price curves in the market. A portion of the Level 3 instruments have been economically hedged which limits potential earnings volatility.

AEP utilizes its trustee's external pricing service to estimate the fair value of the underlying investments held in the benefit plan trusts. AEP's investment managers review and validate the prices utilized by the trustee to determine fair value. AEP's management performs its own valuation testing to verify the fair values of the securities. AEP receives audit reports of the trustee's operating controls and valuation processes. The trustee uses multiple pricing vendors for the assets held in the trusts.

Assets in the benefits trusts are classified using the following methods. Equities are classified as Level 1 holdings if they are actively traded on exchanges. Items classified as Level 1 are investments in money market funds, fixed income and equity mutual funds and domestic equity securities. They are valued based on observable inputs primarily unadjusted quoted prices in active markets for identical assets. Items classified as Level 2 are primarily investments in individual fixed income securities and cash equivalent funds. Fixed income securities generally do not trade on exchanges and do not have an official closing price but their valuation inputs are based on observable market data. Pricing vendors calculate bond valuations using financial models and matrices. The models use observable inputs including yields on benchmark securities, quotes by securities brokers, rating agency actions, discounts or premiums on securities compared to par prices, changes in yields for U.S. Treasury securities, corporate actions by bond issuers, prepayment schedules and histories, economic events and, for certain securities, adjustments to yields to reflect changes in the rate of inflation. Other securities with model-derived valuation inputs that are observable are also classified as Level 2 investments. Investments with unobservable valuation inputs are classified as Level 3 investments. Benefit plan assets included in Level 3 are primarily real estate and private equity investments that are valued using methods requiring judgment including appraisals. The fair value of real estate investments is measured using market capitalization rates, recent sales of comparable investments and independent third-party appraisals. The fair value of private equity investments is measured using cost and purchase multiples, operating results, discounted future cash flows and market based comparable data. Depending on the specific situation, one or multiple approaches are used to determine the valuation of a real estate or private equity investment.

Revenue Recognition

Regulatory Accounting

TNC's financial statements reflect the actions of regulators that can result in the recognition of revenues and expenses in different time periods than enterprises that are not rate-regulated. Regulatory assets (deferred expenses) and regulatory liabilities (deferred revenue reductions or refunds) are recorded to reflect the economic effects of regulation in the same accounting period by matching expenses with their recovery through regulated revenues and by matching income with its passage to customers in cost-based regulated rates.

When regulatory assets are probable of recovery through regulated rates, TNC records them as assets on its balance sheets. TNC tests for probability of recovery at each balance sheet date or whenever new events occur. Examples of new events include the issuance of a regulatory commission order or passage of new legislation. If it is determined that recovery of a regulatory asset is no longer probable, TNC writes off that regulatory asset as a charge against income.

Electricity Supply and Delivery Activities

TNC recognizes revenues from electricity transmission and distribution delivery services. TNC recognizes the revenues on the statements of income upon delivery of the energy to the customer and includes unbilled as well as billed amounts.

Power Purchase and Sale Agreement

TNC recognizes revenue from an affiliate, AEPEP, for a 20-year PPA. TNC recognizes revenues for the fuel, operations and maintenance and all other taxes on a billed basis. Revenue is recognized for the capacity and depreciation billed to AEPEP on a straight-line basis over the term of the PPA as these amounts represent the minimum amount due.

Maintenance

Maintenance costs are expensed as incurred. If it becomes probable that TNC will recover specifically-incurred costs through future rates, a regulatory asset is established to match the expensing of those maintenance costs with their recovery in cost-based regulated revenues.

Income Taxes and Investment Tax Credits

TNC uses the liability method of accounting for income taxes. Under the liability method, deferred income taxes are provided for all temporary differences between the book and tax basis of assets and liabilities which will result in a future tax consequence.

When the flow-through method of accounting for temporary differences is reflected in regulated revenues (that is, when deferred taxes are not included in the cost of service for determining regulated rates for electricity), deferred income taxes are recorded and related regulatory assets and liabilities are established to match the regulated revenues and tax expense.

Investment tax credits are accounted for under the deferral basis and are being amortized over the life of the plant investment.

TNC accounts for uncertain tax positions in accordance with the accounting guidance for “Income Taxes.” TNC classifies interest expense or income related to uncertain tax positions as interest expense or income as appropriate and classifies penalties as Other Operation expense.

Excise Taxes

As an agent for some state and local governments, TNC collects from customers certain excise taxes levied by those state or local governments on customers. TNC does not recognize these taxes as revenue or expense.

Debt

Gains and losses from the reacquisition of debt used to finance regulated electric utility plants are deferred and amortized over the remaining term of the reacquired debt in accordance with their rate-making treatment unless the debt is refinanced. If the reacquired debt is refinanced, the reacquisition costs attributable to the portions of the business that are subject to cost-based regulatory accounting are generally deferred and amortized over the term of the replacement debt consistent with its recovery in rates.

Debt discount or premium and debt issuance expenses are deferred and amortized generally utilizing the straight-line method over the term of the related debt. The straight-line method approximates the effective interest method and is consistent with the treatment in rates for regulated operations. The net amortization expense is included in Interest Expense on the statements of income.

Investments Held in Trust for Future Liabilities

AEP has several trust funds with significant investments intended to provide for future payments of pension and OPEB benefits. All of the trust funds' investments are diversified and managed in compliance with all laws and regulations. The investment strategy for the trust funds is to use a diversified portfolio of investments to achieve an acceptable rate of return while managing the investment risk of the assets relative to the associated liabilities. To minimize investment risk, the trust funds are broadly diversified among classes of assets, investment strategies and investment managers. Management regularly reviews the actual asset allocations and periodically rebalances the investments to targeted allocations when appropriate. Investment policies and guidelines allow investment managers in approved strategies to use financial derivatives to obtain or manage market exposures and to hedge assets and liabilities. The investments are reported at fair value under the "Fair Value Measurements and Disclosures" accounting guidance.

Benefit Plans

All benefit plan assets are invested in accordance with each plan's investment policy. The investment policy outlines the investment objectives, strategies and target asset allocations by plan.

The investment philosophies for AEP's benefit plans support the allocation of assets to minimize risks and optimize net returns. Strategies used include:

- Maintaining a long-term investment horizon.
- Diversifying assets to help control volatility of returns at acceptable levels.
- Managing fees, transaction costs and tax liabilities to maximize investment earnings.
- Using active management of investments where appropriate risk/return opportunities exist.
- Keeping portfolio structure style-neutral to limit volatility compared to applicable benchmarks.
- Using alternative asset classes such as real estate and private equity to maximize return and provide additional portfolio diversification.

The objective of the investment policy for the pension fund is to maintain the funded status of the plan while providing for growth in the plan assets to offset the growth in the plan liabilities. The current target asset allocations are as follows:

Pension Plan Assets	Target
Equity	25%
Fixed Income	59%
Other Investments	15%
Cash and Cash Equivalents	1%

OPEB Plans Assets	Target
Equity	65%
Fixed Income	33%
Cash and Cash Equivalents	2%

The investment policy for each benefit plan contains various investment limitations. The investment policies establish concentration limits for securities and prohibit the purchase of securities issued by AEP (with the exception of proportionate and immaterial holdings of AEP securities in passive index strategies). However, the investment policies do not preclude the benefit trust funds from receiving contributions in the form of AEP securities, provided that the AEP securities acquired by each plan may not exceed the limitations imposed by law.

For equity investments, the concentration limits are as follows:

- No security in excess of 5% of all equities.
- Cash equivalents must be less than 10% of an investment manager's equity portfolio.
- No individual stock may be more than 10% and 7% for pension and OPEB investments, respectively, of each manager's equity portfolio.
- No investment in excess of 5% of an outstanding class of any company.
- No securities may be bought or sold on margin or other use of leverage.

For fixed income investments, the concentration limits must not exceed:

- 3% in any single issuer.
- 5% for private placements.
- 5% for convertible securities.
- 60% for bonds rated AA+ or lower.
- 50% for bonds rated A+ or lower.
- 10% for bonds rated BBB- or lower.

For obligations of non-government issuers within the fixed income portfolio, the following limitations apply:

- AAA rated debt: a single issuer should account for no more than 5% of the portfolio.
- AA+, AA, AA- rated debt: a single issuer should account for no more than 3% of the portfolio.
- Debt rated A+ or lower: a single issuer should account for no more than 2% of the portfolio.
- No more than 10% of the portfolio may be invested in high yield and emerging market debt combined at any time.

Each investment manager's portfolio is compared to a diversified benchmark index.

A portion of the pension assets is invested in real estate funds to provide diversification, add return and hedge against inflation. Real estate properties are illiquid, difficult to value and not actively traded. The pension plan uses external real estate investment managers to invest in commingled funds that hold real estate properties. To mitigate investment risk in the real estate portfolio, commingled real estate funds are used to ensure that holdings are diversified by region, property type and risk classification. Real estate holdings include core, value-added and development risk classifications and some investments in Real Estate Investment Trusts, which are publicly traded real estate securities.

A portion of the pension assets is invested in private equity. Private equity investments add return and provide diversification and typically require a long-term time horizon to evaluate investment performance. Private equity is classified as an alternative investment because it is illiquid, difficult to value and not actively traded. The pension plan uses limited partnerships and commingled funds to invest across the private equity investment spectrum. The private equity holdings are with multiple general partners who help monitor the investments and provide investment selection expertise. The holdings are currently comprised of venture capital, buyout and hybrid debt and equity investment instruments. Commingled private equity funds are used to enhance the holdings' diversity.

AEP participates in a securities lending program with BNY Mellon to provide incremental income on idle assets and to provide income to offset custody fees and other administrative expenses. AEP lends securities to borrowers approved by BNY Mellon in exchange for collateral. All loans are collateralized by at least 102% of the loaned asset's market value and the collateral is invested. The difference between the rebate owed to the borrower and the collateral rate of return determines the earnings on the loaned security. The securities lending program's objective is providing modest incremental income with a limited increase in risk.

Trust owned life insurance (TOLI) underwritten by The Prudential Insurance Company is held in the OPEB plan trusts. The strategy for holding life insurance contracts in the taxable Voluntary Employees' Beneficiary Association trust is to minimize taxes paid on the asset growth in the trust. Earnings on plan assets are tax-deferred within the TOLI contract and can be tax-free if held until claims are paid. Life insurance proceeds remain in the trust and are used to fund future retiree medical benefit liabilities. With consideration to other investments held in the trust, the cash value of the TOLI contracts is invested in two diversified funds. A portion is invested in a commingled fund with underlying investments in stocks that are actively traded on major international equity exchanges. The other portion of the TOLI

cash value is invested in a diversified, commingled fixed income fund with underlying investments in government bonds, corporate bonds and asset-backed securities.

Cash and cash equivalents are held in each trust to provide liquidity and meet short-term cash needs. Cash equivalent funds are used to provide diversification and preserve principal. The underlying holdings in the cash funds are investment grade money market instruments including commercial paper, certificates of deposit, treasury bills and other types of investment grade short-term debt securities. The cash funds are valued each business day and provide daily liquidity.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income (loss) has two components: net income (loss) and other comprehensive income (loss).

Earnings Per Share (EPS)

TNC is owned by a wholly-owned subsidiary of AEP. Therefore, TNC is not required to report EPS.

Supplementary Income Statement Information

The following table provides the components of Depreciation and Amortization for the years ended December 31, 2015, 2014 and 2013:

Depreciation and Amortization	Years Ended December 31, 2015	2014	2013
		(in thousands)	
Depreciation and Amortization of Property, Plant and Equipment	$ 62,821	$ 57,850	$ 54,676
Amortization of Regulatory Assets and Liabilities	(692)	(758)	(9)
Total Depreciation and Amortization	$ 62,129	$ 57,092	$ 54,667

Subsequent Events

Management reviewed subsequent events through February 23, 2016, the date that TNC's 2015 annual report was issued.

2. NEW ACCOUNTING PRONOUNCEMENTS

Upon issuance of final pronouncements, management reviews the new accounting literature to determine its relevance, if any, to TNC's business. The following final pronouncements will impact the financial statements.

ASU 2014-08 "Presentation of Financial Statements and Property, Plant and Equipment" (ASU 2014-08)

In April 2014, the FASB issued ASU 2014-08 changing the presentation of discontinued operations on the statements of income and other requirements for reporting discontinued operations. Under the new standard, a disposal of a component or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the component meets the criteria to be classified as held-for-sale or is disposed. The amendments in this update also require additional disclosures about discontinued operations and disposal of an individually significant component of an entity that does not qualify for discontinued operations. This standard must be prospectively applied to all reporting periods presented in financial reports issued after the effective date.

The new accounting guidance is effective for interim and annual periods beginning after December 15, 2014. If applicable, this standard will change the presentation of financial statements but will not affect the calculation of net income, comprehensive income or earnings per share. Management adopted ASU 2014-08 effective January 1, 2015. There were no events requiring the application of this new accounting guidance.

ASU 2014-09 "Revenue from Contracts with Customers" (ASU 2014-09)

In May 2014, the FASB issued ASU 2014-09 clarifying the method used to determine the timing and requirements for revenue recognition on the statements of income. Under the new standard, an entity must identify the performance obligations in a contract, determine the transaction price and allocate the price to specific performance obligations to recognize the revenue when the obligation is completed. The amendments in this update also require disclosure of sufficient information to allow users to understand the nature, amount, timing and uncertainty of revenue and cash flow arising from contracts.

The FASB deferred implementation of ASU 2014-09 under the terms in ASU 2015-14, "Revenue from Contracts with Customers (Topic: 606): Deferral of the Effective Date." The new accounting guidance is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted for annual periods beginning after December 15, 2016. As applicable, this standard may change the amount of revenue recognized in the income statements in each reporting period. Management is analyzing the impact of this new standard and, at this time, cannot estimate the impact of adoption on revenue or net income. Management plans to adopt ASU 2014-09 effective January 1, 2018.

ASU 2015-01 "Income Statement – Extraordinary and Unusual Items" (ASU 2015-01)

In January 2015, the FASB issued ASU 2015-01 eliminating the concept of extraordinary items for presentation on the face of the income statement. Under the new standard, a material event or transaction that is unusual in nature, infrequent or both shall be reported as a separate component of income from continuing operations. Alternatively, it may be disclosed in the notes to financial statements.

The new accounting guidance is effective for interim and annual periods beginning after December 15, 2015. As applicable, this standard may change the presentation of amounts in the income statements. Management adopted ASU 2015-01 effective January 1, 2016.

ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs" (ASU 2015-03)

In April 2015, the FASB issued ASU 2015-03 simplifying the presentation of debt issuance costs on the balance sheets. Under the new standard, debt issuance costs related to a recognized debt liability will be presented on the balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with discounts.

The new accounting guidance is effective for interim and annual periods beginning after December 15, 2015 with early adoption permitted. Management adopted ASU 2015-03 in October 2015 and applied the new standard retrospectively for all periods presented. Prior to adoption, TNC included debt issuance costs in Deferred Charges and Other Noncurrent Assets on the balance sheets. The effect of the reclassification between assets and liabilities for TNC was $1.8 million as of December 31, 2014.

ASU 2015-05 "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement" (ASU 2015-05)

In April 2015, the FASB issued ASU 2015-05 providing guidance to customers about whether a cloud computing arrangement includes a software license. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2015 with early adoption permitted. Management adopted ASU 2015-05 prospectively, effective January 1, 2016, with no impact on results of operations, financial position or cash flows.

ASU 2015-11 "Simplifying the Measurement of Inventory" (ASU 2015-11)

In July 2015, the FASB issued ASU 2015-11 simplifying the guidance on the subsequent measurement of inventory, excluding inventory measured using last-in, first-out or the retail inventory method. Under the new standard, inventory should be at the lower of cost and net realizable value. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2016 with early adoption permitted. Management does not expect the new standard to impact its results of operations, financial position or cash flows. Management plans to adopt ASU 2015-11 prospectively, effective January 1, 2017.

ASU 2015-17 "Balance Sheet Classification of Deferred Taxes" (ASU 2015-17)

In November 2015, the FASB issued ASU 2015-17 simplifying the presentation of deferred income taxes on the balance sheets. Under the new standard, deferred tax assets and liabilities are classified as noncurrent on the balance sheets. The new accounting guidance is effective for annual periods beginning after December 15, 2016 with early adoption permitted. Management adopted ASU 2015-17 upon its issuance date and applied the new standard prospectively. As a result, the new standard impacted the December 31, 2015 presentation of deferred tax assets and liabilities on the balance sheet.

ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities" (ASU 2016-01)

In January 2016, the FASB issued ASU 2016-01 enhancing the reporting model for financial instruments. Under the new standard, equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are required to be measured at fair value with changes in fair value recognized in net income. The new standard also amends disclosure requirements and requires separate presentation of financial assets and liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. The amendments also clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for sale securities in combination with the entity's other deferred tax assets.

The new accounting guidance is effective for interim and annual periods beginning after December 15, 2017 with early adoption permitted. The amendments should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. Management is analyzing the impact of this new standard and, at this time, cannot estimate the impact of adoption on net income. Management plans to adopt ASU 2016-01 effective January 1, 2018.

3. COMPREHENSIVE INCOME

Presentation of Comprehensive Income

The following tables provide the components of changes in AOCI for the years ended December 31, 2015, 2014 and 2013. All amounts in the following tables are presented net of related income taxes.

Changes in Accumulated Other Comprehensive Income (Loss) by Component
For the Year Ended December 31, 2015

	Cash Flow Hedges		Pension and OPEB		
	Commodity	Interest Rate and Foreign Currency	Amortization of Deferred Costs	Changes in Funded Status	Total
			(in thousands)		
Balance in AOCI as of December 31, 2014	$ —	$ (7,097)	$ 3,031	$ (13,529)	$ (17,595)
Change in Fair Value Recognized in AOCI	—	—	—	148	148
Amounts Reclassified from AOCI	—	868	303	—	1,171
Net Current Period Other Comprehensive Income	—	868	303	148	1,319
Balance in AOCI as of December 31, 2015	$ —	$ (6,229)	$ 3,334	$ (13,381)	$ (16,276)

Changes in Accumulated Other Comprehensive Income (Loss) by Component
For the Year Ended December 31, 2014

	Cash Flow Hedges		Pension and OPEB		
	Commodity	Interest Rate and Foreign Currency	Amortization of Deferred Costs	Changes in Funded Status	Total
			(in thousands)		
Balance in AOCI as of December 31, 2013	$ 36	$ (7,965)	$ 2,640	$ (13,130)	$ (18,419)
Change in Fair Value Recognized in AOCI	—	—	—	(399)	(399)
Amounts Reclassified from AOCI	(36)	868	391	—	1,223
Net Current Period Other Comprehensive Income (Loss)	(36)	868	391	(399)	824
Balance in AOCI as of December 31, 2014	$ —	$ (7,097)	$ 3,031	$ (13,529)	$ (17,595)

Changes in Accumulated Other Comprehensive Income (Loss) by Component
For the Year Ended December 31, 2013

	Cash Flow Hedges		Pension and OPEB		
	Commodity	Interest Rate and Foreign Currency	Amortization of Deferred Costs	Changes in Funded Status	Total
			(in thousands)		
Balance in AOCI as of December 31, 2012	$ 13	$ (9,608)	$ 1,940	$ (15,562)	$ (23,217)
Change in Fair Value Recognized in AOCI	53	339	—	2,432	2,824
Amounts Reclassified from AOCI	(30)	1,304	700	—	1,974
Net Current Period Other Comprehensive Income	23	1,643	700	2,432	4,798
Balance in AOCI as of December 31, 2013	$ 36	$ (7,965)	$ 2,640	$ (13,130)	$ (18,419)

Reclassifications from Accumulated Other Comprehensive Income

The following table provides details of reclassifications from AOCI for the years ended December 31, 2015, 2014 and 2013. The amortization of pension and OPEB AOCI components are included in the computation of net periodic pension and OPEB costs. See Note 6 for additional details.

Reclassifications from Accumulated Other Comprehensive Income (Loss)

	Amount of (Gain) Loss Reclassified from AOCI		
	Years Ended December 31,		
	2015	**2014**	**2013**
Gains and Losses on Cash Flow Hedges	**(in thousands)**		
Commodity:			
Other Operation Expense	$ —	$ (7)	$ (12)
Maintenance Expense	—	(7)	(12)
Property, Plant and Equipment	—	(12)	(22)
Regulatory Assets/(Liabilities), Net (a)	—	(29)	—
Subtotal – Commodity	—	(55)	(46)
Interest Rate and Foreign Currency:			
Interest Expense	1,336	1,337	2,006
Subtotal – Interest Rate and Foreign Currency	1,336	1,337	2,006
Reclassifications from AOCI, before Income Tax (Expense) Credit	1,336	1,282	1,960
Income Tax (Expense) Credit	468	450	686
Reclassifications from AOCI, Net of Income Tax (Expense) Credit	868	832	1,274
Pension and OPEB			
Amortization of Prior Service Cost (Credit)	(66)	(61)	(61)
Amortization of Actuarial (Gains)/Losses	533	662	1,137
Reclassifications from AOCI, before Income Tax (Expense) Credit	467	601	1,076
Income Tax (Expense) Credit	164	210	376
Reclassifications from AOCI, Net of Income Tax (Expense) Credit	303	391	700
Total Reclassifications from AOCI, Net of Income Tax (Expense) Credit	$ 1,171	$ 1,223	$ 1,974

(a) Represents realized gains and losses subject to regulatory accounting treatment recorded as either current or noncurrent on the balance sheets.

4. EFFECTS OF REGULATION

Regulatory assets and liabilities are comprised of the following items:

Regulatory Assets:	December 31, 2015	December 31, 2014	Remaining Recovery Period
	(in thousands)		
Noncurrent Regulatory Assets			
Regulatory assets pending final regulatory approval:			
Regulatory Assets Currently Not Earning a Return			
Rate Case Expense	$ 3	$ 3	
Total Regulatory Assets Pending Final Regulatory Approval	3	3	
Regulatory assets approved for recovery:			
Regulatory Assets Currently Earning a Return			
Meter Replacement Costs	10,258	11,225	11 years
Advanced Metering System	2,005	319	5 years
Regulatory Assets Currently Not Earning a Return			
Pension and OPEB Funded Status	37,636	33,665	12 years
Transmission Cost Recovery Factor	2,602	4,324	1 year
Medicare Subsidy	1,481	1,645	9 years
Unamortized Loss on Reacquired Debt	1,348	1,972	5 years
Other Regulatory Assets Approved for Recovery	397	869	various
Total Regulatory Assets Approved for Recovery	55,727	54,019	
Total Noncurrent Regulatory Assets	$ 55,730	$ 54,022	

Regulatory Liabilities:	December 31, 2015	December 31, 2014	Remaining Refund Period
	(in thousands)		
Noncurrent Regulatory Liabilities and Deferred Investment Tax Credits			
Regulatory liabilities approved for payment:			
Regulatory Liabilities Currently Paying a Return			
Asset Removal Costs	$ 170,533	$ 158,068	(a)
Advanced Metering Infrastructure Surcharge	6,098	9,060	5 years
Excess Earnings	7,814	8,310	16 years
Regulatory Liabilities Currently Not Paying a Return			
Deferred Investment Tax Credits	7,055	7,989	34 years
Income Taxes, Net	1,627	2,146	22 years
Total Regulatory Liabilities Approved for Payment	193,127	185,573	
Total Noncurrent Regulatory Liabilities and Deferred Investment Tax Credits	$ 193,127	$ 185,573	

(a) Relieved as removal costs are incurred.

5. COMMITMENTS, GUARANTEES AND CONTINGENCIES

TNC is subject to certain claims and legal actions arising in its ordinary course of business. In addition, TNC'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 against TNC cannot be predicted. Management accrues contingent liabilities only when management concludes that it is both probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. When management determines that it is not probable, but rather reasonably possible that a liability has been incurred at the date of the financial statements, management discloses such contingencies and the possible loss or range of loss if such estimate can be made. Any estimated range is based on currently available information and involves elements of judgment and significant uncertainties. Any estimated range of possible loss may not represent the maximum possible loss exposure. Circumstances change over time and actual results may vary significantly from estimates.

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.

COMMITMENTS

Construction and Commitments

TNC has substantial construction commitments to support its operations and environmental investments. In managing the overall construction program and in the normal course of business, TNC contractually commits to third-party construction vendors for certain material purchases and other construction services. TNC also purchases fuel, materials, supplies, services and property, plant and equipment under contract as part of its normal course of business. Certain supply contracts contain penalty provisions for early termination.

In accordance with the accounting guidance for "Commitments", the following table summarizes TNC's actual contractual commitments as of December 31, 2015:

Contractual Commitments	Less Than 1 Year	2-3 Years	4-5 Years	After 5 Years	Total
			(in thousands)		
Construction Contracts for Capital Assets (a)	$ 4,035	$ —	$ —	$ —	$ 4,035

(a) Represents only capital assets for which there are signed contracts. Actual payments are dependent upon and may vary significantly based upon the decision to build, regulatory approval schedules, timing and escalation of project costs.

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.

Indemnifications and Other Guarantees

Contracts

TNC 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 December 31, 2015, there were no material liabilities recorded for any indemnifications.

Lease Obligations

TNC leases certain equipment under master lease agreements. See "Master Lease Agreements" section of Note 11 for disclosure of lease residual value guarantees.

CONTINGENCIES

Insurance and Potential Losses

TNC maintains insurance coverage normal and customary for an electric utility, subject to various deductibles. TNC also maintains property and casualty insurance that may cover certain physical damage or third-party injuries caused by cyber security incidents. Insurance coverage includes all risks of physical loss or damage to assets, subject to insurance policy conditions and exclusions. Covered property generally includes power plants, substations, facilities and inventories. Excluded property generally includes transmission and distribution lines, poles and towers. The insurance programs also generally provide coverage against loss arising from certain claims made by third parties and are in excess of TNC's retentions. Coverage is generally provided by a combination of the protected cell of EIS and/or various industry mutual and/or commercial insurance carriers.

Some potential losses or liabilities may not be insurable or the amount of insurance carried may not be sufficient to meet potential losses and liabilities, including, but not limited to, liabilities relating to a cyber security incident. Future losses or liabilities, if they occur, which are not completely insured, unless recovered from customers, could reduce future net income and cash flows and impact financial condition.

The Comprehensive Environmental Response Compensation and Liability Act (Superfund) and State Remediation

By-products from the generation of electricity include materials such as ash, slag and sludge. Coal combustion by-products, which constitute the overwhelming percentage of these materials, are typically treated and deposited in captive disposal facilities or are beneficially utilized. In addition, the generation plants and transmission and distribution facilities have used asbestos, polychlorinated biphenyls and other hazardous and nonhazardous materials. TNC currently incurs costs to dispose of these substances safely.

Superfund addresses clean-up of hazardous substances that are released to the environment. The Federal EPA administers the clean-up programs. Several states enacted similar laws. As of December 31, 2015, TNC has been named potentially liable at one site under state law. In the instance where TNC has been named a defendant, disposal or recycling activities were in accordance with the then-applicable laws and regulations. Superfund does not recognize compliance as a defense, but imposes strict liability on parties who fall within its broad statutory categories. Liability has been resolved for a number of sites with no significant effect on net income.

Management evaluates the potential liability for each site separately, but several general statements can be made about potential future liability. Allegations that materials were disposed at a particular site are often unsubstantiated and the quantity of materials deposited at a site can be small and often nonhazardous. Although Superfund liability has been interpreted by the courts as joint and several, typically many parties are named for each site and several of the parties are financially sound enterprises. At present, management's estimates do not anticipate material cleanup costs for identified sites.

6. BENEFIT PLANS

For a discussion of investment strategy, investment limitations, target asset allocations and the classification of investments within the fair value hierarchy, see "Fair Value Measurements of Assets and Liabilities" and "Investments Held in Trust for Future Liabilities" sections of Note 1.

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

TNC recognizes its funded status associated with defined benefit pension and OPEB plans in its balance sheets. Disclosures about the plans are required by the "Compensation - Retirement Benefits" accounting guidance. TNC recognizes an asset for a plan's overfunded status or a liability for a plan's underfunded status and recognizes, as a component of other comprehensive income, the changes in the funded status of the plan that arise during the year that are not recognized as a component of net periodic benefit cost. TNC records a regulatory asset instead of other comprehensive income for qualifying benefit costs of regulated operations that for ratemaking purposes are deferred for future recovery. The cumulative funded status adjustment is equal to the remaining unrecognized deferrals for unamortized actuarial losses or gains, prior service costs and transition obligations, such that remaining deferred costs result in an AOCI equity reduction or regulatory asset and deferred gains result in an AOCI equity addition or regulatory liability.

Actuarial Assumptions for Benefit Obligations

The weighted-average assumptions as of December 31 of each year used in the measurement of TNC's benefit obligations are shown in the following table:

	Pension Plans		Other Postretirement Benefit Plans	
Assumptions	**2015**	**2014**	**2015**	**2014**
Discount Rate	4.30%	4.00%	4.30%	4.00%
Rate of Compensation Increase	4.55% (a)	4.35% (a)	NA	NA

(a) Rates are for base pay only. In addition, an amount is added to reflect target incentive compensation for exempt employees and overtime and incentive pay for nonexempt employees.

NA Not applicable.

A duration-based method is used to determine the discount rate for the plans. A hypothetical portfolio of high quality corporate bonds is constructed with cash flows matching the benefit plan liability. The composite yield on the hypothetical bond portfolio is used as the discount rate for the plan.

For 2015, the rate of compensation increase assumed varies with the age of the employee, ranging from 3.5% per year to 12% per year, with an average increase of 4.55%.

Actuarial Assumptions for Net Periodic Benefit Costs

The weighted-average assumptions as of January 1 of each year used in the measurement of TNC's benefit costs are shown in the following table:

	Pension Plans			Other Postretirement Benefit Plans		
Assumptions	**2015**	**2014**	**2013**	**2015**	**2014**	**2013**
Discount Rate	4.00%	4.70%	3.95%	4.00%	4.70%	3.95%
Expected Return on Plan Assets	6.00%	6.00%	6.50%	6.75%	6.75%	7.00%
Rate of Compensation Increase	4.35% (a)	4.45% (a)	4.45% (a)	NA	NA	NA

(a) Rates are for base pay only. In addition, an amount is added to reflect target incentive compensation for exempt employees and overtime and incentive pay for nonexempt employees.

NA Not applicable.

The expected return on plan assets was determined by evaluating historical returns, the current investment climate (yield on fixed income securities and other recent investment market indicators), rate of inflation and current prospects for economic growth.

The health care trend rate assumptions as of January 1 of each year used for OPEB plans measurement purposes are shown below:

Health Care Trend Rates	2015	2014
Initial	6.25%	6.50%
Ultimate	5.00%	5.00%
Year Ultimate Reached	2020	2020

Assumed health care cost trend rates have a significant effect on the amounts reported for the OPEB health care plans. A 1% change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
	(in thousands)	
Effect on Total Service and Interest Cost Components of Net Periodic Postretirement Health Care Benefit Cost	$ 56	$ (47)
Effect on the Health Care Component of the Accumulated Postretirement Benefit Obligation	1,335	(1,095)

Significant Concentrations of Risk within Plan Assets

In addition to establishing the target asset allocation of plan assets, the investment policy also places restrictions on securities to limit significant concentrations within plan assets. The investment policy establishes guidelines that govern maximum market exposure, security restrictions, prohibited asset classes, prohibited types of transactions, minimum credit quality, average portfolio credit quality, portfolio duration and concentration limits. The guidelines were established to mitigate the risk of loss due to significant concentrations in any investment. The plans are monitored to control security diversification and ensure compliance with the investment policy. As of December 31, 2015, the assets were invested in compliance with all investment limits. See "Investments Held in Trust for Future Liabilities" section of Note 1 for limit details.

Benefit Plan Obligations, Plan Assets and Funded Status as of December 31, 2015 and 2014

The following tables provide a reconciliation of the changes in the plans' benefit obligations, fair value of plan assets and funded status as of December 31. The benefit obligation for the defined benefit pension and OPEB plans are the projected benefit obligation and the accumulated benefit obligation, respectively.

	Pension Plans		Other Postretirement Benefit Plans	
	2015	2014	2015	2014
Change in Benefit Obligation	(in thousands)			
Benefit Obligation as of January 1,	$ 108,869	$ 99,740	$ 32,213	$ 33,323
Service Cost	1,843	1,443	190	235
Interest Cost	4,082	4,544	1,262	1,487
Actuarial (Gain) Loss	(5,566)	11,162	1,025	(934)
Benefit Payments	(8,833)	(8,020)	(3,080)	(3,186)
Participant Contributions	—	—	883	1,090
Medicare Subsidy	—	—	15	198
Benefit Obligation as of December 31,	$ 100,395	$ 108,869	$ 32,508	$ 32,213
Change in Fair Value of Plan Assets				
Fair Value of Plan Assets as of January 1,	$ 105,410	$ 103,457	$ 40,333	$ 41,272
Actual Gain (Loss) on Plan Assets	622	8,223	(1,195)	1,157
Company Contributions	2,064	1,750	—	—
Participant Contributions	—	—	883	1,090
Benefit Payments	(8,833)	(8,020)	(3,080)	(3,186)
Fair Value of Plan Assets as of December 31,	$ 99,263	$ 105,410	$ 36,941	$ 40,333
Funded (Underfunded) Status as of December 31,	$ (1,132)	$ (3,459)	$ 4,433	$ 8,120

Amounts Recognized on the Balance Sheets as of December 31, 2015 and 2014

	Pension Plans		Other Postretirement Benefit Plans	
	December 31,			
	2015	2014	2015	2014
	(in thousands)			
Deferred Charges and Other Noncurrent Assets – Prepaid Benefit Costs	$ 414	$ —	$ 4,433	$ 8,120
Other Current Liabilities – Accrued Short-term Benefit Liability	(137)	(85)	—	—
Deferred Credits and Other Noncurrent Liabilities – Accrued Long-term Benefit Liability	(1,409)	(3,374)	—	—
Funded (Underfunded) Status	$ (1,132)	$ (3,459)	$ 4,433	$ 8,120

Amounts Included in AOCI and Regulatory Assets as of December 31, 2015 and 2014

	Pension Plans		Other Postretirement Benefit Plans	
	December 31,			
	2015	2014	2015	2014
Components	(in thousands)			
Net Actuarial Loss	$ 53,001	$ 55,516	$ 12,650	$ 8,347
Prior Service Cost (Credit)	100	189	(12,658)	(14,236)
Recorded as				
Regulatory Assets	$ 37,058	$ 37,931	$ 578	$ (4,266)
Deferred Income Taxes	5,615	6,221	(205)	(568)
Net of Tax AOCI	10,428	11,553	(381)	(1,055)

Components of the change in amounts included in AOCI and Regulatory Assets during the years ended December 31, 2015 and 2014 are as follows:

	Pension Plans		Other Postretirement Benefit Plans	
	2015	2014	2015	2014
Components	(in thousands)			
Actuarial (Gain) Loss During the Year	$ (362)	$ 8,584	$ 4,706	$ 542
Amortization of Actuarial Loss	(2,153)	(2,580)	(403)	(463)
Amortization of Prior Service Credit (Cost)	(89)	(108)	1,578	1,577
Change for the Year Ended December 31,	$ (2,604)	$ 5,896	$ 5,881	$ 1,656

Pension and Other Postretirement Benefits Plans' Assets

The fair value tables within Pension and Other Postretirement Benefits Plans' Assets present the classification of assets for AEP within the fair value hierarchy. All Level 1, 2, 3 and Other amounts can be allocated to TNC as of December 31, 2015 and 2014 using the percentages in the table below:

Pension Plan		Other Postretirement Benefit Plans	
2015	2014	2015	2014
2.1%	2.1%	2.3%	2.4%

The following table presents the classification of pension plan assets for AEP within the fair value hierarchy as of December 31, 2015:

Asset Class	Level 1	Level 2	Level 3	Other	Total	Year End Allocation
			(in millions)			
Equities:						
Domestic	$ 315.7	$ —	$ —	$ —	$ 315.7	6.6 %
International	402.3	—	—	—	402.3	8.4 %
Options	—	15.6	—	—	15.6	0.3 %
Real Estate Investment Trusts	4.0	—	—	—	4.0	0.1 %
Common Collective Trust – Global	—	369.7	—	—	369.7	7.8 %
Common Collective Trust – International	—	16.1	—	—	16.1	0.3 %
Subtotal – Equities	722.0	401.4	—	—	1,123.4	23.5 %
Fixed Income:						
Common Collective Trust – Debt	—	34.2	—	—	34.2	0.7 %
United States Government and Agency Securities	—	421.9	—	—	421.9	8.9 %
Corporate Debt	—	1,983.2	—	—	1,983.2	41.6 %
Foreign Debt	—	421.4	0.1	—	421.5	8.8 %
State and Local Government	—	12.8	—	—	12.8	0.3 %
Other – Asset Backed	—	23.4	—	—	23.4	0.5 %
Subtotal – Fixed Income	—	2,896.9	0.1	—	2,897.0	60.8 %
Infrastructure	—	—	42.0	—	42.0	0.9 %
Real Estate	—	—	253.7	—	253.7	5.3 %
Alternative Investments	—	—	378.7	—	378.7	8.0 %
Securities Lending	—	263.0	—	—	263.0	5.5 %
Securities Lending Collateral (a)	—	—	—	(264.7)	(264.7)	(5.5)%
Cash and Cash Equivalents	—	48.6	—	—	48.6	1.0 %
Other – Pending Transactions and Accrued Income (b)	—	—	—	25.9	25.9	0.5 %
Total	$ 722.0	$ 3,609.9	$ 674.5	$ (238.8)	$ 4,767.6	100.0 %

(a) Amounts in "Other" column primarily represent an obligation to repay collateral received as part of the Securities Lending Program.

(b) Amounts in "Other" column primarily represent accrued interest, dividend receivables and transactions pending settlement.

The following table sets forth a reconciliation of changes in the fair value of AEP's assets classified as Level 3 in the fair value hierarchy for the pension assets:

	Foreign Debt	Infrastructure	Real Estate	Alternative Investments	Total Level 3
			(in millions)		
Balance as of January 1, 2015	$ 0.1	$ 12.5	$ 235.8	$ 378.9	$ 627.3
Actual Return on Plan Assets					
Relating to Assets Still Held as of the Reporting Date	—	(3.6)	12.5	(25.9)	(17.0)
Relating to Assets Sold During the Period	—	0.3	23.8	37.6	61.7
Purchases and Sales	—	32.8	(18.4)	(11.9)	2.5
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—
Balance as of December 31, 2015	$ 0.1	$ 42.0	$ 253.7	$ 378.7	$ 674.5

The following table presents the classification of OPEB plan assets for AEP within the fair value hierarchy as of December 31, 2015:

Asset Class	Level 1	Level 2	Level 3	Other	Total	Year End Allocation
			(in millions)			
Equities:						
Domestic	$ 465.1	$ —	$ —	$ —	$ 465.1	29.5%
International	484.3	—	—	—	484.3	30.7%
Options	—	15.6	—	—	15.6	1.0%
Common Collective Trust – Global	—	19.0	—	—	19.0	1.2%
Common Collective Trust – International	—	12.6	—	—	12.6	0.8%
Subtotal – Equities	949.4	47.2	—	—	996.6	63.2%
Fixed Income:						
Common Collective Trust – Debt	—	100.9	—	—	100.9	6.4%
United States Government and Agency Securities	—	58.4	—	—	58.4	3.7%
Corporate Debt	—	117.7	—	—	117.7	7.4%
Foreign Debt	—	20.7	—	—	20.7	1.3%
State and Local Government	—	4.2	—	—	4.2	0.3%
Other – Asset Backed	—	8.4	—	—	8.4	0.5%
Subtotal – Fixed Income	—	310.3	—	—	310.3	19.6%
Trust Owned Life Insurance:						
International Equities	—	28.3	—	—	28.3	1.8%
United States Bonds	—	184.3	—	—	184.3	11.7%
Subtotal – Trust Owned Life Insurance	—	212.6	—	—	212.6	13.5%
Cash and Cash Equivalents	44.9	7.2	—	—	52.1	3.3%
Other – Pending Transactions and Accrued Income (a)	—	—	—	5.8	5.8	0.4%
Total	$ 994.3	$ 577.3	$ —	$ 5.8	$ 1,577.4	100.0%

(a) Amounts in "Other" column primarily represent accrued interest, dividend receivables and transactions pending settlement.

The following table presents the classification of pension plan assets for AEP within the fair value hierarchy as of December 31, 2014:

Asset Class	Level 1	Level 2	Level 3	Other	Total	Year End Allocation
			(in millions)			
Equities:						
Domestic	$ 588.6	$ —	$ —	$ —	$ 588.6	11.9 %
International	502.2	—	—	—	502.2	10.1 %
Options	—	14.1	—	—	14.1	0.3 %
Real Estate Investment Trusts	54.3	—	—	—	54.3	1.1 %
Common Collective Trust – Global	—	377.0	—	—	377.0	7.6 %
Common Collective Trust – International	—	18.5	—	—	18.5	0.4 %
Subtotal – Equities	1,145.1	409.6	—	—	1,554.7	31.4 %
Fixed Income:						
Common Collective Trust – Debt	—	30.2	—	—	30.2	0.6 %
United States Government and Agency Securities	—	449.8	—	—	449.8	9.0 %
Corporate Debt	—	1,799.5	—	—	1,799.5	36.2 %
Foreign Debt	—	400.5	0.1	—	400.6	8.1 %
State and Local Government	—	14.9	—	—	14.9	0.3 %
Other – Asset Backed	—	29.1	—	—	29.1	0.6 %
Subtotal – Fixed Income	—	2,724.0	0.1	—	2,724.1	54.8 %
Infrastructure	—	—	12.5	—	12.5	0.3 %
Real Estate	—	—	235.8	—	235.8	4.7 %
Alternative Investments	—	—	378.9	—	378.9	7.6 %
Securities Lending	—	219.8	—	—	219.8	4.4 %
Securities Lending Collateral (a)	—	—	—	(221.5)	(221.5)	(4.5)%
Cash and Cash Equivalents	—	53.3	—	—	53.3	1.1 %
Other – Pending Transactions and Accrued Income (b)	—	—	—	9.9	9.9	0.2 %
Total	$ 1,145.1	$ 3,406.7	$ 627.3	$ (211.6)	$ 4,967.5	100.0 %

(a) Amounts in "Other" column primarily represent an obligation to repay collateral received as part of the Securities Lending Program.
(b) Amounts in "Other" column primarily represent accrued interest, dividend receivables and transactions pending settlement.

The following table sets forth a reconciliation of changes in the fair value of AEP's of assets classified as Level 3 in the fair value hierarchy for the pension assets:

	Foreign Debt	Infrastructure	Real Estate	Alternative Investments	Total Level 3
			(in millions)		
Balance as of January 1, 2014	$ 0.1	$ —	$ 238.2	$ 329.6	$ 567.9
Actual Return on Plan Assets					
Relating to Assets Still Held as of the Reporting Date	—	(0.3)	5.5	32.0	37.2
Relating to Assets Sold During the Period	—	0.1	19.0	15.8	34.9
Purchases and Sales	—	12.7	(26.9)	1.5	(12.7)
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—
Balance as of December 31, 2014	$ 0.1	$ 12.5	$ 235.8	$ 378.9	$ 627.3

The following table presents the classification of OPEB plan assets for AEP within the fair value hierarchy as of December 31, 2014:

Asset Class	Level 1	Level 2	Level 3	Other	Total	Year End Allocation
			(in millions)			
Equities:						
Domestic	$ 466.1	$ —	$ —	$ —	$ 466.1	27.5%
International	566.6	—	—	—	566.6	33.5%
Options	—	16.4	—	—	16.4	1.0%
Common Collective Trust – Global	—	29.6	—	—	29.6	1.8%
Subtotal – Equities	1,032.7	46.0	—	—	1,078.7	63.8%
Fixed Income:						
Common Collective Trust – Debt	—	103.7	—	—	103.7	6.1%
United States Government and Agency Securities	—	71.1	—	—	71.1	4.2%
Corporate Debt	—	125.5	—	—	125.5	7.4%
Foreign Debt	—	21.3	—	—	21.3	1.3%
State and Local Government	—	5.9	—	—	5.9	0.3%
Other – Asset Backed	—	4.9	—	—	4.9	0.3%
Subtotal – Fixed Income	—	332.4	—	—	332.4	19.6%
Trust Owned Life Insurance:						
International Equities	—	10.3	—	—	10.3	0.6%
United States Bonds	—	212.1	—	—	212.1	12.5%
Subtotal – Trust Owned Life Insurance	—	222.4	—	—	222.4	13.1%
Cash and Cash Equivalents	46.8	9.6	—	—	56.4	3.3%
Other – Pending Transactions and Accrued Income (a)	—	—	—	4.0	4.0	0.2%
Total	$ 1,079.5	$ 610.4	$ —	$ 4.0	$ 1,693.9	100.0%

(a) Amounts in "Other" column primarily represent accrued interest, dividend receivables and transactions pending settlement.

Determination of Pension Expense

The determination of pension expense or income is based on a market-related valuation of assets which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return.

The accumulated benefit obligation for the pension plans is as follows:

Accumulated Benefit Obligation	2015	2014
	(in thousands)	
Qualified Pension Plan	$ 96,583	$ 103,934
Nonqualified Pension Plan	1,538	1,633
Total as of December 31,	$ 98,121	$ 105,567

For the underfunded pension plan that had an accumulated benefit obligation in excess of plan assets, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets of these plans as of December 31, 2015 and 2014 were as follows:

	Underfunded Pension Plan	
	December 31,	
	2015	2014
	(in thousands)	
Projected Benefit Obligation	$ 1,547	$ 1,633
Accumulated Benefit Obligation	$ 1,538	$ 1,633
Fair Value of Plan Assets	—	—
Underfunded Accumulated Benefit Obligation	$ (1,538)	$ (1,633)

Estimated Future Benefit Payments and Contributions

TNC expects contributions and payments for the pension plans of $1.9 million during 2016. The estimated contributions to the pension trust are at least the minimum amount required by the Employee Retirement Income Security Act and additional discretionary contributions may also be made to maintain the funded status of the plan.

The table below reflects the total benefits expected to be paid from the plan or from TNC's assets. The payments include the participants' contributions to the plan for their share of the cost. Future benefit payments are dependent on the number of employees retiring, whether the retiring employees elect to receive pension benefits as annuities or as lump sum distributions, future integration of the benefit plans with changes to Medicare and other legislation, future levels of interest rates and variances in actuarial results. The estimated payments for pension benefits and OPEB are as follows:

	Estimated Payments	
	Pension Plans	Other Postretirement Benefit Plans
	(in thousands)	
2016	$ 7,582	$ 3,253
2017	7,576	3,354
2018	7,700	3,393
2019	8,441	3,452
2020	8,388	3,516
Years 2021 to 2025, in Total	42,106	17,985

Components of Net Periodic Benefit Cost

The following table provides the components of net periodic benefit cost (credit) for the years ended December 31, 2015, 2014 and 2013:

	Pension Plans			Other Postretirement Benefit Plans		
	Years Ended December 31,					
	2015	2014	2013	2015	2014	2013
	(in thousands)					
Service Cost	$ 1,843	$ 1,443	$ 1,602	$ 190	$ 235	$ 408
Interest Cost	4,082	4,544	4,184	1,262	1,487	1,595
Expected Return on Plan Assets	(5,826)	(5,645)	(6,128)	(2,630)	(2,633)	(2,572)
Amortization of Prior Service Cost (Credit)	89	108	108	(1,578)	(1,577)	(1,578)
Amortization of Net Actuarial Loss	2,153	2,580	3,771	403	463	1,469
Net Periodic Benefit Cost (Credit)	2,341	3,030	3,537	(2,353)	(2,025)	(678)
Capitalized Portion	(1,174)	(1,557)	(1,744)	1,180	1,041	334
Net Periodic Benefit Cost (Credit) Recognized in Expense	$ 1,167	$ 1,473	$ 1,793	$ (1,173)	$ (984)	$ (344)

Estimated amounts expected to be amortized to net periodic benefit costs (credits) and the impact on the balance sheet during 2016 are shown in the following table:

Components	Pension Plans	Other Postretirement Benefit Plans
	(in thousands)	
Net Actuarial Loss	$ 1,666	$ 690
Prior Service Cost (Credit)	88	(1,578)
Total Estimated 2016 Amortization	$ 1,754	$ (888)
Expected to be Recorded as		
Regulatory Asset	$ 1,405	$ (962)
Deferred Income Taxes	122	26
Net of Tax AOCI	227	48
Total	$ 1,754	$ (888)

American Electric Power System Retirement Savings Plan

TNC participates in an AEP sponsored defined contribution retirement savings plan, the American Electric Power System Retirement Savings Plan, for substantially all employees. This qualified plan offers participants an opportunity to contribute a portion of their pay, includes features under Section 401(k) of the Internal Revenue Code and provides for matching contributions. The matching contributions to the plan are 100% of the first 1% of eligible employee contributions and 70% of the next 5% of contributions. The cost for matching contributions totaled \$1.3 million in 2015, \$1.1 million in 2014 and \$1.1 million in 2013.

7. BUSINESS SEGMENTS

TNC has one reportable segment, a generation and integrated electricity, transmission and distribution business. TNC's other activities are insignificant.

8. DERIVATIVES AND HEDGING

AEPSC is agent for and transacts on behalf of TNC.

Risk Management Strategies

TNC's vehicle fleet is exposed to gasoline and diesel fuel price volatility. TNC utilizes financial heating oil and gasoline derivative contracts in order to mitigate price risk of future fuel purchases. TNC does not hedge all fuel price risk. The gross notional volumes of TNC's outstanding derivative contracts for heating oil and gasoline as of December 31, 2015 and 2014 were 516 thousand gallons and 392 thousand gallons, respectively.

Cash Flow Hedging Strategies

TNC utilizes a variety of interest rate derivative transactions in order to manage interest rate risk exposure. TNC also utilizes interest rate derivative contracts to manage interest rate exposure related to future borrowings of fixed-rate debt. TNC does not hedge all interest rate exposure.

ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND THE IMPACT ON THE FINANCIAL STATEMENTS

According to the accounting guidance for "Derivatives and Hedging," TNC reflects the fair values of derivative instruments subject to netting agreements with the same counterparty net of related cash collateral. For certain risk management contracts, TNC is required to post or receive cash collateral based on third party contractual agreements and risk profiles. For the December 31, 2015 and 2014 balance sheets, TNC had no netting of cash collateral received from third parties against short-term and long-term risk management assets and $143 thousand and $35 thousand, respectively, of cash collateral paid to third parties against short-term and long-term risk management liabilities.

The following tables represent the gross fair value impact of TNC's derivative activity on the balance sheets as of December 31, 2015 and 2014:

Fair Value of Derivative Instruments
December 31, 2015

Balance Sheet Location	Risk Management Contracts Commodity (a)	Hedging Contracts Commodity (a)	Gross Amounts of Risk Management Assets/ Liabilities Recognized	Gross Amounts Offset in the Statement of Financial Position (b)	Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c)
			(in thousands)		
Current Risk Management Assets	$ —	$ —	$ —	$ —	$ —
Long-term Risk Management Assets	—	—	—	—	—
Total Assets	—	—	—	—	—
Current Risk Management Liabilities	254	—	254	(143)	111
Long-term Risk Management Liabilities	—	—	—	—	—
Total Liabilities	254	—	254	(143)	111
Total MTM Derivative Contract Net Assets (Liabilities)	$ (254)	$ —	$ (254)	$ 143	$ (111)

Fair Value of Derivative Instruments
December 31, 2014

Balance Sheet Location	Risk Management Contracts Commodity (a)	Hedging Contracts Commodity (a)	Gross Amounts of Risk Management Assets/ Liabilities Recognized	Gross Amounts Offset in the Statement of Financial Position (b)	Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c)
			(in thousands)		
Current Risk Management Assets	$ —	$ —	$ —	$ —	$ —
Long-term Risk Management Assets	—	—	—	—	—
Total Assets	—	—	—	—	—
Current Risk Management Liabilities	384	—	384	(35)	349
Long-term Risk Management Liabilities	—	—	—	—	—
Total Liabilities	384	—	384	(35)	349
Total MTM Derivative Contract Net Assets (Liabilities)	$ (384)	$ —	$ (384)	$ 35	$ (349)

(a) Derivative instruments within these categories are reported gross. These instruments are subject to master netting agreements and are presented on the 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."
(c) There are no derivative contracts subject to a master netting arrangement or similar agreement which are not offset in the statement of financial position.

The table below presents TNC’s activity of derivative risk management contracts for the years ended December 31, 2015 and 2014:

Amount of Gain (Loss) Recognized on
Risk Management Contracts

Location of Gain (Loss)	Years Ended December 31, 2015	2014
	(in thousands)	
Electric Generation, Transmission and Distribution Revenues	$ —	$ 17
Other Operation Expense	(371)	—
Maintenance Expense	(291)	—
Regulatory Assets (a)	131	(384)
Regulatory Liabilities (a)	—	—
Total Loss on Risk Management Contracts	$ (531)	$ (367)

(a) Represents realized and unrealized gains and losses subject to regulatory accounting treatment recorded as either current or noncurrent on the balance sheets.

Certain qualifying derivative instruments have been designated as normal purchase or normal sale contracts, as provided in the accounting guidance for “Derivatives and Hedging.” Derivative contracts that have been designated as normal purchases or normal sales under that accounting guidance are not subject to MTM accounting treatment and are recognized on the statements of income on an accrual basis.

TNC’s accounting for the changes in the fair value of a derivative instrument depends on whether it qualifies for and has been designated as part of a hedging relationship and further, on the type of hedging relationship. Depending on the exposure, management designates a hedging instrument as a fair value hedge or a cash flow hedge.

For contracts that have not been designated as part of a hedging relationship, the accounting for changes in fair value depends on whether the derivative instrument is held for trading purposes. Unrealized and realized gains and losses on derivative instruments held for trading purposes are included in revenues on a net basis on TNC's statements of income. Unrealized and realized gains and losses on derivative instruments not held for trading purposes are included in revenues or expenses on TNC's statements of income depending on the relevant facts and circumstances. However, unrealized and some realized gains and losses for both trading and non-trading derivative instruments are recorded as regulatory assets (for losses) or regulatory liabilities (for gains), in accordance with the accounting guidance for "Regulated Operations."

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

TNC reclassifies gains and losses on heating oil and gasoline 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 statements of income. During 2013, TNC applied cash flow hedging to outstanding heating oil and gasoline derivatives. The impact of cash flow hedge accounting for these derivative contracts was immaterial and was discontinued effective March 31, 2014.

TNC reclassifies gains and losses on interest rate derivative hedges related to debt financings from Accumulated Other Comprehensive Income (Loss) on its balance sheets into Interest Expense on its statements of income in those periods in which hedged interest payments occur. During 2015 and 2014, TNC did not apply cash flow hedging to outstanding interest rate derivatives. During 2013, TNC applied cash flow hedging to outstanding interest rate derivatives.

During 2015, 2014 and 2013, hedge ineffectiveness was immaterial or nonexistent for all cash flow hedge strategies discussed above.

For details on effective cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on TNC's balance sheets and the reasons for changes in cash flow hedges, see Note 3.

Cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on TNC's balance sheets as of December 31, 2015 and 2014 were:

Impact of Cash Flow Hedges on the Balance Sheet
December 31, 2015

	Commodity	Interest Rate	Total
		(in thousands)	
Hedging Assets (a)	$ —	$ —	$ —
Hedging Liabilities (a)	—	—	—
AOCI Loss Net of Tax	—	(6,229)	(6,229)
Portion Expected to be Reclassified to Net Income During the Next Twelve Months	—	(869)	(869)

Impact of Cash Flow Hedges on the Balance Sheet
December 31, 2014

	Commodity	Interest Rate	Total
		(in thousands)	
Hedging Assets (a)	$ —	$ —	$ —
Hedging Liabilities (a)	—	—	—
AOCI Loss Net of Tax	—	(7,097)	(7,097)
Portion Expected to be Reclassified to Net Income During the Next Twelve Months	—	(869)	(869)

(a) Hedging Assets and Hedging Liabilities are included in Risk Management Assets and Liabilities on TNC's balance sheets.

The actual amounts that TNC reclassifies from Accumulated Other Comprehensive Income (Loss) to Net Income can differ from the estimate above due to market price changes. As of December 31, 2015, TNC is not hedging (with contracts subject to the accounting guidance for "Derivatives and Hedging") its exposure to variability in future cash flows related to forecasted transactions.

9. 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 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 TNC's Long-term Debt as of December 31, 2015 and 2014 are summarized in the following table:

	December 31,			
	2015		2014	
	Book Value	Fair Value	Book Value	Fair Value
	(in thousands)			
Long-term Debt	$ 543,165	$ 566,317	$ 418,451	$ 465,778

Fair Value Measurements of Financial Assets and Liabilities

For a discussion of fair value accounting and the classification of assets and liabilities within the fair value hierarchy, see the "Fair Value Measurements of Assets and Liabilities" section of Note 1.

The following tables set forth, by level within the fair value hierarchy, TNC's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2015 and 2014. 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
December 31, 2015

	Level 1	Level 2	Level 3	Other	Total
Liabilities:		(in thousands)			
Risk Management Liabilities					
Risk Management Commodity Contracts (a)	$ —	$ 254	$ —	$ (143)	$ 111

Assets and Liabilities Measured at Fair Value on a Recurring Basis
December 31, 2014

	Level 1	Level 2	Level 3	Other	Total
Liabilities:		(in thousands)			
Risk Management Liabilities					
Risk Management Commodity Contracts (a)	$ —	$ 384	$ —	$ (35)	$ 349

(a) 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."

As of December 31, 2015 and 2014, TNC had no assets measured at fair value on a recurring basis.

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2015, 2014 and 2013.

10. INCOME TAXES

The details of TNC's income taxes as reported are as follows:

	Years Ended December 31, 2015	2014	2013
		(in thousands)	
Income Tax Expense (Credit):			
Current	$ (1,024)	$ 9,596	$ 22,531
Deferred	15,065	9,630	(3,019)
Deferred Investment Tax Credits	(934)	(946)	(956)
Income Tax Expense	$ 13,107	$ 18,280	$ 18,556

The following is a reconciliation of the difference between the amount of federal income taxes computed by multiplying book income before income taxes by the federal statutory tax rate and the amount of income taxes reported:

	Years Ended December 31, 2015	2014	2013
		(in thousands)	
Net Income	$ 26,264	$ 33,313	$ 36,913
Income Tax Expense	13,107	18,280	18,556
Pretax Income	$ 39,371	$ 51,593	$ 55,469
Income Taxes on Pretax Income at Statutory Rate (35%)	$ 13,780	$ 18,058	$ 19,414
Increase (Decrease) in Income Taxes Resulting from the Following Items:			
Depreciation	(71)	(157)	(169)
Investment Tax Credits, Net	(934)	(946)	(956)
State and Local Income Taxes, Net	778	1,312	1,499
Other	(446)	13	(1,232)
Income Tax Expense	$ 13,107	$ 18,280	$ 18,556
Effective Income Tax Rate	33.3 %	35.4 %	33.5 %

The following table shows elements of TNC's net deferred tax liability and significant temporary differences:

	Years Ended December 31, 2015	2014
	(in thousands)	
Deferred Tax Assets	$ 43,454	$ 35,806
Deferred Tax Liabilities	(249,071)	(225,411)
Net Deferred Tax Liabilities	$ (205,617)	$ (189,605)
Property Related Temporary Differences	$ (215,338)	$ (198,972)
Amounts Due to Customers for Future Federal Income Taxes	569	751
Deferred State Income Taxes	(753)	(818)
Deferred Income Taxes on Other Comprehensive Loss	8,763	9,474
Regulatory Assets	(17,017)	(15,780)
Deferred Revenues	17,576	16,817
All Other, Net	583	(1,077)
Net Deferred Tax Liabilities	$ (205,617)	$ (189,605)

AEP System Tax Allocation Agreement

TNC 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

TNC and other AEP subsidiaries are no longer subject to U.S. federal examination for years before 2011. The IRS examination of years 2011, 2012 and 2013 started in April 2014. 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, TNC 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 materially impact net income.

TNC and other AEP subsidiaries file income tax returns in various state and local jurisdictions. These taxing authorities routinely examine the tax returns. TNC and other AEP subsidiaries are currently under examination in several state and local jurisdictions. However, it is possible that previously filed tax returns have positions that may be challenged by these tax authorities. 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. TNC is no longer subject to state or local income tax examinations by tax authorities for years before 2009.

Tax Credit Carryforward

As of December 31, 2015 and 2014, TNC had unused federal income tax credits of $46 thousand and $87 thousand, respectively. If these credits are not utilized, the federal general business tax credits will expire in the years 2031 through 2034.

TNC anticipates future federal taxable income will be sufficient to realize the tax benefits of the federal tax credits before they expire unused.

Uncertain Tax Positions

TNC recognizes interest accruals related to uncertain tax positions in interest income or expense as applicable, and penalties in Other Operation expense in accordance with the accounting guidance for "Income Taxes."

The following table shows the amounts reported for interest expense, interest income and reversal of prior period interest expense:

	Years Ended December 31,		
	2015	2014	2013
		(in thousands)	
Interest Expense	$ 44	$ —	$ 407
Interest Income	176	1,172	—
Reversal of Prior Period Interest Expense	—	40	—

The following table shows balances for amounts accrued for the receipt of interest and the payment of interest and penalties:

	December 31,	
	2015	2014
	(in thousands)	
Accrual for Receipt of Interest	$ 1,348	$ 1,127
Accrual for Payment of Interest and Penalties	127	43

The reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2015	2014	2013
		(in thousands)	
Balance as of January 1,	$ 637	$ 1,011	$ 919
Increase – Tax Positions Taken During a Prior Period	790	101	—
Decrease – Tax Positions Taken During a Prior Period	—	(192)	(23)
Increase – Tax Positions Taken During the Current Year	—	—	115
Decrease – Tax Positions Taken During the Current Year	—	—	—
Increase – Settlements with Taxing Authorities	—	—	—
Decrease – Settlements with Taxing Authorities	—	—	—
Decrease – Lapse of the Applicable Statute of Limitations	—	(283)	—
Balance as of December 31,	$ 1,427	$ 637	$ 1,011

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is $927 thousand, $598 thousand and $473 thousand for 2015, 2014 and 2013, respectively. Management believes there will be no significant net increase or decrease in unrecognized tax benefits within 12 months of the reporting date.

Federal Tax Legislation

The American Taxpayer Relief Act of 2012 (the 2012 Act) was enacted in January 2013. Included in the 2012 Act was a one-year extension of the 50% bonus depreciation. The 2012 Act also retroactively extended the life of research and development, employment and several energy tax credits, which expired at the end of 2011. The enacted provisions did not materially impact TNC's net income or financial condition but did have a favorable impact on cash flows in 2013.

The Tax Increase Prevention Act of 2014 (the 2014 Act) was enacted in December 2014. Included in the 2014 Act was a one-year extension of the 50% bonus depreciation. The 2014 Act also retroactively extended the life of research and development, employment and several energy tax credits, which expired at the end of 2013. The enacted provisions did not materially impact TNC's net income or financial condition but did have a favorable impact on cash flows in 2015.

The Protecting Americans from Tax Hikes Act of 2015 (PATH) included an extension of the 50% bonus depreciation for three years through 2017, phasing down to 40% in 2018 and 30% in 2019. PATH also provided for the extension of research and development, employment and several energy tax credits for 2015. PATH also includes provisions to extend the wind energy production tax credit through 2016 with a three-year phase-out (2017-2019), and to extend the 30% temporary solar investment tax credit for three years through 2019 and with a two-year phase-out (2020-2021). PATH also provided for a permanent extension of the Research and Development tax credit. The enacted provisions did not materially impact TNC's net income or financial condition but will have a favorable impact on future cash flows.

Federal Tax Regulations

In 2013, the U.S. Treasury Department issued final and re-proposed regulations regarding the deduction and capitalization of expenditures related to tangible property, effective for the tax years beginning in 2014. In addition, the IRS issued Revenue Procedures under the Industry Issue Resolutions program that provides specific guidance for the implementation of the regulations for the electric utility industry. These final regulations did not materially impact TNC's net income, cash flows or financial condition.

State Tax Regulations

House Bill 32 was passed by the state of Texas in June 2015, permanently reducing the Texas income/franchise tax rate from 0.95% to 0.75% effective January 1, 2016, applicable to reports originally due on or after the effective date. The Texas income/franchise tax rate had been scheduled to return to 1% in 2016. The enacted provision did not materially impact TNC's net income, cash flows or financial condition.

11. LEASES

Leases of property, plant and equipment are for remaining periods up to 10 years and require payments of related property taxes, maintenance and operating costs. The majority of the leases have purchase or renewal options and will be renewed or replaced by other leases.

Lease rentals for both operating and capital leases are generally charged to Other Operation and Maintenance expense in accordance with rate-making treatment for regulated operations. The components of rental costs are as follows:

Lease Rental Costs	Years Ended December 31, 2015	2014	2013
		(in thousands)	
Net Lease Expense on Operating Leases	$ 2,264	$ 2,028	$ 1,917
Amortization of Capital Leases	769	740	588
Interest on Capital Leases	90	93	58
Total Lease Rental Costs	$ 3,123	$ 2,861	$ 2,563

The following table shows the property, plant and equipment under capital leases and related obligations recorded on TNC's balance sheets. Capital lease obligations are included in Other Current Liabilities and Deferred Credits and Other Noncurrent Liabilities on TNC's balance sheets.

	December 31, 2015	2014
	(in thousands)	
Property, Plant and Equipment Under Capital Leases		
Total Property, Plant and Equipment Under Capital Leases – Other	$ 6,123	$ 3,776
Accumulated Amortization	1,678	1,313
Net Property, Plant and Equipment Under Capital Leases	$ 4,445	$ 2,463
Obligations Under Capital Leases		
Noncurrent Liability	$ 3,529	$ 1,761
Liability Due Within One Year	916	702
Total Obligations Under Capital Leases	$ 4,445	$ 2,463

Future minimum lease payments consisted of the following as of December 31, 2015:

Future Minimum Lease Payments	Capital Leases	Noncancelable Operating Leases
	(in thousands)	
2016	$ 1,092	$ 2,846
2017	941	2,713
2018	752	2,332
2019	502	2,073
2020	425	1,811
Later Years	1,563	6,282
Total Future Minimum Lease Payments	5,275	$ 18,057
Less Estimated Interest Element	830	
Estimated Present Value of Future Minimum Lease Payments	$ 4,445	

Master Lease Agreements

TNC leases certain equipment under master lease agreements. Under the 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, TNC is committed to pay the difference between the actual fair value and the residual value guarantee. Historically, at the end of the lease term the fair value has been in excess of the unamortized balance. As of December 31, 2015, the maximum potential loss for these lease agreements was $2.4 million assuming the fair value of the equipment is zero at the end of the lease term.

12. FINANCING ACTIVITIES

Long-term Debt

The following details long-term debt outstanding as of December 31, 2015 and 2014:

Type of Debt	Maturity	Weighted Average Interest Rate as of December 31, 2015	Interest Rate Ranges as of December 31, 2015	2014	Outstanding as of December 31, 2015	2014
					(in thousands)	
Senior Unsecured Notes	2018-2043	4.42%	3.09%-6.76%	3.09%-6.76%	$ 423,246	$ 298,754
Pollution Control Bonds (a)	2020	4.45%	4.45%	4.45%	44,053	44,001
Other Long-term Debt	2016-2059	1.86%	1.823%-4.50%	1.732%-4.50%	75,866	75,696
Total Long-term Debt Outstanding					$ 543,165	$ 418,451

(a) Insurance policies support certain series.

Long-term debt outstanding as of December 31, 2015 is payable as follows:

	2016	2017	2018	2019	2020	After 2020	Total
				(in thousands)			
Principal Amount	$ 75,007	$ 7	$ 30,008	$ 8	$ 44,319	$ 395,930	$ 545,279
Debt Issuance Costs							(2,114)
Total Long-term Debt Outstanding							$ 543,165

Dividend Restrictions

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

Federal Power Act

The Federal Power Act prohibits TNC from participating "in the making or paying of any dividends of such public utility from any funds properly included in capital account." This restriction does not limit the ability of TNC to pay dividends out of retained earnings.

Leverage Restrictions

Pursuant to the credit agreement leverage restrictions, TNC must maintain a percentage of debt to total capitalization at a level that does not exceed 67.5%. As of December 31, 2015, $98 million of TNC's retained earnings have restrictions related to the payment of dividends to Parent.

Corporate Borrowing Program – AEP System

The AEP System uses a corporate borrowing program to meet the short-term borrowing needs of AEP's subsidiaries. The corporate borrowing program includes a Utility Money Pool, which funds AEP's utility subsidiaries, and a Nonutility Money Pool, which funds a majority of AEP's nonutility subsidiaries. The AEP System Utility Money Pool operates in accordance with the terms and conditions of the AEP System Utility Money Pool agreement filed with the FERC. The amounts of outstanding loans to (borrowings from) the Utility Money Pool as of December 31, 2015 and 2014 are included in Advances to Affiliates and Advances from Affiliates, respectively, on TNC's balance sheets. TNC's Utility Money Pool activity and corresponding authorized borrowing limit for the years ended December 31, 2015 and 2014 are described in the following table:

Year	Maximum Borrowings from the Utility Money Pool	Maximum Loans to the Utility Money Pool	Average Borrowings from the Utility Money Pool	Average Loans to the Utility Money Pool	Net Loans to (Borrowings from) the Utility Money Pool as of December 31,	Authorized Short-Term Borrowing Limit
			(in thousands)			
2015	$ 125,318	$ 16,415	$ 81,549	$ 11,029	$ 14,393	$ 250,000
2014	89,749	—	56,304	—	(72,715)	250,000

The activity in the above table does not include short-term lending activity of TNC's wholly-owned subsidiary, AEP Texas North Generation Company LLC (TNGC), which is a participant in the Nonutility Money Pool. The amounts of outstanding loans to the Nonutility Money Pool as of December 31, 2015 and 2014 are included in Advances to Affiliates on TNC's balance sheets. For the years ended December 31, 2015 and 2014, TNGC had the following activity in the Nonutility Money Pool:

Year	Maximum Borrowings from the Nonutility Money Pool	Maximum Loans to the Nonutility Money Pool	Average Borrowings from the Nonutility Money Pool	Average Loans to the Nonutility Money Pool	Loans to the Nonutility Money Pool as of December 31,
			(in thousands)		
2015	$ —	$ 9,620	$ —	$ 9,221	$ 8,719
2014	—	10,179	—	9,587	9,620

Maximum, minimum and average interest rates for funds either borrowed from or loaned to the Utility Money Pool for the years ended December 31, 2015, 2014 and 2013 are summarized in the following table:

Years Ended December 31,	Maximum Interest Rate for Funds Borrowed from the Utility Money Pool	Minimum Interest Rate for Funds Borrowed from the Utility Money Pool	Maximum Interest Rate for Funds Loaned to the Utility Money Pool	Minimum Interest Rate for Funds Loaned to the Utility Money Pool	Average Interest Rate for Funds Borrowed from the Utility Money Pool	Average Interest Rate for Funds Loaned to the Utility Money Pool
2015	0.65%	0.37%	0.87%	0.75%	0.46%	0.82%
2014	0.59%	0.24%	—%	—%	0.30%	—%
2013	0.43%	0.24%	0.36%	0.36%	0.34%	0.36%

Maximum, minimum and average interest rates for funds either borrowed from or loaned to the Nonutility Money Pool for the years ended December 31, 2015, 2014 and 2013 are summarized in the following table:

Years Ended December 31,	Maximum Interest Rate for Funds Borrowed from the Nonutility Money Pool	Minimum Interest Rate for Funds Borrowed from the Nonutility Money Pool	Maximum Interest Rate for Funds Loaned to the Nonutility Money Pool	Minimum Interest Rate for Funds Loaned to the Nonutility Money Pool	Average Interest Rate for Funds Borrowed from the Nonutility Money Pool	Average Interest Rate for Funds Loaned to the Nonutility Money Pool
2015	—%	—%	0.87%	0.37%	—%	0.48%
2014	—%	—%	0.59%	—%	—%	0.29%
2013	—%	—%	0.43%	0.24%	—%	0.33%

Interest expense and interest income related to the Utility Money Pool are included in Interest Expense and Interest Income, respectively, in TNC's statements of income. For amounts borrowed from and advanced to the Utility Money Pool, TNC incurred the following amounts of interest expense and earned the following amounts of interest income, respectively, for the years ended December 31, 2015, 2014 and 2013:

	Years Ended December 31,		
	2015	2014	2013
		(in thousands)	
Interest Expense	$ 367	$ 168	$ 243
Interest Income	4	—	37

Interest income related to the Nonutility Money Pool is included in Interest Income in TNC's statements of income. For amounts advanced to the Nonutility Money Pool, TNC earned the following amounts of interest income for the years ended December 31, 2015, 2014 and 2013:

	Years Ended December 31,		
	2015	2014	2013
		(in thousands)	
Interest Income	$ 45	$ 28	$ 35

13. RELATED PARTY TRANSACTIONS

For other related party transactions, also see "AEP System Tax Allocation Agreement" section of Note 10 and "Money Pool – AEP System" section of Note 12.

Affiliated Revenues

The following table shows the revenues derived from direct sales to affiliates and other revenues for the years ended December 31, 2015, 2014 and 2013:

Related Party Revenues	Years Ended December 31, 2015	2014	2013
		(in thousands)	
Direct Sales to AEPEP Affiliate	$ 76,897	$ 91,192	$ 98,808
Other Revenues	5,337	4,855	4,785
Total Affiliated Revenues	$ 82,234	$ 96,047	$ 103,593

The above summarized related party revenues are reported in Sales to AEP Affiliates on TNC's statements of income.

ERCOT Transmission Cost of Service

TNC's net revenues allocated pursuant to the PUCT-approved ERCOT protocols for the years ended December 31, 2015, 2014 and 2013 were $2.2 million, $2.1 million and $2.1 million, respectively. The net revenues are recorded in Sales to AEP Affiliates on TNC's statements of income.

ERCOT Transmission Service Charges

Pursuant to an order from the PUCT, ETT bills TNC for its ERCOT wholesale transmission services. ETT billed TNC $4.9 million, $4.8 million and $2.5 million for transmission services in 2015, 2014 and 2013, respectively. The billings are recorded in Other Operation expenses on TNC's statements of income.

Oklaunion PPA between TNC and AEP Energy Partners (AEPEP)

On January 1, 2007, TNC began a PPA with an affiliate, AEPEP, whereby TNC agrees to sell AEPEP 100% of TNC's capacity and associated energy from its undivided interest (54.69%) in the Oklaunion Plant. This PPA is effective through December 2027. AEPEP is to pay TNC for the capacity and associated energy delivered to the delivery point, the sum of fuel, operation and maintenance, depreciation, capacity and all taxes other than federal income taxes applicable. A portion of the payment is fixed and is payable regardless of the level of output. There are no penalties if TNC fails to maintain a minimum availability level or exceeds a maximum heat rate level. The PPA was approved by the FERC. TNC recognizes revenues for the fuel, operations and maintenance and all other taxes as-billed. Revenue is recognized for the capacity and depreciation billed to AEPEP, on a straight-line basis over the term of the PPA as these represent the minimum payments due.

TNC recorded revenue of $76.9 million, $91.2 million and $98.8 million from AEPEP for the years ended December 31, 2015, 2014 and 2013, respectively. These amounts are included in Sales to AEP Affiliates on TNC's statements of income.

Sales and Purchases of Property

TNC had affiliated sales and purchases of electric property individually amounting to $100 thousand or more and sales and purchases of meters and transformers. There were no gains or losses recorded on the transactions. The following table shows the sales and purchases, recorded at net book value, for the years ended December 31, 2015, 2014 and 2013:

	Years Ended December 31,		
	2015	**2014**	**2013**
		(in thousands)	
Sales	$ 2,584	$ 4,052	$ 6,977
Purchases	2,439	1,957	1,515

The amounts above are recorded in Property, Plant and Equipment on the balance sheets.

Intercompany Billings

TNC performs certain utility services for other AEP subsidiaries when necessary or practical. The costs of these services are billed on a direct-charge basis, whenever possible, or on reasonable basis of proration for services that benefit multiple companies. The billings for services are made at cost and include no compensation for the use of equity capital.

14. 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 TNC is the primary beneficiary of a VIE, management considers factors such as equity at risk, the amount of the VIE's variability TNC 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. TNC 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. Parent 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. TNC's total billings from AEPSC for the years ended December 31, 2015, 2014 and 2013 were $37.1 million, $32.3 million and $26.5 million, respectively. The carrying amount of liabilities associated with AEPSC as of December 31, 2015 and 2014 was $4.5 million and $5 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

15. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is shown functionally on the face of TNC's balance sheets. The following table includes TNC's total plant balances for the years ended December 31, 2015 and 2014:

	Years Ended December 31, 2015	2014
	(in thousands)	
Regulated Property, Plant and Equipment		
Transmission	$ 630,759	$ 576,907
Distribution	776,057	725,201
Other	99,996	100,328
CWIP	72,910	49,890
Less: Accumulated Depreciation	413,507	400,092
Total Regulated Property, Plant and Equipment - Net	1,166,215	1,052,234
Nonregulated Property, Plant and Equipment - Net	170,553	152,314
Total Property, Plant and Equipment - Net	$ 1,336,768	$ 1,204,548

Depreciation

TNC provides for depreciation of Property, Plant and Equipment on a straight-line basis over the estimated useful lives of property, generally using composite rates by functional class. The following table provides total annual composite depreciation rates and depreciable lives for TNC.

Functional Class of Property	2015 Annual Composite Depreciation Rate	2015 Depreciable Life Ranges (in years)	2014 Annual Composite Depreciation Rate	2014 Depreciable Life Ranges (in years)	2013 Annual Composite Depreciation Rate	2013 Depreciable Life Ranges (in years)
Regulated						
Transmission	2.7%	45 - 75	2.7%	45 - 75	2.7%	45 - 75
Distribution	3.7%	7 - 70	3.7%	28 - 70	3.8%	28 - 70
Other	10.9%	5 - 50	8.4%	10 - 50	7.5%	10 - 50
Nonregulated						
Generation	2.5%	60	2.6%	60	2.6%	60

For regulated operations, the composite depreciation rate generally includes a component for non-asset retirement obligation (non-ARO) removal costs, which is credited to Accumulated Depreciation and Amortization. Actual removal costs incurred are charged to Accumulated Depreciation and Amortization. Any excess of accrued non-ARO removal costs over actual removal costs incurred is reclassified from Accumulated Depreciation and Amortization and reflected as a regulatory liability. For nonregulated operations, non-ARO removal cost is expensed as incurred.

Asset Retirement Obligations (ARO)

TNC records ARO in accordance with the accounting guidance for "Asset Retirement and Environmental Obligations" for the retirement of ash disposal facilities and asbestos removal. TNC has identified, but not recognized, ARO liabilities related to electric transmission and distribution assets, as a result of certain easements on property on which assets are owned. Generally, such easements are perpetual and require only the retirement and removal of assets upon the cessation of the property's use. The retirement obligation is not estimable for such easements since TNC plans to use its facilities indefinitely. The retirement obligation would only be recognized if and when TNC abandons or ceases the use of specific easements, which is not expected.

TNC recorded an increase in asset retirement obligations in the second quarter of 2015, primarily related to the final Coal Combustion Residual Rule which, was published in the Federal Register in April 2015. The Federal EPA now regulates the disposal and beneficial re-use of coal combustion residuals (CCR), including fly ash and bottom ash generated at coal-fired electric generating units and also FGD gypsum generated at some coal-fired plants. The Federal EPA regulates CCR as a non-hazardous solid waste and established minimum federal solid waste management standards. Noncash increases related to the CCR Rule are recorded as Property, Plant and Equipment.

The following is a reconciliation of the 2015 and 2014 aggregate carrying amounts of ARO for TNC:

Year	ARO as of January 1,	Accretion Expense	Liabilities Incurred	Liabilities Settled	Revisions in Cash Flow Estimates	ARO as of December 31,
			(in thousands)			
2015	$ 1,178	$ 531	$ 19,859	$ (4)	$ —	$ 21,564
2014	1,315	73	—	(271)	61	1,178

Allowance for Funds Used During Construction (AFUDC) and Interest Capitalization

TNC's amounts of allowance for borrowed and equity funds used during construction are summarized in the following table:

	Years Ended December 31,		
	2015	2014	2013
		(in thousands)	
Allowance for Equity Funds Used During Construction	$ 198	$ 180	$ 244
Allowance for Borrowed Funds Used During Construction	394	411	332

Jointly-owned Electric Facilities

TNC has a 54.7% ownership share of Unit No. 1 at the Oklaunion Generating Station. In addition to TNC, the Oklaunion Generating Station is jointly-owned by PSO and various non-affiliated companies. Using its own financing, each participating company is obligated to pay its share of the costs in the same proportion as its ownership interest. TNC's proportionate share of the operating costs associated with this facility is included in its statements of income and the investment and accumulated depreciation are reflected in its balance sheets under Property, Plant and Equipment as follows:

	Fuel Type	Percent of Ownership	Utility Plant in Service	Construction Work in Progress	Accumulated Depreciation
				(in thousands)	
TNC's Share as of December 31, 2015					
Oklaunion Generating Station, Unit 1 (a)	Coal	54.7%	$ 342,542	$ 5,398	$ 177,974
TNC's Share as of December 31, 2014					
Oklaunion Generating Station, Unit 1 (a)	Coal	54.7%	$ 314,382	$ 7,692	$ 170,359

(a) Operated by PSO.

16. COST REDUCTION PROGRAM

2012 Sustainable Cost Reductions

In April 2012, management initiated a process to identify strategic repositioning opportunities and efficiencies that will result in sustainable cost savings. Management selected a consulting firm to facilitate an organizational and process evaluation and a second firm to evaluate current employee benefit programs. The process resulted in involuntary severances and was completed by the end of the first quarter of 2013. The severance program provides two weeks of base pay for every year of service along with other severance benefits.

TNC recorded a credit to Other Operation expense of $200 thousand for the year ended December 31, 2013, primarily related to the sustainable cost reductions initiative.

17. UNAUDITED QUARTERLY FINANCIAL INFORMATION

In management's opinion, the unaudited quarterly information reflects all normal and recurring accruals and adjustments necessary for a fair presentation of the results of operations for interim periods. Quarterly results are not necessarily indicative of a full year's operations because of various factors. TNC's unaudited quarterly financial information is as follows:

	2015 Quarterly Periods Ended			
	March 31	June 30	September 30	December 31
	(in thousands)			
Total Revenues	$ 79,339	$ 74,607	$ 84,472	$ 73,065
Operating Income	17,831	16,349	17,679	7,355
Net Income	8,518	7,492	9,708	546

	2014 Quarterly Period Ended			
	March 31	June 30	September 30	December 31
	(in thousands)			
Total Revenues	$ 76,859	$ 78,529	$ 84,591	$ 78,984
Operating Income	18,728	15,074	19,970	15,840
Net Income	9,339	6,711	11,164	6,099