

# AEP Generating Company

2020 First Quarter Report

Financial Statements



BOUNDLESS ENERGY<sup>SM</sup>

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## GLOSSARY OF TERMS

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

<b>Term</b>	<b>Meaning</b>
AEGCo	AEP Generating Company, an AEP electric utility subsidiary.
AEP	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.
ASU	Accounting Standards Update.
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.
IRS	Internal Revenue Service.
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.
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.
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 Months Ended March 31, 2020 and 2019**  
**(in thousands)**  
**(Unaudited)**

	<b>Three Months Ended March 31,</b>	
<b>REVENUES</b>	<b>2020</b>	<b>2019</b>
Sales to AEP Affiliates	\$ 51,623	\$ 82,204
Other Revenues – Affiliated	3,553	4,046
Other Revenues – Nonaffiliated	55	85
<b>TOTAL REVENUES</b>	<b>55,231</b>	<b>86,335</b>
<b>EXPENSES</b>		
Fuel and Other Consumables Used for Electric Generation	8,691	37,402
Rent – Rockport Plant, Unit 2	16,835	16,835
Other Operation	5,583	5,854
Maintenance	4,227	5,885
Depreciation and Amortization	15,919	15,655
Taxes Other Than Income Taxes	1,450	1,454
<b>TOTAL EXPENSES</b>	<b>52,705</b>	<b>83,085</b>
<b>OPERATING INCOME</b>	2,526	3,250
<b>Other Income (Expense):</b>		
Other Income	1,681	534
Non-Service Cost Components of Net Periodic Benefit Cost	800	294
Interest Expense	(1,019)	(1,534)
<b>INCOME BEFORE INCOME TAX BENEFIT</b>	3,988	2,544
Income Tax Benefit	(963)	(834)
<b>NET INCOME</b>	<b>\$ 4,951</b>	<b>\$ 3,378</b>

*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 Three Months Ended March 31, 2020 and 2019**  
**(in thousands)**  
**(Unaudited)**

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2018</b>	\$ 1,000	\$ 165,487	\$ 54,913	\$ 221,400
Net Income			3,378	3,378
<b>TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2019</b>	<u>\$ 1,000</u>	<u>\$ 165,487</u>	<u>\$ 58,291</u>	<u>\$ 224,778</u>
<b>TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2019</b>	\$ 1,000	\$ 165,487	\$ 75,706	\$ 242,193
Common Stock Dividends			(26,500)	(26,500)
Net Income			4,951	4,951
<b>TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2020</b>	<u>\$ 1,000</u>	<u>\$ 165,487</u>	<u>\$ 54,157</u>	<u>\$ 220,644</u>

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

**AEP GENERATING COMPANY**  
**CONDENSED BALANCE SHEETS**  
**ASSETS**  
**March 31, 2020 and December 31, 2019**  
**(in thousands)**  
**(Unaudited)**

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
<b>CURRENT ASSETS</b>		
Advances to Affiliates	\$ 31,059	\$ 56,773
Accounts Receivable:		
Customers	1	5
Affiliated Companies	20,300	20,527
Total Accounts Receivable	20,301	20,532
Fuel	71,705	56,205
Materials and Supplies	19,065	19,017
Prepayments and Other Current Assets	3,421	2,152
<b>TOTAL CURRENT ASSETS</b>	<b>145,551</b>	<b>154,679</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Electric Generation	1,132,121	1,130,046
Other Property, Plant and Equipment	39,708	39,399
Construction Work in Progress	119,178	108,241
<b>Total Property, Plant and Equipment</b>	1,291,007	1,277,686
Accumulated Depreciation and Amortization	800,394	784,124
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT – NET</b>	<b>490,613</b>	<b>493,562</b>
<b>OTHER NONCURRENT ASSETS</b>		
Regulatory Assets	3,232	5,672
Operating Lease Assets	201,541	218,949
Deferred Charges and Other Noncurrent Assets	5,329	2,521
<b>TOTAL OTHER NONCURRENT ASSETS</b>	<b>210,102</b>	<b>227,142</b>
<b>TOTAL ASSETS</b>	<b>\$ 846,266</b>	<b>\$ 875,383</b>

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

**AEP GENERATING COMPANY**  
**CONDENSED BALANCE SHEETS**  
**LIABILITIES AND COMMON SHAREHOLDER'S EQUITY**  
**March 31, 2020 and December 31, 2019**  
**(Unaudited)**

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
<b>CURRENT LIABILITIES</b>	<b>(in thousands)</b>	
Accounts Payable:		
General	\$ 1,823	\$ 3,588
Affiliated Companies	16,314	18,245
Long-term Debt Due Within One Year – Nonaffiliated	150,000	150,000
Accrued Taxes	15,348	8,283
Accrued Rent – Rockport Plant, Unit 2	2,455	614
Obligations Under Operating Leases	70,943	71,128
Other Current Liabilities	4,559	6,286
<b>TOTAL CURRENT LIABILITIES</b>	<b>261,442</b>	<b>258,144</b>
<b>NONCURRENT LIABILITIES</b>		
Long-term Debt – Nonaffiliated	44,582	44,538
Deferred Income Taxes	23,887	26,240
Regulatory Liabilities and Deferred Investment Tax Credits	87,159	91,736
Obligations Under Operating Leases	149,199	150,799
Deferred Credits and Other Noncurrent Liabilities	59,353	61,733
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>364,180</b>	<b>375,046</b>
<b>TOTAL LIABILITIES</b>	<b>625,622</b>	<b>633,190</b>
Commitments and Contingencies (Note 3)		
<b>COMMON SHAREHOLDER'S EQUITY</b>		
Common Stock – Par Value – \$1,000 Per Share:		
Authorized – 1,000 Shares		
Outstanding – 1,000 Shares	1,000	1,000
Paid-in Capital	165,487	165,487
Retained Earnings	54,157	75,706
<b>TOTAL COMMON SHAREHOLDER'S EQUITY</b>	<b>220,644</b>	<b>242,193</b>
<b>TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY</b>	<b>\$ 846,266</b>	<b>\$ 875,383</b>

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

**AEP GENERATING COMPANY**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**For the Three Months Ended March 31, 2020 and 2019**  
**(in thousands)**  
**(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>OPERATING ACTIVITIES</b>		
<b>Net Income</b>	\$ 4,951	\$ 3,378
<b>Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:</b>		
Depreciation and Amortization	15,919	15,655
Rockport Plant, Unit 2 Operating Lease Amortization	16,835	16,835
Deferred Income Taxes	(3,981)	(2,842)
Allowance for Equity Funds Used During Construction	(1,451)	41
Change in Other Noncurrent Assets	363	(1,577)
Change in Other Noncurrent Liabilities	(105)	156
<b>Changes in Certain Components of Working Capital:</b>		
Accounts Receivable	231	(118)
Fuel, Materials and Supplies	(15,548)	4,936
Accounts Payable	(2,424)	(3,573)
Accrued Taxes, Net	7,065	5,530
Other Current Assets	(1,269)	(2,055)
Other Current Liabilities	(3,569)	(2,400)
<b>Net Cash Flows from Operating Activities</b>	<u>17,017</u>	<u>33,966</u>
<b>INVESTING ACTIVITIES</b>		
Construction Expenditures	(15,861)	(11,074)
Change in Advances to Affiliates, Net	25,714	(22,572)
<b>Net Cash Flows from (Used for) Investing Activities</b>	<u>9,853</u>	<u>(33,646)</u>
<b>FINANCING ACTIVITIES</b>		
Principal Payments for Finance Lease Obligations	(370)	(330)
Dividends Paid on Common Stock	(26,500)	—
Other Financing Activities	—	10
<b>Net Cash Flows Used for Financing Activities</b>	<u>(26,870)</u>	<u>(320)</u>
<b>Net Change in Cash and Cash Equivalents</b>	—	—
<b>Cash and Cash Equivalents at Beginning of Period</b>	—	—
<b>Cash and Cash Equivalents at End of Period</b>	<u>\$ —</u>	<u>\$ —</u>
<b>SUPPLEMENTARY INFORMATION</b>		
Cash Paid for Interest, Net of Capitalized Amounts	\$ 1,001	\$ 1,349
Net Cash Paid for Income Taxes	—	82
Noncash Acquisitions Under Finance Leases	49	15
Construction Expenditures Included in Current Liabilities as of March 31,	136	253

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



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## **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 months ended March 31, 2020 is not necessarily indicative of results that may be expected for the year ending December 31, 2020. The condensed financial statements are unaudited and should be read in conjunction with the audited 2019 financial statements and notes thereto, which are included in AEGCo's 2019 Annual Report.

### ***COVID-19***

In March 2020, COVID-19 was declared a pandemic by the World Health Organization and the Centers for Disease Control and Prevention. Its rapid spread around the world and throughout the United States prompted many countries, including the United States, to institute restrictions on travel, public gatherings and certain business operations. These restrictions significantly disrupted economic activity in AEP's service territory and could reduce future demand for energy, particularly from commercial and industrial customers. AEGCo is taking steps to mitigate the potential risks to customers, suppliers and employees posed by the spread of COVID-19.

As of March 31, 2020 and through the date of this report, AEGCo assessed certain accounting matters that require consideration of forecasted financial information, including, but not limited to, the allowance for credit losses and the carrying value of long-lived assets. While there were not any impairments or significant increases in credit allowances resulting from these assessments as of and for the quarter ended March 31, 2020, the ultimate impact of COVID-19 also depends on factors beyond management's knowledge or control, including the duration and severity of this outbreak as well as third-party actions taken to contain its spread and mitigate its public health effects. Therefore, management cannot estimate the potential future impact to financial position, results of operations and cash flows, but the impacts could be material.

### ***Subsequent Events***

Management reviewed subsequent events through May 6, 2020, the date that the first quarter 2020 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. The following standards will impact the financial statements.

### ***ASU 2020-04 "Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting" (ASU 2020-04)***

In March 2020, the FASB issued ASU 2020-04 providing guidance to ease the potential burden in accounting for Reference Rate Reform on financial reporting. The new standard is elective and applies to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued because of Reference Rate Reform. The new standard establishes a general contract modification principle that entities can apply in other areas that may be affected by Reference Rate Reform and certain elective hedge accounting expedients. Under the new standard, an entity may make a one-time election to sell or to transfer to the available-for-sale or trading classifications (or both sell and transfer), debt securities that both reference an affected rate, and were classified as held to maturity before January 1, 2020.

The new accounting guidance is effective for all entities as of March 12, 2020 through December 31, 2022. The amendments may be applied to contract modifications as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. The amendments may be applied to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020 and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. The one-time election to sell, transfer, or both sell and transfer debt securities classified as held to maturity may be made at any time after March 12, 2020 but no later than December 31, 2022. Management has yet to apply the amendments in the new standard to any contract modifications, hedging relationships, or debt securities. Management is analyzing the impact of this new standard and at this time, cannot estimate the impact of adoption on results of operations, financial position or cash flows.

### **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 2019 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 March 31, 2020, 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 March 31, 2020, the maximum potential loss for these lease agreements was \$36 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 Owner Trustee was 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 Owner Trustee owns the Plant and leases equal portions to AEGCo and I&M. The lease is accounted for as an operating lease with the payment obligations included in the future minimum lease payments schedule earlier in this note. The lease term is for 33 years and at the end of the lease term, AEGCo and I&M have the option to renew the lease at a rate that approximates fair value. The option to renew was not included in the measurement of the lease obligation as of March 31, 2020 as the execution of the option was not reasonably certain. AEP, AEGCo and I&M

have no ownership interest in the Owner Trustee and do not guarantee its debt. AEGCo's future minimum lease payments for this sale-and-leaseback transaction as of March 31, 2020 were as follows:

<u>Future Minimum Lease Payments</u>	<u>(in thousands)</u>
2020	\$ 73,854
2021	73,854
2022	73,854
<b>Total Future Minimum Lease Payments</b>	<b><u>\$ 221,562</u></b>

## CONTINGENCIES

### *Rockport Plant Litigation*

In 2013, the Wilmington Trust Company filed a complaint 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 seek a judgment declaring that the defendants breached the lease, must satisfy obligations related to installation of emission control equipment and indemnify the plaintiffs. The New York court granted a motion to transfer this case to the U.S. District Court for the Southern District of Ohio.

AEGCo and I&M sought and were granted dismissal by the U.S. District Court for the Southern District of Ohio of certain of the plaintiffs' claims, including claims for compensatory damages, breach of contract, breach of the implied covenant of good faith and fair dealing and indemnification of costs. Plaintiffs voluntarily dismissed the surviving claims that AEGCo and I&M failed to exercise prudent utility practices with prejudice, and the court issued a final judgment. The plaintiffs subsequently filed an appeal in the U.S. Court of Appeals for the Sixth Circuit.

In 2017, the U.S. Court of Appeals for the Sixth Circuit issued an opinion and judgment affirming the district court's dismissal of the owners' breach of good faith and fair dealing claim as duplicative of the breach of contract claims, reversing the district court's dismissal of the breach of contract claims and remanding the case for further proceedings.

Thereafter, AEP filed a motion with the U.S. District Court for the Southern District of Ohio in the original NSR litigation, seeking to modify the consent decree. The district court granted the owners' unopposed motion to stay the lease litigation to afford time for resolution of AEP's motion to modify the consent decree. The consent decree was modified based on an agreement among the parties in July 2019. As part of the modification to the consent decree, I&M agreed to provide an additional \$7.5 million to citizens' groups and the states for environmental mitigation projects. As joint owners in the Rockport Plant, the \$7.5 million payment was shared between AEGCo and I&M based on the joint ownership agreement. The district court entered a stay that expired in February 2020. Settlement negotiations are continuing, and the parties filed a joint proposed case schedule in February 2020.

Management will continue to defend against the claims. Given that the district court dismissed plaintiffs' claims seeking compensatory relief as premature, and that plaintiffs have yet to present a methodology for determining or any analysis supporting any alleged damages, management cannot determine a range of potential losses that is reasonably possible of occurring.

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

The American Electric Power System Retirement Plan (the Plan) has received a letter written on behalf of four participants (the Claimants) making a claim for additional plan benefits and purporting to advance such claims on behalf of a class. 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 Claimants have asserted claims 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 (ADEA); and (c) the company failed to provide required notice regarding the changes to the Plan. AEP has responded to the Claimants providing a reasoned explanation for why each of their claims have been denied, and the denial to those claims have been appealed to the AEP System Retirement Plan Appeal Committee. Management will continue to defend against the claims. Management is unable to determine a range of potential losses that are reasonably possible of occurring.

#### 4. BENEFIT PLANS

AEGCo participates in an AEP sponsored 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:

	<b>Pension Plan</b>		<b>OPEB</b>	
	<b>Three Months Ended March 31, 2020</b>	<b>2019</b>	<b>Three Months Ended March 31, 2020</b>	<b>2019</b>
	<b>(in thousands)</b>			
Service Cost	\$ 35	\$ 23	\$ 187	\$ 202
Interest Cost	27	31	376	508
Expected Return on Plan Assets	(62)	(67)	(666)	(622)
Amortization of Prior Service Credit	—	—	(17)	(17)
Amortization of Net Actuarial Loss	15	8	1	99
<b>Net Periodic Benefit Cost (Credit)</b>	<b>\$ 15</b>	<b>\$ (5)</b>	<b>\$ (119)</b>	<b>\$ 170</b>

## 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:

	<b>March 31, 2020</b>		<b>December 31, 2019</b>	
	<b>Book Value</b>	<b>Fair Value</b>	<b>Book Value</b>	<b>Fair Value</b>
	<b>(in thousands)</b>			
Long-term Debt	\$ 194,582	\$ 194,927	\$ 194,538	\$ 194,825



## 6. INCOME TAXES

### *Federal Legislation*

In March 2020, the "Coronavirus Aid, Relief, and Economic Security Act" (CARES Act) was signed into law. The CARES Act includes several significant changes to the Internal Revenue Code that will have an impact on AEGCo. The CARES Act includes certain tax relief provisions applicable to AEGCo including a) the immediate refund of the corporate Alternative Minimum Tax credit, b) the ability to carryback net operating losses five years for tax years 2018 through 2020 and c) delayed payment of employer payroll taxes. AEGCo and other AEP subsidiaries were most recently a tax payer in 2014 and management is currently evaluating the ability to recover cash taxes paid in 2014 under the 5-year net operating loss carryback provision.

### *Effective Tax Rates (ETR)*

AEGCo's interim ETR reflects the estimated annual ETR for 2020 and 2019, adjusted for tax expense associated with certain discrete items. The interim ETR differ from the federal statutory tax rate of 21% primarily due to amortization of Excess ADIT, tax credits and other book/tax differences which are accounted for on a flow-through basis.

The ETR for AEGCo are included in the following table:

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
U.S. Federal Statutory Rate	21.0 %	21.0 %
Increase (decrease) due to:		
State Income Tax, net of Federal benefit	8.2 %	(2.3)%
Tax Reform Excess ADIT Reversal	(26.5)%	(37.6)%
Production and Investment Tax Credits	(11.3)%	(13.4)%
Flow Through	3.7 %	12.3 %
AFUDC Equity	(3.0)%	(6.0)%
Parent Company Loss Benefit	(11.7)%	(4.9)%
Discrete Tax Adjustments	(4.7)%	— %
Other	0.2 %	(1.9)%
Effective Income Tax Rate	<u>(24.1)%</u>	<u>(32.8)%</u>

### *Federal and State Income Tax Audit Status*

AEGCo and other AEP and subsidiaries are no longer subject to U.S. federal examination by the IRS for all years through 2015. During the third quarter of 2019, AEP and subsidiaries elected to amend the 2014 and 2015 federal returns and as such the IRS may examine only the amended items on the 2014 and 2015 federal returns.

## 7. FINANCING ACTIVITIES

### *Long-term Debt*

AEGCo did not have any long-term debt issuances or retirements during the first three months of 2020.

### *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 March 31, 2020, 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 March 31, 2020 and December 31, 2019 are included in Advances to Affiliates on AEGCo's balance sheets. AEGCo's Utility Money Pool activity and corresponding authorized borrowing limit for the three months ended March 31, 2020 are described in the following table:

<b>Maximum Loans to the Utility Money Pool</b>	<b>Average Loans to the Utility Money Pool</b>	<b>Loans to the Utility Money Pool as of March 31, 2020</b>	<b>Authorized Short-Term Borrowing Limit</b>
(in thousands)			
\$ 65,268	\$ 46,698	\$ 31,059	\$ 150,000

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

<b>Three Months March 31,</b>	<b>Maximum Interest Rate for Funds Loaned to the Utility Money Pool</b>	<b>Minimum Interest Rate for Funds Loaned to the Utility Money Pool</b>	<b>Average Interest Rate for Funds Loaned to the Utility Money Pool</b>
2020	2.24%	1.76%	1.94%
2019	3.02%	2.73%	2.86%

## **8. 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 March 31, 2020 and March 31, 2019.

### ***Fixed Performance Obligations***

As of March 31, 2020, 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 March 31, 2020 and December 31, 2019.

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 March 31, 2020 and December 31, 2019.

### ***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 March 31, 2020 and December 31, 2019.