AEP Generating Company

2009 Annual Report

Financial Statements

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GLOSSARY OF TERMS

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

Term	Meaning
AEGCo	AEP Generating Company, an AEP electric utility subsidiary.
AEP or Parent	American Electric Power Company, Inc.
AEPSC	American Electric Power Service Corporation, a service subsidiary providing management and professional services to AEP and its subsidiaries.
AEP System or the System	American Electric Power System, an integrated electric utility system, owned and operated by AEP's electric utility subsidiaries.
AFUDC	Allowance for Funds Used During Construction.
APCo	Appalachian Power Company, an AEP electric utility subsidiary.
CO_2	Carbon Dioxide and other greenhouse gases.
CSPCo	Columbus Southern Power Company, an AEP electric utility subsidiary.
CWIP	Construction Work in Progress.
EIS	Energy Insurance Services, Inc., a nonaffiliated captive insurance company.
Federal EPA	United States Environmental Protection Agency.
FERC	Federal Energy Regulatory Commission.
GAAP	Accounting Principles Generally Accepted in the United States of America.
IURC	Indiana Utility Regulatory Commission.
I&M	Indiana Michigan Power Company, an AEP electric utility subsidiary.
KPCo	Kentucky Power Company, an AEP electric utility subsidiary.
MW	Megawatt.
Rockport Plant	A generating plant, consisting of two 1,300 MW coal-fired generating units near Rockport, Indiana.
UPA	Unit Power Agreement.
Utility Money Pool	AEP System's Utility Money Pool.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of
AEP Generating Company:

We have audited the accompanying balance sheets of AEP Generating Company (the "Company") as of December 31, 2009 and 2008, and the related statements of income, statements of changes in common shareholder's equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of AEP Generating Company as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Columbus, Ohio
February 26, 2010

AEP GENERATING COMPANY
STATEMENTS OF INCOME
For the Years Ended December 31, 2009, 2008 and 2007
(in thousands)

	2009	2008	2007
OPERATING REVENUES	$ 414,793	$ 468,275	$ 380,539
EXPENSES			
Fuel Used for Electric Generation	216,004	273,935	205,269
Rent – Rockport Plant Unit 2	68,283	68,283	68,283
Other Operation	25,140	24,838	18,739
Maintenance	21,381	14,681	23,695
Depreciation and Amortization	34,631	33,511	28,954
Taxes Other Than Income Taxes	4,435	3,904	4,484
TOTAL EXPENSES	369,874	419,152	349,424
OPERATING INCOME	44,919	49,123	31,115
Other Income (Expense):			
Other Income	5,118	6,339	1,052
Interest Expense	(16,100)	(16,203)	(11,144)
INCOME BEFORE INCOME TAX EXPENSE	33,937	39,259	21,023
Income Tax Expense	5,146	7,692	2,970
NET INCOME	$ 28,791	$ 31,567	$ 18,053

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

See Notes to Financial Statements.

AEP GENERATING COMPANY
STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY
For the Years Ended December 31, 2009, 2008 and 2007
(in thousands)

	Common Stock	Paid-in Capital	Retained Earnings	Total
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2006	$ 1,000	$ 23,434	$ 30,942	$ 55,376
Adoption of Guidance for Uncertainty in Income Taxes, Net of Tax			27	27
Capital Contribution from Parent		167,000		167,000
Common Stock Dividends			(14,300)	(14,300)
SUBTOTAL – COMMON SHAREHOLDER'S EQUITY				208,103
COMPREHENSIVE INCOME				
NET INCOME			18,053	18,053
TOTAL COMPREHENSIVE INCOME				18,053
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2007	1,000	190,434	34,722	226,156
Capital Contribution from Parent		42,750		42,750
Common Stock Dividends			(12,000)	(12,000)
SUBTOTAL – COMMON SHAREHOLDER'S EQUITY				256,906
COMPREHENSIVE INCOME				
NET INCOME			31,567	31,567
TOTAL COMPREHENSIVE INCOME				31,567
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2008	1,000	233,184	54,289	288,473
Capital Contribution from Parent		5,000		5,000
Common Stock Dividends			(24,500)	(24,500)
SUBTOTAL – COMMON SHAREHOLDER'S EQUITY				268,973
COMPREHENSIVE INCOME				
NET INCOME			28,791	28,791
TOTAL COMPREHENSIVE INCOME				28,791
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2009	$ 1,000	$ 238,184	$ 58,580	$ 297,764

See Notes to Financial Statements.

AEP GENERATING COMPANY
BALANCE SHEETS
ASSETS
December 31, 2009 and 2008
(in thousands)

	2009	2008
CURRENT ASSETS		
Accounts Receivable – Affiliated Companies	$ 37,958	$ 37,721
Fuel	50,004	33,468
Materials and Supplies	15,994	14,512
Accrued Tax Benefits	15,774	-
Prepayments and Other Current Assets	467	874
TOTAL CURRENT ASSETS	120,197	86,575
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Production	1,443,263	1,418,716
Transmission	9,688	-
Other Property, Plant and Equipment	7,820	6,383
Construction Work in Progress	227,315	216,500
Total Property, Plant and Equipment	1,688,086	1,641,599
Accumulated Depreciation and Amortization	848,696	819,280
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	839,390	822,319
OTHER NONCURRENT ASSETS		
Regulatory Assets	14,429	6,651
Deferred Charges and Other Noncurrent Assets	2,489	3,065
TOTAL OTHER NONCURRENT ASSETS	16,918	9,716
TOTAL ASSETS	$ 976,505	$ 918,610

See Notes to Financial Statements.

AEP GENERATING COMPANY
BALANCE SHEETS
LIABILITIES AND SHAREHOLDER'S EQUITY
December 31, 2009 and 2008

	2009	2008
	(in thousands)	
CURRENT LIABILITIES		
Advances from Affiliates	$ 80,168	$ 46,800
Accounts Payable:		
General	1,278	12,692
Affiliated Companies	32,175	30,771
Long-term Debt Due Within One Year – Nonaffiliated	7,273	7,273
Accrued Taxes	4,692	3,614
Accrued Rent – Rockport Plant Unit 2	4,963	4,963
Other Current Liabilities	4,890	6,594
TOTAL CURRENT LIABILITIES	135,439	112,707
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	326,314	333,491
Deferred Income Taxes	64,443	29,420
Regulatory Liabilities and Deferred Investment Tax Credits	56,127	58,598
Deferred Gain on Sale and Leaseback – Rockport Plant Unit 2	72,050	77,621
Deferred Credits and Other Noncurrent Liabilities	24,368	18,300
TOTAL NONCURRENT LIABILITIES	543,302	517,430
TOTAL LIABILITIES	678,741	630,137
Commitments and Contingencies (Note 3)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – Par Value – $1,000 Per Share:		
Authorized – 1,000 Shares		
Outstanding – 1,000 Shares	1,000	1,000
Paid-in Capital	238,184	233,184
Retained Earnings	58,580	54,289
TOTAL COMMON SHAREHOLDER'S EQUITY	297,764	288,473
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 976,505	$ 918,610

See Notes to Financial Statements.

AEP GENERATING COMPANY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2009, 2008 and 2007
(in thousands)

	2009	2008	2007
OPERATING ACTIVITIES			
Net Income	$ 28,791	$ 31,567	$ 18,053
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:			
Depreciation and Amortization	34,631	33,511	28,954
Deferred Income Taxes	27,884	(2,277)	(543)
Deferred Investment Tax Credits	(3,282)	(3,272)	(3,346)
Amortization of Deferred Gain on Sale and Leaseback – Rockport Plant Unit 2	(5,571)	(5,570)	(5,571)
Allowance for Equity Funds Used During Construction	(5,175)	(6,198)	(1,015)
Change in Other Noncurrent Assets	5,053	1,062	1,726
Change in Other Noncurrent Liabilities	6,200	119	1,728
Changes in Certain Components of Working Capital:			
Accounts Receivable	(93)	(1,653)	(4,551)
Fuel, Materials and Supplies	(18,018)	9,867	(3,174)
Accounts Payable	850	(3,026)	4,681
Accrued Taxes, Net	(14,107)	221	3,071
Other Current Assets	(77)	34	(187)
Other Current Liabilities	(1,702)	1,387	4,097
Net Cash Flows from Operating Activities	55,384	55,772	43,923
INVESTING ACTIVITIES			
Construction Expenditures	(61,622)	(116,774)	(42,689)
Acquisition of Lawrenceburg Generating Station	-	-	(324,782)
Acquisition of Dresden Plant	-	-	(85,327)
Other Investing Activities	-	-	(459)
Net Cash Flows Used for Investing Activities	(61,622)	(116,774)	(453,257)
FINANCING ACTIVITIES			
Capital Contribution from Parent	5,000	42,750	167,000
Issuance of Long-term Debt – Nonaffiliated	-	84,464	219,034
Change in Advances from Affiliates, Net	33,368	(46,591)	39,745
Retirement of Long-term Debt – Nonaffiliated	(7,273)	(7,273)	(1,818)
Principal Payments for Capital Lease Obligations	(357)	(348)	(327)
Dividends Paid on Common Stock	(24,500)	(12,000)	(14,300)
Net Cash Flows from Financing Activities	6,238	61,002	409,334
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	$ 15,542	$ 15,512	$ 6,778
Net Cash Paid (Received) for Income Taxes	(3,104)	12,521	2,799
Noncash Acquisitions Under Capital Leases	6	13	31
Construction Expenditures Included in Accounts Payable at December 31,	137	10,997	2,269
Noncash Assumption of Liabilities Related to Acquisition of Lawrenceburg and Dresden Plants	-	-	5,301

See Notes to Financial Statements.

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

AEGCo engages in the generation and wholesale sale of electric power to its affiliates, CSPCo, I&M and KPCo. AEGCo and I&M co-own Unit 1 of the Rockport Plant. Unit 2 of the Rockport Plant is owned by a third party and leased to I&M and AEGCo. I&M operates the Rockport Plant. AEGCo derives operating revenues from the sale of Rockport Plant energy and capacity to I&M and KPCo pursuant to FERC-approved long-term unit power agreements through December 2022. Under the terms of its unit power agreement, I&M agreed to purchase all of AEGCo's Rockport energy and capacity unless it is sold to other utilities or affiliates. I&M assigned 30% of its rights to energy and capacity to KPCo.

In May 2007, AEGCo completed the purchase of the Lawrenceburg Generating Station (Lawrenceburg), a combined-cycle, natural-gas power plant. CSPCo and AEGCo entered into a 10-year UPA for the entire output from the plant effective with AEGCo's purchase of Lawrenceburg. The UPA has an option for an additional 2-year period. I&M operates the plant under an agreement with AEGCo. Under the UPA, CSPCo pays AEGCo for the capacity, depreciation, fuel, operation and maintenance and tax expenses. These payments are due regardless of whether the plant is operating. The fuel and operation and maintenance payments are based on actual costs incurred. All expenses are trued up periodically.

The unit power agreements provide for a FERC-approved rate of return on common equity, a return on other capital (net of temporary cash investments) and recovery of costs including operation and maintenance, fuel and taxes. Under the terms of the unit power agreements, AEGCo accumulates all expenses monthly and prepares bills for its affiliates. In the month the expenses are incurred, AEGCo recognizes the billing revenues and establishes a receivable from the affiliated companies. The costs of operating the plants are billed to the respective parties of the agreements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rates and Service Regulation

The FERC regulates AEGCo's rates and 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 that a nonregulated affiliate can bill an affiliated public utility company no more than market while a public utility must bill the higher of cost or market to a nonregulated affiliate.

The FERC regulates wholesale power markets and wholesale power transactions. AEGCo's wholesale power transactions are generally cost-based regulated under FERC approved unit power agreements. Both the FERC and state regulatory commissions are permitted to review and audit the books and records of any company within a public utility holding company system.

Accounting for the Effects of Cost-Based Regulation

As a rate-regulated electric public utility company, AEGCo'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," AEGCo records regulatory assets (deferred expenses) and regulatory liabilities (future revenue reductions or refunds) to reflect the economic effects of regulation by matching expenses with their recovery through regulated revenues and income with its passage to customers through the reduction of regulated revenues.

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, long-lived asset impairment, the effects of regulation, long-lived asset recovery and the effects of contingencies. 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.

Cash and Cash Equivalents

Cash and Cash Equivalents on the Statements of Cash Flows include temporary cash investments with original maturities of three months or less.

Inventory

Fossil fuel inventories and materials and supplies inventories are carried at average cost.

Property, Plant and Equipment

Electric utility property, plant and equipment are stated at original purchase cost. Additions, major replacements and betterments are added to the plant accounts. Normal and routine retirements from the plant accounts, net of salvage, are charged to accumulated depreciation for cost-based rate-regulated operations under the group composite method of 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. Under the group composite method of depreciation, continuous interim routine replacements of items such as boiler tubes, pumps, motors, etc. result in the original cost, less salvage, being charged to accumulated depreciation. The depreciation rates that are established for the generating plants take into account the past history of interim capital replacements and the amount of 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 the plants 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."

The fair value of an asset and investment 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 or investments in active markets, fair value is estimated using various internal and external valuation methods including cash flow analysis and appraisals.

Allowance for Funds Used During Construction (AFUDC)

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.

Valuation of Nonderivative Financial Instruments

The book values of Accounts Receivable and Accounts Payable approximate fair value because of the short-term maturity of these instruments.

Revenue Recognition and Accounts Receivable

Under terms of the unit power agreement, AEGCo accumulates all expenses monthly and prepares bills for its affiliates. In the month the expenses are incurred, AEGCo recognizes the billing revenues and establishes receivables from the affiliate companies.

Maintenance

Maintenance costs are expensed as incurred.

Income Taxes and Investment Tax Credits

AEGCo 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 flow-through method except where regulatory commissions have reflected investment tax credits in the rate-making process on a deferral basis. Investment tax credits that have been deferred are amortized over the life of the plant investment.

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

Debt

Gains and losses from the reacquisition of debt used to finance AEGCo’s 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 are generally deferred and amortized over the term of the replacement debt consistent with its recovery in rates.

Debt discount 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.

Earnings Per Share (EPS)

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

Subsequent Events

Management reviewed subsequent events through February 26, 2010, the date that AEGCo’s 2009 annual report was issued.

2. EFFECTS OF REGULATION

Regulatory assets and liabilities are comprised of the following items:

Regulatory Assets:	**December 31, 2009**	**December 31, 2008**	**Remaining Recovery Period**
	(in thousands)		
Noncurrent Regulatory Assets			
Regulatory assets not yet being recovered. Recovery method and timing to be determined in future proceedings:			
Regulatory Assets Currently Not Earning a Return			
Asset Retirement Obligation (a)	$ 1,908	$ 1,612	
Total Regulatory Assets Not Yet Being Recovered	1,908	1,612	
Regulatory assets being recovered:			
Regulatory Assets Currently Earning a Return			
Unamortized Loss on Reacquired Debt	$ 3,310	$ 3,547	7 years
Regulatory Assets Currently Not Earning a Return			
Income Taxes, Net	9,211	1,492	19 years
Total Regulatory Assets Being Recovered	12,521	5,039	
Total Noncurrent Regulatory Assets	$ 14,429	$ 6,651	

(a) Authorization to establish regulatory asset received from the IURC.

Regulatory Liabilities:	**December 31, 2009**	**December 31, 2008**	**Remaining Refund Period**
	(in thousands)		
Noncurrent Regulatory Liabilities and Deferred Investment Tax Credits			
Regulatory liabilities being paid:			
Regulatory Liabilities Currently Paying a Return			
Deferred Investment Tax Credits	$ 29,384	$ 32,667	13 years
Asset Removal Costs	26,743	25,931	(a)
Total Noncurrent Regulatory Liabilities and Deferred Investment Tax Credits	$ 56,127	$ 58,598	

(a) Relieved as removal costs are incurred.

3. COMMITMENTS, GUARANTEES AND CONTINGENCIES

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

COMMITMENTS

AEGCo has substantial construction commitments to support its operations and environmental investments. In managing the overall construction program and in the normal course of business, AEGCo contractually commits to third-party construction vendors for certain material purchases and other construction services. AEGCo 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. AEGCo has no actual contractual commitments at December 31, 2009.

GUARANTEES

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

Indemnifications and Other Guarantees

Contracts

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. Prior to December 31, 2009, AEGCo entered into sale agreements including indemnifications with a maximum exposure that was not significant. There are no material liabilities recorded for any indemnifications.

CONTINGENCIES

Insurance and Potential Losses

AEGCo maintains insurance coverage normal and customary for an electric utility, subject to various deductibles. 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. The insurance programs also generally provide coverage against loss arising from certain claims made by third parties and are in excess of AEGCo'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. Future losses or liabilities, if they occur, which are not completely insured, unless recovered from customers, could have a material adverse effect on net income, cash flows and financial condition.

Carbon Dioxide Public Nuisance Claims

In 2004, eight states and the City of New York filed an action in Federal District Court for the Southern District of New York against AEP, AEPSC, Cinergy Corp, Xcel Energy, Southern Company and Tennessee Valley Authority. The Natural Resources Defense Council, on behalf of three special interest groups, filed a similar complaint against the same defendants. The actions allege that CO_2 emissions from the defendants' power plants constitute a public nuisance under federal common law due to impacts of global warming and sought injunctive relief in the form of specific emission reduction commitments from the defendants. The trial court dismissed the lawsuits.

In September 2009, the Second Circuit Court of Appeals issued a ruling on appeal remanding the cases to the Federal District Court for the Southern District of New York. The Second Circuit held that the issues of climate change and global warming do not raise political questions and that Congress' refusal to regulate CO_2 emissions does not mean that plaintiffs must wait for an initial policy determination by Congress or the President's administration to secure the relief sought in their complaints. The court stated that Congress could enact comprehensive legislation to regulate CO_2 emissions or that the Federal EPA could regulate CO_2 emissions under existing Clean Air Act authorities and that either of these actions could override any decision made by the district court under federal common law. The Second Circuit did not rule on whether the plaintiffs could proceed with their state common law nuisance claims. In November 2009, the defendants filed for rehearing.

In October 2009, the Fifth Circuit Court of Appeals reversed a decision by the Federal District Court for the District of Mississippi dismissing state common law nuisance claims in a putative class action by Mississippi residents asserting that CO_2 emissions exacerbated the effects of Hurricane Katrina. The Fifth Circuit held that there was no exclusive commitment of the common law issues raised in plaintiffs' complaint to a coordinate branch of government and that no initial policy determination was required to adjudicate these claims. AEGCo was initially dismissed from this case without prejudice, but is named as a defendant in a pending fourth amended complaint.

Management believes the actions are without merit and intends to continue to defend against the claims.

Alaskan Villages' Claims

In 2008, the Native Village of Kivalina and the City of Kivalina, Alaska filed a lawsuit in Federal Court in the Northern District of California against AEP, AEPSC and 22 other unrelated defendants including oil and gas companies, a coal company, and other electric generating companies. The complaint alleges that the defendants' emissions of CO_2 contribute to global warming and constitute a public and private nuisance and that the defendants are acting together. The complaint further alleges that some of the defendants, including AEP, conspired to create a false scientific debate about global warming in order to deceive the public and perpetuate the alleged nuisance. The plaintiffs also allege that the effects of global warming will require the relocation of the village at an alleged cost of $95 million to $400 million. In October 2009, the judge dismissed plaintiffs' federal common law claim for nuisance, finding the claim barred by the political question doctrine and by plaintiffs' lack of standing to bring the claim. The judge also dismissed plaintiffs' state law claims without prejudice to refiling in state court. The plaintiffs appealed the decision. Management believes the action is without merit and intends to defend against the claims.

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, AEGCo's generating plants have used asbestos, polychlorinated biphenyls (PCBs) and other hazardous and nonhazardous materials. AEGCo currently incurs costs to dispose of these substances safely.

Superfund addresses clean-up of hazardous substances that have been released to the environment. The Federal EPA administers the clean-up programs. Several states have enacted similar laws. Superfund does not recognize compliance as a defense, but imposes strict liability on parties who fall within its broad statutory categories. Present estimates do not anticipate material cleanup costs.

4. ACQUISITIONS

2009

None

2008

None

2007

Lawrenceburg Generating Station

In January 2007, AEGCo agreed to purchase Lawrenceburg Generating Station (Lawrenceburg) from an affiliate of Public Service Enterprise Group for $325 million and the assumption of liabilities of $3 million. AEGCo completed the purchase in May 2007. Lawrenceburg is located in Lawrenceburg, Indiana, adjacent to I&M's Tanners Creek Plant, and is a natural gas, combined cycle power plant with a generating capacity of 1,096 MW. AEGCo sells the power to CSPCo through a FERC-approved unit power agreement.

Dresden Plant

In August 2007, AEGCo agreed to purchase the partially completed Dresden Plant from Dominion Resources, Inc. for $85 million and the assumption of liabilities of $2 million. AEGCo completed the purchase in September 2007. AEGCo incurred approximately $14 million, $78 million and $3 million in construction costs (excluding AFUDC) at the Dresden Plant in 2009, 2008 and 2007, respectively. During 2009, AEGCo suspended construction of the Dresden Plant as part of AEP's overall response to the economic conditions in 2009. As a result, AEGCo has stopped recording AFUDC and will resume recording AFUDC once construction is resumed in 2012. The Dresden Plant is located near Dresden, Ohio and is a natural gas, combined cycle power plant. When completed, the Dresden Plant will have a generating capacity of 580 MW.

5. BUSINESS SEGMENTS

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

6. 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. 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 at December 31, 2009 and 2008 are summarized in the following table:

	December 31,			
	2009		2008	
	Book Value	Fair Value	Book Value	Fair Value
	(in thousands)			
Long-term Debt	$ 333,587	$ 338,602	$ 340,764	$ 297,852

7. INCOME TAXES

The details of income taxes as reported are as follows:

	Year Ended December 31,		
	2009	2008	2007
	(in thousands)		
Income Tax Expense (Credit):			
Current	$ (19,455)	$ 13,241	$ 6,859
Deferred	27,884	(2,277)	(543)
Deferred Investment Tax Credits	(3,283)	(3,272)	(3,346)
Total Income Taxes	$ 5,146	$ 7,692	$ 2,970

Shown below 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 rate and the amount of income taxes reported.

	Year Ended December 31, 2009	2008	2007
		(in thousands)	
Net Income	$ 28,791	$ 31,567	$ 18,053
Income Taxes	5,146	7,692	2,970
Pretax Income	$ 33,937	$ 39,259	$ 21,023
Income Tax on Pretax Income at Statutory Rate (35%)	$ 11,878	$ 13,741	$ 7,358
Increase (Decrease) in Income Tax resulting from the following items:			
Depreciation	(105)	(677)	(255)
Allowance for Funds Used During Construction	(2,906)	(3,269)	(1,483)
Rockport Plant Unit 2 Investment Tax Credit	374	374	374
Investment Tax Credits, Net	(3,283)	(3,272)	(3,346)
State and Local Income Taxes	(1,171)	1,431	708
Other	359	(636)	(386)
Total Income Taxes	$ 5,146	$ 7,692	$ 2,970
Effective Income Tax Rate	15.2%	19.6%	14.1%

The following table shows elements of the net deferred tax liability and significant temporary differences:

	December 31, 2009	2008
	(in thousands)	
Deferred Tax Assets	$ 50,508	$ 52,763
Deferred Tax Liabilities	(114,723)	(81,472)
Net Deferred Tax Liabilities	$ (64,215)	$ (28,709)
Property Related Temporary Differences	$ (85,005)	$ (52,906)
Amounts Due From Customers For Future Federal Income Taxes	(1,430)	619
Deferred State Income Taxes	(5,185)	(3,274)
Net Deferred Gain on Sale and Leaseback – Rockport Plant Unit 2	24,218	26,168
All Other, Net	3,187	684
Net Deferred Tax Liabilities	$ (64,215)	$ (28,709)

AEGCo joins in the filing of a consolidated federal income tax return with its affiliates in the AEP System. The allocation of the AEP System's current consolidated federal income tax to the AEP System companies allocates the benefit of current tax losses to the AEP System companies giving rise to such losses in determining their current tax expense. The tax benefit of the Parent is allocated to its subsidiaries with taxable income. With the exception of the loss of the Parent, the method of allocation reflects a separate return result for each company in the consolidated group.

AEGCo and other AEP subsidiaries are no longer subject to U.S. federal examination for years before 2001. AEGCo and other AEP subsidiaries have completed the exam for the years 2001 through 2006 and have issues that are being pursued at the appeals level. The years 2007 and 2008 are currently under examination. Although the outcome of tax audits is uncertain, in management's opinion, adequate provisions for income taxes have been made for potential liabilities resulting from such matters. In addition, AEGCo accrues interest on these uncertain tax positions. Management is not aware of any issues for open tax years that upon final resolution are expected to have a material adverse effect on net income.

AEGCo, along with other AEP subsidiaries, files income tax returns in various state and local jurisdictions. These taxing authorities routinely examine the tax returns and AEGCo and other AEP subsidiaries are currently under examination in several state and local jurisdictions. Management believes that previously filed tax returns have positions that may be challenged by these tax authorities. However, management believes that the ultimate resolution of these audits will not materially impact net income. With few exceptions, AEGCo is no longer subject to state or local income tax examinations by tax authorities for years before 2000.

AEGCo sustained federal, state and local net income tax operating losses in 2009 driven primarily by bonus depreciation, a change in tax accounting method related to units of property and other book versus tax temporary differences. As a result, AEGCo accrued current federal, state and local income tax benefits in 2009. There is sufficient capacity in prior periods to carry the consolidated federal net operating loss back. The preponderance of the state and local jurisdictions do not provide for a net operating loss carry back, however it is anticipated that future taxable income will be sufficient to realize the tax benefit. As such, management has determined that a valuation allowance is unnecessary.

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

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

	Year Ended December 31,		
	2009	**2008**	**2007**
		(in thousands)	
Interest Expense	$ -	$ 97	$ -
Interest Income	66	134	-
Reversal of Prior Period Interest Expense	-	-	335

AEGCo had approximately $266 thousand and $201 thousand for the receipt of interest accrued at December 31, 2009 and 2008, respectively.

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

	2009	**2008**	**2007**
		(in thousands)	
Balance at January 1,	$ (672)	$ (485)	$ 110
Increase - Tax Positions Taken During a Prior Period	263	-	23
Decrease - Tax Positions Taken During a Prior Period	(224)	(608)	(621)
Increase - Tax Positions Taken During the Current Year	11	509	3
Decrease - Tax Positions Taken During the Current Year	-	(88)	-
Increase - Settlements with Taxing Authorities	-	-	-
Decrease - Lapse of the Applicable Statute of Limitations	-	-	-
Balance at December 31,	$ (622)	$ (672)	$ (485)

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is $9 thousand. 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

Several tax bills and other legislation with tax-related sections were enacted in 2007 and 2008, including the Tax Technical Corrections Act of 2007, the Tax Increase Prevention Act of 2007, the Energy Independence and Security Act of 2007, the Economic Stimulus Act of 2008 and the Emergency Stabilization Act of 2008. These tax law changes enacted in 2007 and 2008 did not materially affect AEGCo's net income, cash flows or financial condition.

The American Recovery and Reinvestment Tax Act of 2009 provided for several new grant programs and expanded tax credits and an extension of the 50% bonus depreciation provision enacted in the Economic Stimulus Act of 2008. The enacted provisions did not have a material impact on AEGCo's net income or financial condition. However, the bonus depreciation contributed to AEP's 2009 federal net operating tax loss and will result in a future cash flow benefit to AEGCo.

State Tax Legislation

In March 2008, legislation was signed providing for, among other things, a reduction in the West Virginia corporate income tax rate from 8.75% to 8.5% beginning in 2009. The corporate income tax rate could also be reduced to 7.75% in 2012 and 7% in 2013 contingent upon the state government achieving certain minimum levels of shortfall reserve funds. Management has evaluated the impact of the law change and the application of the law change will not materially impact AEGCo's net income, cash flows or financial condition.

8. LEASES

Leases of property, plant and equipment are for periods up to 33 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:

	Years Ended December 31,		
Lease Rental Costs	**2009**	**2008**	**2007**
		(in thousands)	
Net Lease Expense on Operating Leases	$ 72,588	$ 72,506	$ 71,985
Amortization of Capital Leases	358	350	327
Interest on Capital Leases	641	689	687
Total Lease Rental Costs	$ 73,587	$ 73,545	$ 72,999

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

	December 31,	
	2009	**2008**
	(in thousands)	
Property, Plant and Equipment Under Capital Leases		
Production	$ 12,246	$ 12,246
Other Property, Plant and Equipment	371	415
Total Property, Plant and Equipment Under Capital Leases	12,617	12,661
Accumulated Amortization	1,626	1,317
Net Property, Plant and Equipment Under Capital Leases	$ 10,991	$ 11,344
Obligations Under Capital Leases		
Noncurrent Liability	$ 10,636	$ 10,987
Liability Due Within One Year	355	357
Total Obligations Under Capital Leases	$ 10,991	$ 11,344

Future minimum lease payments consisted of the following at December 31, 2009:

Future Minimum Lease Payments	Capital Leases	Noncancelable Operating Leases
	(in thousands)	
2010	$ 979	$ 77,792
2011	937	78,435
2012	934	75,130
2013	933	75,127
2014	933	75,107
Later Years	13,269	596,718
Total Future Minimum Lease Payments	$ 17,985	$ 978,309
Less Estimated Interest Element	6,994	
Estimated Present Value of Future Minimum Lease Payments	$ 10,991	

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 gain from the sale was deferred and is being amortized over the term of the lease, which expires in 2022. The Owner Trustee owns the Plant and leases it 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 with potential renewal options. At the end of the lease term, AEGCo and I&M have the option to renew the lease or the Owner Trustee can sell the Plant. Neither AEGCo, I&M nor AEP has an ownership interest in the Owner Trustee and do not guarantee its debt. The future minimum lease payments for this sale-and-leaseback transaction for AEGCo are as follows:

Future Minimum Lease Payments	(in millions)
2010	$ 74
2011	74
2012	74
2013	74
2014	74
Later Years	590
Total Future Minimum Lease Payments	$ 960

9. FINANCING ACTIVITIES

Long-term Debt

There are certain limitations on establishing liens against AEGCo's assets under its indentures. None of the long-term debt obligations of AEGCo have been guaranteed or secured by AEP or any of its affiliates.

The following details long-term debt outstanding as of December 31, 2009 and 2008:

Type of Debt	Maturity	Interest Rates at December 31, 2009	Interest Rates at December 31, 2008	Outstanding at December 31, 2009	Outstanding at December 31, 2008
				(in thousands)	
Senior Unsecured Notes	2037	6.33%	6.33%	$ 203,637	$ 210,909
Pollution Control Bonds (a)	2011 (b)	4.15%	4.15%	45,000	45,000
Other Long-term Debt (c)	2011	1.25%	3.20125%	85,000	85,000
Unamortized Discount				(50)	(145)
Total Long-term Debt				333,587	340,764
Less: Long-term Debt Due Within One Year				7,273	7,273
Long-term Debt				$ 326,314	$ 333,491

(a) Under the terms of the pollution control bonds, AEGCo is required to pay amounts sufficient to enable the payment of interest on and the principal of (at stated maturities and upon mandatory redemptions) related pollution control revenue bonds issued to finance the construction of pollution control facilities at certain plants. Interest rates are subject to periodic adjustment. Interest payments are made semi-annually. Letters of credit from banks, standby bond purchase agreements and insurance policies support certain series.

(b) AEGCo's pollution control bonds are subject to mandatory redemption earlier than the maturity date. Consequently, these bonds have been classified for maturity and repayment purposes based on the mandatory redemption date.

(c) In 2008, AEGCo issued an $85 million 3-year credit agreement to be used for working capital and other general corporate purposes.

Long-term debt outstanding at December 31, 2009 is payable as follows:

	2010	2011	2012	2013	2014	After 2014	Total
				(in thousands)			
Principal Amount	$ 7,273	$ 137,272	$ 7,273	$ 7,273	$ 7,273	$ 167,273	$ 333,637
Unamortized Discount							(50)
Total Long-term Debt							$ 333,587

Utility Money Pool – AEP System

The AEP System uses a corporate borrowing program to meet the short-term borrowing needs of its subsidiaries. The corporate borrowing program includes a Utility Money Pool, which funds the utility subsidiaries. The AEP System Utility Money Pool operates in accordance with the terms and conditions approved in a regulatory order. The amount of outstanding borrowings from the Utility Money Pool as of December 31, 2009 and 2008 are included in Advances from Affiliates on AEGCo's balance sheets. AEGCo's Utility Money Pool activity and corresponding authorized borrowing limits for the years ended December 31, 2009 and 2008 are described in the following table:

Year	Maximum Borrowings from Utility Money Pool	Maximum Loans to Utility Money Pool	Average Borrowings from Utility Money Pool	Average Loans to Utility Money Pool	Borrowings from Utility Money Pool as of December 31,	Authorized Short-Term Borrowing Limit
			(in thousands)			
2009	$ 89,736	$ -	$ 56,361	$ -	$ 80,168	$ 200,000
2008	125,091	-	81,742	-	46,800	200,000

Maximum, minimum and average interest rates for funds either borrowed from or loaned to the Utility Money Pool for the years ended December 31, 2009, 2008 and 2007 are summarized in the following table:

Years Ended December 31,	Maximum Interest Rates for Funds Borrowed from the Utility Money Pool	Minimum Interest Rates for Funds Borrowed from the Utility Money Pool	Maximum Interest Rates for Funds Loaned to the Utility Money Pool	Minimum Interest Rates for Funds Loaned to the Utility Money Pool	Average Interest Rates for Funds Borrowed from the Utility Money Pool	Average Interest Rates for Funds Loaned to the Utility Money Pool
2009	2.28%	0.15%	-%	-%	0.80%	-%
2008	5.47%	2.28%	-%	-%	4.75%	-%
2007	5.94%	5.16%	5.94%	5.49%	5.39%	5.86%

Interest expense and interest income related to the Utility Money Pool are included in Interest Expense and Interest Income, respectively, in AEGCo's Statements of Income. For amounts borrowed from and advanced to the Utility Money Pool, AEGCo incurred the following amounts of interest expense and earned the following amounts of interest income, respectively, for the years ended December 31, 2009, 2008 and 2007:

	Years Ended December 31,		
	2009	2008	2007
		(in thousands)	
Interest Expense	$ 458	$ 2,967	$ 3,297
Interest Income	-	-	35

Dividend Restrictions

Federal Power Act

The Federal Power Act prohibits AEGCo from participating "in the making or paying of any dividends of such public utility from any funds properly included in capital account." The term "capital account" is not defined in the Federal Power Act or its regulations. Management understands "capital account" to mean the par value of the common stock multiplied by the number of shares outstanding. This restriction does not limit the ability of the AEGCo to pay dividends out of retained earnings.

10. RELATED PARTY TRANSACTIONS

For other related party transactions, also see "Utility Money Pool – AEP System" section of Note 9.

Affiliated Revenues

AEGCo's revenues derived from sales to affiliates for the years ended December 31, 2009, 2008 and 2007 were $415 million, $468 million and $380 million, respectively. These revenues are reported as Operating Revenues on AEGCo's Statements of Income.

Unit Power Agreements (UPA)

Lawrenceburg UPA between CSPCo and AEGCo

In March 2007, CSPCo and AEGCo entered into a 10-year UPA for the entire output from the Lawrenceburg Generating Station effective with AEGCo's purchase of the plant in May 2007. The UPA has an option for an additional 2-year period. I&M operates the plant under an agreement with AEGCo. Under the UPA, CSPCo pays AEGCo for the capacity, depreciation, fuel, operation and maintenance and tax expenses. These payments are due regardless of whether the plant is operating. The fuel and operation and maintenance payments are based on actual costs incurred. All expenses are trued up periodically.

I&M UPA between AEGCo and I&M

A UPA between AEGCo and I&M (the I&M Power Agreement) provides for the sale by AEGCo to I&M of all the power (and the energy associated therewith) available to AEGCo at the Rockport Plant unless it is sold to another utility. I&M is obligated, whether or not power is available from AEGCo, to pay as a demand charge for the right to receive such power (and as an energy charge for any associated energy taken by I&M) net of amounts received by AEGCo from any other sources, sufficient to enable AEGCo to pay all its operating and other expenses, including a rate of return on the common equity of AEGCo as approved by the FERC. The I&M Power Agreement will continue in effect until the expiration of the lease term of Unit 2 of the Rockport Plant unless extended in specified circumstances.

KPCo UPA between AEGCo and KPCo

Pursuant to an assignment between I&M and KPCo, and a UPA between KPCo and AEGCo, AEGCo sells KPCo 30% of the power (and the energy associated therewith) available to AEGCo from both units of the Rockport Plant. KPCo has agreed to pay to AEGCo in consideration for the right to receive such power the same amounts which I&M would have paid AEGCo under the terms of the I&M Power Agreement for such entitlement. The KPCo UPA ends in December 2022.

Jointly-Owned Electric Facilities

AEGCo and I&M jointly own one generating unit and jointly lease the other generating unit of the Rockport Plant. The costs of operating this facility are equally apportioned between AEGCo and I&M since each company has a 50% interest. AEGCo's share of costs is included in the appropriate expense accounts on its Statements of Income. AEGCo's investment in this plant is included in Property, Plant and Equipment on its Balance Sheets.

I&M Barging and Other Services

I&M provides barging and other transportation services to affiliates. AEGCo recorded costs of $13 million, $17 million and $9 million for the years ended December 31, 2009, 2008 and 2007, respectively, for barging services provided by I&M. These costs were recorded as Fuel Used for Electric Generation on AEGCo's Statements of Income.

Central Machine Shop

APCo operates a facility which repairs and rebuilds specialized components for the generation plants across the AEP System. APCo defers on its balance sheet the cost of performing the services, then transfers the cost to the affiliate for reimbursement. AEGCo recorded these billings as capital or maintenance expense depending on the nature of the services received. These billings are recoverable under UPAs. AEGCo's billed amounts were $31 thousand and $138 thousand for the years ended December 31, 2009 and 2008, respectively. There was no billed amount for the year ended December 31, 2007.

Variable Interest Entities

The accounting guidance for "Variable Interest Entities" is a consolidation model that considers risk absorption of a variable interest entity (VIE), also referred to as variability. Entities are required to consolidate a VIE when it is determined that they are the primary beneficiary of that VIE, as defined by the accounting guidance for "Variable Interest Entities." In determining whether AEGCo is the primary beneficiary of a VIE, management considers factors such as equity at risk, the amount of the VIE's variability AEGCo absorbs, guarantees of indebtedness, voting rights including kick-out rights, the power to direct the VIE and other factors. Management believes that the significant assumptions and judgments were applied consistently. There have been no changes to the reporting of VIEs in the financial statements where it is concluded that AEGCo is the primary beneficiary. In addition, AEGCo has not provided financial or other support to any VIE that was not previously contractually required.

AEGCo holds a significant variable interest in AEPSC. AEPSC provides certain managerial and professional services to AEGCo. AEP is the sole equity owner of AEPSC. The costs of the services are based on a direct charge or on a prorated basis and billed to AEGCo and other AEP subsidiaries at AEPSC's cost. AEGCo and other AEP subsidiaries have not provided financial or other support outside the reimbursement of costs for services rendered. The cost reimbursement nature of AEPSC finances its operations. There are no other terms or arrangements between AEPSC and AEGCo and other AEP subsidiaries that could require additional financial support from AEGCo and other AEP subsidiaries or expose them to losses outside of the normal course of business. AEPSC and its billings are subject to regulation by the FERC. AEGCo and other AEP subsidiaries are exposed to losses to the extent they cannot recover the costs of AEPSC through their normal business operations. AEGCo is considered to have a significant interest in the variability of AEPSC due to its activity in AEPSC's cost reimbursement structure. 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. Total billings from AEPSC for the years ended December 31, 2009 and 2008 were $11 million and $10 million, respectively. The carrying amount of liabilities associated with AEPSC for the years ended December 31, 2009 and 2008 were $690 thousand and $843 thousand, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

11. PROPERTY, PLANT AND EQUIPMENT

Depreciation

AEGCo 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 the annual composite depreciation rates by functional class:

2009	Regulated				Nonregulated			
Functional Class of Property	Property, Plant and Equipment	Accumulated Depreciation	Annual Composite Depreciation Rate	Depreciable Life Ranges	Property, Plant and Equipment	Accumulated Depreciation	Annual Composite Depreciation Rate	Depreciable Life Ranges
	(in thousands)			(in years)	(in thousands)			(in years)
Production	$ 1,443,263	$ 838,826	2.4%	31-37	$ -	$ -	-	-
Transmission	9,688	4,535	1.5%	46-75	-	-	-	-
CWIP	227,315	1,532	N.M.	N.M.	-	-	-	-
Other	7,775	3,803	10.7%	N.M.	45	-	N.M.	N.M.
Total	$ 1,688,041	$ 848,696			$ 45	$ -		

2008	Regulated				Nonregulated			
Functional Class of Property	Property, Plant and Equipment	Accumulated Depreciation	Annual Composite Depreciation Rate	Depreciable Life Ranges	Property, Plant and Equipment	Accumulated Depreciation	Annual Composite Depreciation Rate	Depreciable Life Ranges
	(in thousands)			(in years)	(in thousands)			(in years)
Production	$ 1,418,716	$ 817,798	2.4%	31-37	$ -	$ -	-	-
Transmission	-	-	-	-	-	-	-	-
CWIP	216,500	(561)	N.M.	N.M.	-	-	-	-
Other	6,338	2,043	8.4%	N.M.	45	-	N.M.	N.M.
Total	$ 1,641,554	$ 819,280			$ 45	$ -		

2007	Regulated		Nonregulated	
Functional Class of Property	Annual Composite Depreciation Rate	Depreciable Life Ranges	Annual Composite Depreciation Rate	Depreciable Life Ranges
		(in years)		(in years)
Production	3.2%	31-37	-	-
Transmission	-	-	-	-
CWIP	N.M.	N.M.	-	-
Other	6.9%	N.M.	N.M.	N.M.

N.M. = Not Meaningful

The composite depreciation rate generally includes a component for nonasset 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.

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 2009 and 2008 aggregate carrying amounts of ARO for AEGCo:

Year	ARO at January 1,	Accretion Expense	Liabilities Incurred	Liabilities Settled	Revisions in Cash Flow Estimates	ARO at December 31,
			(in thousands)			
2009	$ 3,000	$ 272	$ -	$ (4)	$ (35)	$ 3,233
2008	1,326	101	746	(199)	1,026	3,000

Allowance for Funds Used During Construction (AFUDC)

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

	Years Ended December 31, 2009	2008	2007
		(in thousands)	
Allowance for Equity Funds Used During Construction	$ 5,175	$ 6,198	$ 1,015
Allowance for Borrowed Funds Used During Construction	1,932	3,250	1,609

12. 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 net income for interim periods. Quarterly results are not necessarily indicative of a full year's operations because of various factors. AEGCo's unaudited quarterly financial information is as follows:

	2009 Quarterly Periods Ended March 31	June 30	September 30	December 31
		(in thousands)		
Operating Revenues	$ 106,715	$ 101,313	$ 112,787	$ 93,978
Operating Income	9,914	10,960	12,973	11,072
Net Income	6,911	8,623	6,504	6,753

	2008 Quarterly Periods Ended March 31	June 30	September 30	December 31
		(in thousands)		
Operating Revenues	$ 109,012	$ 106,944	$ 139,230	$ 113,089
Operating Income	11,606	12,179	11,681	13,657
Net Income	6,810	7,563	7,545	9,649

There were no significant events in 2009 or 2008.