AEP Generating Company

2022 Third Quarter Report

Financial Statements

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GLOSSARY OF TERMS

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

Term	Meaning
AEGCo	AEP Generating Company, an AEP electric utility subsidiary.
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.
AFUDC	Allowance for Equity Funds Used During Construction.
Excess ADIT	Excess accumulated deferred income taxes.
FASB	Financial Accounting Standards Board.
FERC	Federal Energy Regulatory Commission.
GAAP	Accounting Principles Generally Accepted in the United States of America.
I&M	Indiana Michigan Power Company, an AEP electric utility subsidiary.
IRA	On August 16, 2022 President Biden signed into law legislation commonly referred to as the “Inflation Reduction Act” (IRA).
IRS	Internal Revenue Service.
ITC	Investment Tax Credit.
MW	Megawatt.
NSR	New Source Review.
OPEB	Other Postretirement Benefits.
Parent	American Electric Power Company, Inc., the equity owner of AEP subsidiaries within the AEP consolidation.
PTC	Production Tax Credit.
Rockport Plant	A generation plant, consisting of two 1,310 MW coal-fired generating units near Rockport, Indiana. AEGCo and I&M jointly-own Unit 1. In 1989, AEGCo and I&M entered into a sale-and-leaseback transaction with Wilmington Trust Company, an unrelated, unconsolidated trustee for Rockport Plant, Unit 2.
Tax Reform	On December 22, 2017, President Trump signed into law legislation referred to as the “Tax Cuts and Jobs Act” (the TCJA). The TCJA includes significant changes to the Internal Revenue Code of 1986, including a reduction in the corporate federal income tax rate from 35% to 21% effective January 1, 2018.
UMWA	United Mine Workers of America.
Utility Money Pool	Centralized funding mechanism AEP uses to meet the short-term cash requirements of certain utility subsidiaries.

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF INCOME
For the Three and Nine Months Ended September 30, 2022 and 2021
(in thousands)
(Unaudited)

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
REVENUES				
Sales to AEP Affiliates	$ 94,803	$ 90,376	$ 263,665	$ 246,618
Other Revenues – Affiliated	4,158	2,346	9,486	11,425
Other Revenues – Nonaffiliated	116	54	236	164
TOTAL REVENUES	99,077	92,776	273,387	258,207
EXPENSES				
Fuel and Other Consumables Used for Electric Generation	38,063	33,958	99,310	83,753
Rockport Plant, Unit 2 Operating Lease Amortization	—	16,760	—	49,686
Other Operation	1,529	4,369	7,249	16,743
Maintenance	5,300	3,201	13,191	12,186
Depreciation and Amortization	45,750	25,305	136,582	75,715
Taxes Other Than Income Taxes	1,534	1,326	4,864	4,033
TOTAL EXPENSES	92,176	84,919	261,196	242,116
OPERATING INCOME	6,901	7,857	12,191	16,091
Other Income (Expense):				
Interest Income	915	24	1,480	79
Allowance for Equity Funds Used During Construction	17	178	208	428
Non-Service Cost Components of Net Periodic Benefit Cost	1,167	765	3,499	2,294
Interest Expense	(1,852)	(834)	(4,374)	(2,903)
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT)	7,148	7,990	13,004	15,989
Income Tax Expense (Benefit)	1,337	(1,337)	3,083	(1,503)
NET INCOME	$ 5,811	$ 9,327	$ 9,921	$ 17,492

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

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

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF CHANGES IN
COMMON SHAREHOLDER’S EQUITY
For the Nine Months Ended September 30, 2022 and 2021
(in thousands)
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Total
TOTAL COMMON SHAREHOLDER’S EQUITY - DECEMBER 31, 2020	$ 1,000	$ 165,487	$ 50,327	$ 216,814
Common Stock Dividends			(11,500)	(11,500)
Net Income			3,351	3,351
TOTAL COMMON SHAREHOLDER’S EQUITY - MARCH 31, 2021	1,000	165,487	42,178	208,665
Net Income			4,814	4,814
TOTAL COMMON SHAREHOLDER’S EQUITY - JUNE 30, 2021	1,000	165,487	46,992	213,479
Common Stock Dividends			(11,500)	(11,500)
Net Income			9,327	9,327
TOTAL COMMON SHAREHOLDER’S EQUITY - SEPTEMBER 30, 2021	$ 1,000	$ 165,487	$ 44,819	$ 211,306
TOTAL COMMON SHAREHOLDER’S EQUITY - DECEMBER 31, 2021	$ 1,000	$ 165,487	$ 27,235	$ 193,722
Net Income			3,911	3,911
TOTAL COMMON SHAREHOLDER’S EQUITY - MARCH 31, 2022	1,000	165,487	31,146	197,633
Capital Contribution from Parent		771		771
Net Income			199	199
TOTAL COMMON SHAREHOLDER’S EQUITY - JUNE 30, 2022	1,000	166,258	31,345	198,603
Capital Contribution from Parent		386		386
Common Stock Dividends			(10,000)	(10,000)
Net Income			5,811	5,811
TOTAL COMMON SHAREHOLDER'S EQUITY - SEPTEMBER 30, 2022	$ 1,000	$ 166,644	$ 27,156	$ 194,800

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

AEP GENERATING COMPANY
CONDENSED BALANCE SHEETS
ASSETS
September 30, 2022 and December 31, 2021
(in thousands)
(Unaudited)

	September 30, 2022	December 31, 2021
CURRENT ASSETS		
Advances to Affiliates	$ 173,343	$ 64,690
Accounts Receivable:		
Customers	2	7
Affiliated Companies	23,530	31,599
Miscellaneous	—	2
Total Accounts Receivable	23,532	31,608
Fuel	49,516	56,793
Materials and Supplies	17,982	20,625
Prepayments and Other Current Assets	14,611	4,502
TOTAL CURRENT ASSETS	278,984	178,218
PROPERTY, PLANT AND EQUIPMENT		
Electric Generation	1,408,392	1,396,141
Other Property, Plant and Equipment	39,413	39,340
Construction Work in Progress	14,819	13,841
Total Property, Plant and Equipment	1,462,624	1,449,322
Accumulated Depreciation and Amortization	1,068,706	967,331
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	393,918	481,991
OTHER NONCURRENT ASSETS		
Regulatory Assets	4,509	5,223
Operating Lease Assets	1,781	4,806
Deferred Charges and Other Noncurrent Assets	5,471	2,902
TOTAL OTHER NONCURRENT ASSETS	11,761	12,931
TOTAL ASSETS	$ 684,663	$ 673,140

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

AEP GENERATING COMPANY
CONDENSED BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY
September 30, 2022 and December 31, 2021
(Unaudited)

	September 30, 2022	December 31, 2021
CURRENT LIABILITIES	(in thousands)	
Accounts Payable:		
General	$ 2,332	$ 2,329
Affiliated Companies	28,373	10,373
Long-term Debt Due Within One Year – Nonaffiliated	40,000	165,000
Accrued Taxes	11,945	7,750
Accrued Rent – Rockport Plant, Unit 2	462	349
Obligations Under Finance Leases	89,345	125,986
Obligations Under Operating Leases	508	4,012
Other Current Liabilities	9,339	8,870
TOTAL CURRENT LIABILITIES	182,304	324,669
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	154,655	29,560
Deferred Income Taxes	8,236	13,591
Regulatory Liabilities and Deferred Investment Tax Credits	98,752	61,512
Asset Retirement Obligations	25,107	17,445
Obligations Under Operating Leases	129	459
Deferred Credits and Other Noncurrent Liabilities	20,680	32,182
TOTAL NONCURRENT LIABILITIES	307,559	154,749
TOTAL LIABILITIES	489,863	479,418
Commitments and Contingencies (Note 3)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – Par Value – $1,000 Per Share:		
Authorized – 1,000 Shares		
Outstanding – 1,000 Shares	1,000	1,000
Paid-in Capital	166,644	165,487
Retained Earnings	27,156	27,235
TOTAL COMMON SHAREHOLDER'S EQUITY	194,800	193,722
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	$ 684,663	$ 673,140

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

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2022 and 2021
(in thousands)
(Unaudited)

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
OPERATING ACTIVITIES		
Net Income	$ 9,921	$ 17,492
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	136,582	75,715
Rockport Plant, Unit 2 Operating Lease Amortization	—	49,686
Deferred Income Taxes	(4,130)	(12,101)
Allowance for Equity Funds Used During Construction	(208)	(428)
Change in Other Noncurrent Assets	1,215	5,052
Change in Other Noncurrent Liabilities	(7,724)	(570)
Changes in Certain Components of Working Capital:		
Accounts Receivable	8,076	(3,955)
Fuel, Materials and Supplies	9,920	37,504
Accounts Payable	18,021	(6,294)
Accrued Taxes, Net	(2,429)	4,012
Rockport Plant, Unit 2 Operating Lease Payments	—	(36,927)
Other Current Assets	(3,476)	(496)
Other Current Liabilities	(3,414)	(4,128)
Net Cash Flows from Operating Activities	162,354	124,562
INVESTING ACTIVITIES		
Construction Expenditures	(7,459)	(9,439)
Change in Advances to Affiliates, Net	(108,653)	(91,928)
Other Investing Activities	863	1,300
Net Cash Flows Used for Investing Activities	(115,249)	(100,067)
FINANCING ACTIVITIES		
Capital Contribution from Parent	1,157	—
Issuance of Long-term Debt – Nonaffiliated	44,824	—
Retirement of Long-term Debt – Nonaffiliated	(45,000)	—
Principal Payments for Finance Lease Obligations	(38,100)	(1,495)
Dividends Paid on Common Stock	(10,000)	(23,000)
Other Financing Activities	14	—
Net Cash Flows Used for Financing Activities	(47,105)	(24,495)
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	$ 3,419	$ 2,392
Net Cash Paid for Income Taxes	10,723	9,014
Noncash Acquisitions Under Finance Leases	32	194
Construction Expenditures Included in Current Liabilities as of September 30,	77	84

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

INDEX OF CONDENSED NOTES TO CONDENSED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING MATTERS

General

The unaudited condensed financial statements and footnotes were prepared in accordance with GAAP for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete annual financial statements.

In the opinion of management, the unaudited condensed interim financial statements reflect all normal and recurring accruals and adjustments necessary for a fair statement of the net income, financial position and cash flows for the interim periods. Net income for the three and nine months ended September 30, 2022 is not necessarily indicative of results that may be expected for the year ending December 31, 2022. The condensed financial statements are unaudited and should be read in conjunction with the audited 2021 financial statements and notes thereto, which are included in AEGCo's 2021 Annual Report.

AEP System Tax Allocation

AEGCo joins in the filing of a consolidated tax return. Historically, the allocation of the AEP System's current consolidated federal income tax to the AEP System companies allocated the benefit of current tax loss of the parent company (Parent Company Loss Benefit) to the AEP System subsidiaries through a reduction of current tax expense. In the first quarter of 2022, AEP and subsidiaries changed accounting for the Parent Company Loss Benefit from a reduction of current tax expense to an allocation through equity. The impact of this change was immaterial to AEGCo's financial statements.

Rockport Plant, Unit 2 Amortization

In April 2021, AEGCo and I&M executed an agreement to purchase 100% of the interests in Rockport Plant, Unit 2 effective at the end of the lease term in December 2022. In December 2021, AEGCo and I&M satisfied the necessary regulatory approvals to complete the acquisition. Upon receipt of the regulatory approval, the addition of the lessee forward purchase obligation resulted in the modified lease changing classification from operating to finance for AEGCo and I&M. Due to the change in lease classification, beginning in December 2021. the amortization costs related to the Rockport finance lease are charged to Depreciation and Amortization on AEGCo's statements of income. See the "Rockport Lease" section of Note 3 for additional information.

Out of Period Adjustments

In the first quarter of 2022, AEG recorded out of period correcting entries related to Deferred Income Taxes resulting in a $2.1 million increase in Income Before Income Tax Expense, a $1.7 million increase in Income Tax Expense and a $401 thousand increase in Net Income. Management concluded the error and subsequent correction was not material to prior or current period financial statements.

Subsequent Events

Management reviewed subsequent events through October 27, 2022, the date that the third quarter 2022 report was available to be issued.

2. NEW ACCOUNTING STANDARDS

During the FASB's standard-setting process and upon issuance of final standards, management reviews the new accounting literature to determine its relevance, if any, to AEGCo's business. There are no new standards expected to have a material impact on AEGCo's financial statements.

3. COMMITMENTS, GUARANTEES AND CONTINGENCIES

AEGCo is subject to certain claims and legal actions arising in its ordinary course of business. In addition, AEGCo's business activities are subject to extensive governmental regulation related to public health and the environment. The ultimate outcome of such pending or potential litigation against AEGCo 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. The Commitments, Guarantees and Contingencies note within AEGCo's 2021 Annual Report should be read in conjunction with this report.

GUARANTEES

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

Indemnifications and Other Guarantees

Contracts

AEGCo enters into certain types of contracts which require indemnifications. Typically these contracts include, but are not limited to, sale agreements, lease agreements, purchase agreements and financing agreements. Generally, these agreements may include, but are not limited to, indemnifications around certain tax, contractual and environmental matters. With respect to sale agreements, exposure generally does not exceed the sale price. As of September 30, 2022, there were no material liabilities recorded for any indemnifications.

Master Lease Agreements

AEGCo leases certain equipment under master lease agreements. Under the lease agreements, the lessor is guaranteed a residual value up to a stated percentage of 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, AEGCo 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 amount guaranteed. As of September 30, 2022, the maximum potential loss for these lease agreements was $32 thousand assuming the fair value of the equipment is zero at the end of the lease term.

Rockport Lease

AEGCo and I&M entered into a sale-and-leaseback transaction in 1989 with Wilmington Trust Company (Owner Trustee), an unrelated, unconsolidated trustee for Rockport Plant, Unit 2 (the Plant). The trusts were capitalized with equity from six owner participants with no relationship to AEP or any of its subsidiaries and debt from a syndicate of banks and securities in a private placement to certain institutional investors.

The trusts own undivided interests in the Plant and leases equal portions to AEGCo and I&M. In April 2021, AEGCo and I&M executed an agreement to purchase 100% of the interests in the Plant effective at the end of the lease term in December 2022. In December 2021, AEGCo and I&M satisfied the necessary regulatory approvals to complete the acquisition. Upon receipt of the regulatory approval, the addition of the lessee forward purchase obligation resulted in the modified lease changing classification from operating to finance for AEGCo and I&M. AEGCo's future minimum lease payments as of September 30, 2022, inclusive of the purchase obligation, were as follows:

Future Minimum Lease Payments	(in thousands)
2022	$ 87,431
Total Future Minimum Lease Payments	$ 87,431

The lease modification also created variable interests in the trusts that own the undivided interests in the Plant for AEGCo & I&M. Neither AEGCo nor I&M are the primary beneficiaries of the trusts because AEGCo nor I&M has the power to direct the most significant activities of the trusts. AEGCo's maximum exposure to loss associated with the trust is equal to the total future minimum lease payments, inclusive of the purchase obligation, as shown in the table above.

CONTINGENCIES

Rockport Plant Litigation

In 2013, the Wilmington Trust Company filed suit in the U.S. District Court for the Southern District of New York against AEGCo and I&M alleging that it would be unlawfully burdened by the terms of the modified NSR consent decree after the Rockport Plant, Unit 2 lease expiration in December 2022. The terms of the consent decree allow the installation of environmental emission control equipment, repowering, refueling or retirement of the unit. The plaintiffs sought a judgment declaring that the defendants breached the lease, must satisfy obligations related to installation of emission control equipment and indemnify the plaintiffs.

After the litigation proceeded at the district court and appellate court, in April 2021, I&M and AEGCo reached an agreement to acquire 100% of the interests in Rockport Plant, Unit 2 for $115.5 million from certain financial institutions that own the unit through trusts established by Wilmington Trust, the nonaffiliated owner trustee of the ownership interests in the unit, with closing to occur as of the end of the Rockport Plant, Unit 2 lease in December 2022. The agreement is subject to customary closing conditions and as of the closing will result in a final settlement of, and release of claims in, the lease litigation. As a result, in May 2021, at the parties' request, the district court entered a stipulation and order dismissing the case without prejudice to plaintiffs asserting their claims in a re-filed action or a new action. The required regulatory approvals at the IURC and FERC have been obtained that would allow the closing to occur as of the end of the lease in December 2022. Management believes its financial statements appropriately reflect the resolution of the litigation.

Upon the end of the Rockport Unit 2 lease in December 2022, AEGCo's 50% ownership share of Rockport Unit 2 will be billed 100% to I&M under a FERC-approved unit power agreement. In addition, upon the end of the Rockport Unit 2 lease, I&M's 50% ownership share of Rockport Unit 2 and I&M's purchased power from AEGCo related to Rockport Unit 2 will be a merchant resource for I&M until Rockport Unit 2 is retired. A 2021 IURC order approved a settlement agreement addressing the future use of Rockport Unit 2 as a short-term capacity resource through the June 2023 - May 2024 PJM planning year. I&M has a similar proposal pending before the MPSC in I&M's 2022 Michigan Integrated Resource Plan (IRP) filing. If I&M cannot recover its future investment and expenses related to the merchant share of Rockport Unit 2, it could reduce future net income and cash flows and impact financial condition.

Claims Challenging Transition of American Electric Power System Retirement Plan to Cash Balance Formula

Four participants in The American Electric Power System Retirement Plan (the Plan) filed a class action complaint in December 2021 in the U.S. District Court for the Southern District of Ohio against AEPSC and the Plan. When the Plan's benefit formula was changed in the year 2000, AEP provided a special provision for employees hired before January 1, 2001, allowing them to continue benefit accruals under the then benefit formula for a full 10 years alongside of the new cash balance benefit formula then being implemented. Employees who were hired on or after January 1, 2001 accrued benefits only under the new cash balance benefit formula. The plaintiffs assert a number of claims on behalf of themselves and the purported class, including that: (a) the Plan violates the requirements under the Employee Retirement Income Security Act (ERISA) intended to preclude back-loading the accrual of benefits to the end of a participant's career, (b) the Plan violates the age discrimination prohibitions of ERISA and the Age Discrimination in Employment Act and (c) AEP failed to provide required notice regarding the changes to the Plan. Among other relief, the Complaint seeks reformation of the Plan to provide additional benefits and the recovery of plan benefits for former employees under such reformed plan. The plaintiffs previously had submitted claims for additional plan benefits to AEP, which were denied. On February 15, 2022, AEPSC and the Plan filed a motion to dismiss the complaint for failure to state a claim. On August 16, 2022, the district court granted the motion to dismiss the complaint without prejudice. The plaintiffs have filed a motion for leave to file an amended complaint. AEP will continue to defend against the claims. Management is unable to determine a range of potential losses that is reasonably possible of occurring.

4. BENEFIT PLANS

AEGCo participates in an AEP sponsored qualified pension plan and an unfunded non-qualified pension plan. Substantially all of AEGCo's employees who are not UMWA members are covered by the qualified plan. AEGCo also participates in OPEB plans sponsored by AEP to provide health and life insurance benefits for retired employees.

Components of Net Periodic Benefit Cost

The following tables provide the components of AEGCo's net periodic benefit cost (credit) for the plans:

	Pension Plans		OPEB	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Service Cost	$ 23	$ 35	$ 198	$ 219
Interest Cost	22	22	401	370
Expected Return on Plan Assets	(59)	(54)	(691)	(666)
Amortization of Prior Service Credit	—	—	(17)	(17)
Amortization of Net Actuarial Loss	9	17	—	2
Net Periodic Benefit Cost (Credit)	$ (5)	$ 20	$ (109)	$ (92)

	Pension Plans		OPEB	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Service Cost	$ 68	$ 106	$ 593	$ 657
Interest Cost	68	68	1,205	1,111
Expected Return on Plan Assets	(178)	(163)	(2,073)	(1,997)
Amortization of Prior Service Credit	—	—	(52)	(52)
Amortization of Net Actuarial Loss	28	49	—	5
Net Periodic Benefit Cost (Credit)	$ (14)	$ 60	$ (327)	$ (276)

5. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy and Valuation Techniques

The accounting guidance for "Fair Value Measurements and Disclosures" establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. When quoted market prices are not available, pricing may be completed using comparable securities, dealer values, operating data and general market conditions to determine fair value. Valuation models utilize various inputs such as commodity, interest rate and, to a lesser degree, volatility and credit that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, market corroborated inputs (i.e. inputs derived principally from, or correlated to, observable market data) and other observable inputs for the asset or liability.

Fair Value Measurements of Long-term Debt

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

The book values and fair values of AEGCo's Long-term Debt are summarized in the following table:

	September 30, 2022		December 31, 2021	
	Book Value	Fair Value	Book Value	Fair Value
	(in thousands)			
Long-term Debt	$ 194,655	$ 188,722	$ 194,560	$ 195,633

6. INCOME TAXES

Effective Tax Rates (ETR)

AEGCo's interim ETR reflects the estimated annual ETR for 2022 and 2021, adjusted for tax expense associated with certain discrete items.

AEGCo includes the amortization of Excess ADIT not subject to normalization requirements in the annual estimated ETR when regulatory proceedings instruct AEGCo to provide the benefits of Tax Reform to customers over multiple interim periods. Certain regulatory proceedings instruct AEGCo to provide the benefits of Tax Reform to customers in a single period (e.g. by applying the Excess ADIT not subject to normalization requirements against an existing regulatory asset balance) and in these circumstances, AEGCo recognizes the tax benefit discretely in the period recorded. The annual amount of Excess ADIT approved by AEGCo's regulatory commissions may not impact the ETR ratably during each interim period due to the variability of pretax book income between interim periods and the application of an annual estimated ETR.

The ETR for AEGCo are included in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
U.S. Federal Statutory Rate	21.0 %	21.0 %	21.0 %	21.0 %
Increase (decrease) due to:				
State Income Tax, net of Federal Benefit	15.5 %	14.7 %	10.2 %	17.8 %
Tax Reform Excess ADIT Reversal	(10.5)%	(21.1)%	(9.3)%	(18.6)%
Production and Investment Tax Credits	(10.9)%	(14.9)%	(9.8)%	(13.0)%
Flow Through	0.7 %	0.4 %	0.5 %	0.4 %
AFUDC Equity	(0.5)%	(1.3)%	(0.5)%	(0.8)%
Parent Company Loss Benefit	— %	(15.9)%	— %	(16.4)%
Discrete Tax Adjustments	5.7 %	— %	12.0 %	— %
Other	(2.3)%	0.4 %	(0.4)%	0.2 %
Effective Income Tax Rate	18.7 %	(16.7)%	23.7 %	(9.4)%

Federal and State Income Tax Audit Status

The statute of limitations for the IRS to examine AEG and other AEP subsidiaries originally filed federal return has expired for tax years 2016 and earlier. In the third quarter of 2019, AEG and other AEP subsidiaries elected to amend the 2014 through 2017 federal returns. In the first quarter of 2020, the IRS notified AEG and other AEP subsidiaries that it was beginning an examination of these amended returns, including the net operating loss carryback to 2015 that originated in the 2017 return. As of September 30, 2022, the IRS has accepted the 2014-2016 amended tax returns as filed which completes the IRS audit of these tax years. Additionally, AEG and other AEP subsidiaries have received and agreed to two proposed adjustments on the 2017 tax return, which were immaterial. AEG and other AEP subsidiaries have agreed to extend the statute of limitations on the 2017 and 2018 tax return to December 31, 2023 to allow time for the audit to be completed and the Congressional Joint Committee on Taxation to approve the associated refund claim.

AEG and other AEP subsidiaries file income tax returns in various state and local jurisdictions. These taxing authorities routinely examine the tax returns, and AEG and other AEP subsidiaries are currently under examination in several state and local jurisdictions. Generally, the statutes of limitations have expired for tax years prior to 2017. In addition, management is monitoring and continues to evaluate the potential impact of federal legislation and corresponding state conformity.

Federal Legislation

On August 16, 2022, President Biden signed H.R. 5376 into law, commonly known as the Inflation Reduction Act of 2022 or IRA. Most notably this budget reconciliation legislation creates a 15% minimum tax on adjusted financial statement income (Corporate Alternative Minimum Tax or CAMT), extends and increases the value of PTCs and ITCs, adds a nuclear and clean hydrogen PTC, an energy storage ITC and allows the sale or transfer of tax credits to third parties for cash. With the exception of PTCs and ITCs, this legislation is prospective and has no material impact on the current period financial statements. As significant guidance from Treasury and the IRS is expected on the tax provisions in the IRA, AEG and other AEP subsidiaries will continue to monitor any issued guidance and evaluate the impact on future net income, cash flows and financial condition.

7. FINANCING ACTIVITIES

Long-term Debt

Long-term debt issued and retired during the first nine months of 2022 are shown in the tables below:

	Type of Debt	Principal Amount (a)	Interest Rate	Due Date
Issuances:		**(in millions)**	**(%)**	
	Pollution Control Bonds	$ 45.0	3.13	2025

(a) Amounts indicated on the statements of cash flows are net of issuance costs and premium or discount and will not tie to the issuance amounts.

	Type of Debt	Principal Amount Paid	Interest Rate	Due Date
Retirements and Principal Payments:		**(in millions)**	**(%)**	
	Pollution Control Bonds	$ 45.0	1.35	2022

Long-term Debt Subsequent Event

In October 2022, AEGCo retired $120 million of Other Long-term Debt.

In October 2022, AEGCo issued $80 million of variable rate Other Long-term Debt due in 2024.

Dividend Restrictions

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

AEGCo has credit agreements that contain a covenant that limit its debt to capitalization ratio to 67.5%. As of September 30, 2022, AEGCo did not exceed its debt to capitalization limit. The method for calculating outstanding debt and capitalization is contractually-defined in the credit agreements.

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. The AEP System Utility Money Pool operates in accordance with the terms and conditions of its agreement filed with the FERC. The amounts of outstanding loans to the Utility Money Pool as of September 30, 2022 and December 31, 2021 are included in Advances to Affiliates on AEGCo's balance sheets. AEGCo's Utility Money Pool activity and corresponding authorized borrowing limit for the nine months ended September 30, 2022 are described in the following table:

Maximum Loans to the Utility Money Pool	Average Loans to the Utility Money Pool	Loans to the Utility Money Pool as of September 30, 2022	Authorized Short-Term Borrowing Limit
	(in thousands)		
$ 174,682	$ 124,820	$ 173,343	$ 150,000

Maximum, minimum and average interest rates for funds either borrowed from or loaned to the Utility Money Pool are summarized in the following table:

Nine Months Ended September 30,	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
2022	— %	— %	3.39 %	0.10 %	— %	1.58 %
2021	0.26 %	0.25 %	0.40 %	0.02 %	0.26 %	0.23 %

8. PROPERTY, PLANT AND EQUIPMENT

Asset Retirement Obligations (ARO)

AEGCo records ARO in accordance with the accounting guidance for “Asset Retirement and Environmental Obligations” for the retirement of ash disposal facilities and asbestos removal.

The following is a reconciliation of the aggregate carrying amounts of ARO for AEGCo:

ARO as of December 31, 2021	Accretion Expense	Liabilities Incurred	Liabilities Settled	Revisions in Cash Flow Estimates	ARO as of September 30, 2022
(in thousands)					
$ 17,552	$ 455	$ —	$ (461)	$ 7,669	$ 25,215

9. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregated Revenues from Contracts with Customers

AEGCo's statements of income represent revenues from contracts with customers by type of revenue. AEGCo did not have alternative revenues for the three months ended and nine months ended September 30, 2022 and 2021, respectively.

Fixed Performance Obligations

As of September 30, 2022, there are no fixed performance obligations related to AEGCo.

Contract Assets and Liabilities

Contract assets are recognized when AEGCo has a right to consideration that is conditional upon the occurrence of an event other than the passage of time, such as future performance under a contract. AEGCo did not have material contract assets as of September 30, 2022 and December 31, 2021, respectively.

When AEGCo receives consideration, or such consideration is unconditionally due from a customer prior to transferring goods or services to the customer under the terms of a sales contract, they recognize a contract liability on the balance sheet in the amount of that consideration. Revenue for such consideration is subsequently recognized in the period or periods in which the remaining performance obligations in the contract are satisfied. AEGCo did not have material contract liabilities as of September 30, 2022 and December 31, 2021, respectively.

Accounts Receivable from Contracts with Customers

Accounts receivable from contracts with customers are presented on AEGCo's balance sheets within the Accounts Receivable - Customers and Accounts Receivable - Affiliated Companies line items. AEGCo's balances for receivables from contracts that are not recognized in accordance with the accounting guidance for "Revenue from Contracts with Customers" included in Accounts Receivable - Customers and Accounts Receivable - Affiliated Companies were not material as of September 30, 2022 and December 31, 2021, respectively.