AEP Texas Central Company
and Subsidiaries

2013 Third Quarter Report

Consolidated Financial Statements

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GLOSSARY OF TERMS

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

Term	Meaning
AEP or Parent	American Electric Power Company, Inc., an electric utility holding company.
AEP System	American Electric Power System, an integrated electric utility system, owned and operated by AEP's electric utility subsidiaries.
AEPSC	American Electric Power Service Corporation, an AEP service subsidiary providing management and professional services to AEP and its subsidiaries.
AOCI	Accumulated Other Comprehensive Income.
CAA	Clean Air Act.
CO_2	Carbon dioxide and other greenhouse gases.
FERC	Federal Energy Regulatory Commission.
FTR	Financial Transmission Right, a financial instrument that entitles the holder to receive compensation for certain congestion-related transmission charges that arise when the power grid is congested resulting in differences in locational prices.
GAAP	Accounting Principles Generally Accepted in the United States of America.
IRS	Internal Revenue Service.
MTM	Mark-to-Market.
OPEB	Other Postretirement Benefit Plans.
OTC	Over the counter.
PUCT	Public Utility Commission of Texas.
Risk Management Contracts	Trading and nontrading derivatives, including those derivatives designated as cash flow and fair value hedges.
TCC	AEP Texas Central Company, an AEP electric utility subsidiary.
Transition Funding	AEP Texas Central Transition Funding I LLC, AEP Texas Central Transition Funding II LLC and AEP Texas Central Transition Funding III LLC, wholly-owned subsidiaries of TCC and consolidated variable interest entities formed for the purpose of issuing and servicing securitization bonds related to Texas restructuring law.
Texas Restructuring Legislation	Legislation enacted in 1999 to restructure the electric utility industry in Texas.
Utility Money Pool	Centralized funding mechanism AEP uses to meet the short-term cash requirements of certain utility subsidiaries.
VIE	Variable Interest Entity.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three and Nine Months Ended September 30, 2013 and 2012
(in thousands)
(Unaudited)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
REVENUES				
Electric Transmission and Distribution	$ 276,309	$ 286,274	$ 752,734	$ 755,139
Sales to AEP Affiliates	986	922	2,946	2,780
Other Revenues	666	471	2,069	1,191
TOTAL REVENUES	277,961	287,667	757,749	759,110
EXPENSES				
Other Operation	63,054	65,361	183,451	178,113
Maintenance	9,869	9,112	28,176	27,439
Depreciation and Amortization	99,921	104,551	262,093	262,764
Taxes Other Than Income Taxes	21,726	21,198	55,918	56,708
TOTAL EXPENSES	194,570	200,222	529,638	525,024
OPERATING INCOME	83,391	87,445	228,111	234,086
Other Income (Expense):				
Interest Income	8	27	274	224
Carrying Costs Income	-	-	-	7,775
Allowance for Equity Funds Used During Construction	1,065	352	1,147	1,684
Interest Expense	(33,921)	(35,438)	(104,849)	(103,248)
INCOME BEFORE INCOME TAX EXPENSE	50,543	52,386	124,683	140,521
Income Tax Expense	18,802	18,756	46,382	49,317
NET INCOME	$ 31,741	$ 33,630	$ 78,301	$ 91,204

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

See Condensed Notes to Condensed Consolidated Financial Statements beginning on page 8.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Three and Nine Months Ended September 30, 2013 and 2012
(in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Net Income	$ 31,741	$ 33,630	$ 78,301	$ 91,204
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES				
Cash Flow Hedges, Net of Tax of $12 and $100 for the Three Months Ended September 30, 2013 and 2012, Respectively, and $19 and $69 for the Nine Months Ended September 30, 2013 and 2012, Respectively	22	186	(35)	128
TOTAL COMPREHENSIVE INCOME	$ 31,763	$ 33,816	$ 78,266	$ 91,332

See Condensed Notes to Condensed Consolidated Financial Statements beginning on page 8.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY
For the Nine Months Ended September 30, 2013 and 2012
(in thousands)
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2011	$ 55,292	$ 171,062	$ 1,011,990	$ (83)	$ 1,238,261
Common Stock Dividends			(684,824)		(684,824)
Net Income			91,204		91,204
Other Comprehensive Income				128	128
TOTAL COMMON SHAREHOLDER'S EQUITY – SEPTEMBER 30, 2012	$ 55,292	$ 171,062	$ 418,370	$ 45	$ 644,769
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2012	$ 55,292	$ 171,062	$ 431,632	$ 29	$ 658,015
Common Stock Dividends			(3,750)		(3,750)
Net Income			78,301		78,301
Other Comprehensive Loss				(35)	(35)
TOTAL COMMON SHAREHOLDER'S EQUITY – SEPTEMBER 30, 2013	$ 55,292	$ 171,062	$ 506,183	$ (6)	$ 732,531

See Condensed Notes to Condensed Consolidated Financial Statements beginning on page 8.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
ASSETS
September 30, 2013 and December 31, 2012
(in thousands)
(Unaudited)

	September 30, 2013	December 31, 2012
CURRENT ASSETS		
Cash and Cash Equivalents	$ 100	$ 100
Restricted Cash for Securitized Transition Funding	153,322	215,218
Accounts Receivable:		
Customers	92,343	70,178
Affiliated Companies	3,783	6,733
Accrued Unbilled Revenues	47,069	41,678
Miscellaneous	136	-
Allowance for Uncollectible Accounts	(235)	(1,293)
Total Accounts Receivable	143,096	117,296
Materials and Supplies	42,487	37,423
Risk Management Assets	15	34
Prepayments and Other Current Assets	2,306	1,850
TOTAL CURRENT ASSETS	341,326	371,921
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Transmission	1,229,731	1,194,582
Distribution	2,225,917	2,120,155
Other Property, Plant and Equipment	281,118	264,328
Construction Work in Progress	171,999	104,788
Total Property, Plant and Equipment	3,908,765	3,683,853
Accumulated Depreciation and Amortization	817,901	771,854
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	3,090,864	2,911,999
OTHER NONCURRENT ASSETS		
Regulatory Assets	292,494	282,404
Securitized Transition Assets (September 30, 2013 and December 31, 2012 Amounts Include $1,888,711 and $2,057,817, Respectively, Related to Transition Funding)	1,943,274	2,116,833
Deferred Charges and Other Noncurrent Assets	31,842	26,191
TOTAL OTHER NONCURRENT ASSETS	2,267,610	2,425,428
TOTAL ASSETS	$ 5,699,800	$ 5,709,348

See Condensed Notes to Condensed Consolidated Financial Statements beginning on page 8.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY
September 30, 2013 and December 31, 2012
(dollars in thousands)
(Unaudited)

	September 30, 2013	December 31, 2012
CURRENT LIABILITIES		
Advances from Affiliates	$ 32,756	$ 103,335
Accounts Payable:		
General	56,931	35,066
Affiliated Companies	17,978	15,736
Long-term Debt Due Within One Year – Nonaffiliated (September 30, 2013 and December 31, 2012 Amounts Include $257,668 and $243,378, Respectively, Related to Transition Funding)	257,668	243,378
Risk Management Liabilities	14	-
Customer Deposits	17,699	20,283
Accrued Taxes	42,876	40,486
Accrued Interest (September 30, 2013 and December 31, 2012 Amounts Include $22,263 and $40,045, Respectively, Related to Transition Funding)	34,675	50,436
Other Current Liabilities	33,532	37,779
TOTAL CURRENT LIABILITIES	494,129	546,499
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated (September 30, 2013 and December 31, 2012 Amounts Include $1,812,699 and $2,037,690, Respectively, Related to Transition Funding)	2,651,503	2,681,188
Deferred Income Taxes	1,298,678	1,308,163
Regulatory Liabilities and Deferred Investment Tax Credits	475,769	467,888
Deferred Credits and Other Noncurrent Liabilities	47,190	47,595
TOTAL NONCURRENT LIABILITIES	4,473,140	4,504,834
TOTAL LIABILITIES	4,967,269	5,051,333
Rate Matters (Note 3)		
Commitments and Contingencies (Note 4)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – Par Value – $25 Per Share:		
Authorized – 12,000,000 Shares		
Outstanding – 2,211,678 Shares	55,292	55,292
Paid-in Capital	171,062	171,062
Retained Earnings	506,183	431,632
Accumulated Other Comprehensive Income (Loss)	(6)	29
TOTAL COMMON SHAREHOLDER'S EQUITY	732,531	658,015
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	$ 5,699,800	$ 5,709,348

See Condensed Notes to Condensed Consolidated Financial Statements beginning on page 8.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2013 and 2012
(in thousands)
(Unaudited)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
OPERATING ACTIVITIES		
Net Income	$ 78,301	$ 91,204
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	262,093	262,764
Deferred Income Taxes	(9,532)	(31,303)
Carrying Costs Income	-	(7,775)
Allowance for Equity Funds Used During Construction	(1,147)	(1,684)
Property Taxes	(7,655)	(6,990)
Change in Other Noncurrent Assets	(13,521)	(10,899)
Change in Other Noncurrent Liabilities	5,262	(2,534)
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	(25,961)	(34,312)
Materials and Supplies	(5,064)	(4,097)
Accounts Payable	9,849	(923)
Customer Deposits	(2,584)	6,857
Accrued Taxes, Net	2,390	18,083
Accrued Interest	(15,761)	(17,390)
Other Current Assets	(425)	(787)
Other Current Liabilities	(4,919)	(571)
Net Cash Flows from Operating Activities	271,326	259,643
INVESTING ACTIVITIES		
Construction Expenditures	(247,182)	(189,534)
Change in Restricted Cash for Securitized Transition Funding	61,896	19,632
Proceeds from Sales of Assets	6,364	4,568
Other Investing Activities	(685)	(60)
Net Cash Flows Used for Investing Activities	(179,607)	(165,394)
FINANCING ACTIVITIES		
Issuance of Long-term Debt – Nonaffiliated	193,782	793,304
Change in Advances from Affiliates, Net	(70,579)	28,369
Retirement of Long-term Debt – Nonaffiliated	(210,779)	(231,574)
Principal Payments for Capital Lease Obligations	(1,398)	(1,443)
Dividends Paid on Common Stock	(3,750)	(684,824)
Other Financing Activities	1,005	1,597
Net Cash Flows Used for Financing Activities	(91,719)	(94,571)
Net Decrease in Cash and Cash Equivalents	-	(322)
Cash and Cash Equivalents at Beginning of Period	100	422
Cash and Cash Equivalents at End of Period	$ 100	$ 100
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest, Net of Capitalized Amounts	$ 113,762	$ 115,554
Net Cash Paid for Income Taxes	64,956	73,547
Noncash Acquisitions Under Capital Leases	2,680	2,721
Construction Expenditures Included in Current Liabilities as of September 30,	34,050	17,511

See Condensed Notes to Condensed Consolidated Financial Statements beginning on page 8.

INDEX OF CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING MATTERS

General

The unaudited condensed consolidated 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 consolidated interim financial statements reflect all normal and recurring accruals and adjustments necessary for a fair presentation of the net income, financial position and cash flows for the interim periods. Net income for the three and nine months ended September 30, 2013 is not necessarily indicative of results that may be expected for the year ending December 31, 2013. The condensed consolidated financial statements are unaudited and should be read in conjunction with the audited 2012 financial statements and notes thereto, which are included in TCC's 2012 Annual Report.

Management reviewed subsequent events through October 25, 2013, the date that the third quarter 2013 report was issued.

2. COMPREHENSIVE INCOME

Presentation of Comprehensive Income

The following tables provide the components of changes in AOCI for the three and nine months ended September 30, 2013. All amounts in the following tables are presented net of related income taxes.

Changes in Accumulated Other Comprehensive Income (Loss) by Component
For the Three Months Ended September 30, 2013

	Cash Flow Hedges		
	Commodity	Interest Rate and Foreign Currency	Total
		(in thousands)	
Balance in AOCI as of June 30, 2013	$ (28)	$ -	$ (28)
Change in Fair Value Recognized in AOCI	42	-	42
Amounts Reclassified from AOCI	(20)	-	(20)
Net Current Period Other Comprehensive Income	22	-	22
Balance in AOCI as of September 30, 2013	$ (6)	$ -	$ (6)

Changes in Accumulated Other Comprehensive Income (Loss) by Component
For the Nine Months Ended September 30, 2013

	Cash Flow Hedges		
	Commodity	Interest Rate and Foreign Currency	Total
		(in thousands)	
Balance in AOCI as of December 31, 2012	$ 29	$ -	$ 29
Change in Fair Value Recognized in AOCI	16	-	16
Amounts Reclassified from AOCI	(51)	-	(51)
Net Current Period Other Comprehensive Income	(35)	-	(35)
Balance in AOCI as of September 30, 2013	$ (6)	$ -	$ (6)

Reclassifications Out of Accumulated Other Comprehensive Income

The following tables provide details of reclassifications from AOCI for the three and nine months ended September 30, 2013.

Reclassifications from Accumulated Other Comprehensive Income (Loss)
For the Three Months Ended September 30, 2013

Gains and Losses on Cash Flow Hedges	Amount of (Gain) Loss Reclassified from AOCI (in thousands)
Commodity:	
Other Operation Expense	$ (11)
Maintenance Expense	(7)
Property, Plant and Equipment	(12)
Subtotal - Commodity	(30)
Interest Rate and Foreign Currency:	
Interest Expense	-
Subtotal - Interest Rate and Foreign Currency	-
Reclassifications from AOCI, before Income Tax (Expense) Credit	(30)
Income Tax (Expense) Credit	(10)
Total Reclassifications from AOCI, Net of Income Tax (Expense) Credit	$ (20)

Reclassifications from Accumulated Other Comprehensive Income (Loss)
For the Nine Months Ended September 30, 2013

Gains and Losses on Cash Flow Hedges	Amount of (Gain) Loss Reclassified from AOCI (in thousands)
Commodity:	
Other Operation Expense	$ (29)
Maintenance Expense	(18)
Property, Plant and Equipment	(31)
Subtotal - Commodity	(78)
Interest Rate and Foreign Currency:	
Interest Expense	-
Subtotal - Interest Rate and Foreign Currency	-
Reclassifications from AOCI, before Income Tax (Expense) Credit	(78)
Income Tax (Expense) Credit	(27)
Total Reclassifications from AOCI, Net of Income Tax (Expense) Credit	$ (51)

The following tables provide details on designated, effective cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on the condensed balance sheets and the reasons for changes in cash flow hedges for the three and nine months ended September 30, 2012. All amounts in the following tables are presented net of related income taxes.

Total Accumulated Other Comprehensive Income (Loss) Activity for Cash Flow Hedges
For the Three Months Ended September 30, 2012

	AOCI Activity for Cash Flow Hedges (in thousands)
Balance in AOCI as of June 30, 2012	$ (141)
Changes in Fair Value Recognized in AOCI	182
Amount of (Gain) or Loss Reclassified from AOCI to Statement of Income/within Balance Sheet:	
Maintenance Expense	3
Property, Plant and Equipment	1
Balance in AOCI as of September 30, 2012	$ 45

Total Accumulated Other Comprehensive Income (Loss) Activity for Cash Flow Hedges
For the Nine Months Ended September 30, 2012

	AOCI Activity for Cash Flow Hedges (in thousands)
Balance in AOCI as of December 31, 2011	$ (83)
Changes in Fair Value Recognized in AOCI	160
Amount of (Gain) or Loss Reclassified from AOCI to Statement of Income/within Balance Sheet:	
Other Operation Expense	(13)
Maintenance Expense	(7)
Property, Plant and Equipment	(12)
Balance in AOCI as of September 30, 2012	$ 45

3. RATE MATTERS

As discussed in TCC's 2012 Annual Report, TCC is involved in rate and regulatory proceedings at the FERC and the PUCT. The Rate Matters note within TCC's 2012 Annual Report should be read in conjunction with this report to gain a complete understanding of material rate matters still pending that could impact net income, cash flows and possibly financial condition. The following discusses ratemaking developments in 2013 and updates TCC's 2012 Annual Report.

Regulatory Assets Not Yet Being Recovered

Noncurrent Regulatory Assets	September 30, 2013	December 31, 2012
	(in thousands)	
Regulatory assets not yet being recovered pending future proceedings:		
Regulatory Assets Currently Earning a Return		
Storm Related Costs	$ 21,891	$ 22,866
Regulatory Assets Currently Not Earning a Return		
Rate Case Expenses	145	145
Total Regulatory Assets Not Yet Being Recovered	$ 22,036	$ 23,011

If these costs are ultimately determined not to be recoverable, it could reduce future net income and cash flows and impact financial condition.

4. COMMITMENTS, GUARANTEES AND CONTINGENCIES

TCC is subject to certain claims and legal actions arising in its ordinary course of business. In addition, TCC's business activities are subject to extensive governmental regulation related to public health and the environment. The ultimate outcome of such pending or potential litigation cannot be predicted. For current proceedings not specifically discussed below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on the financial statements. The Commitments, Guarantees and Contingencies note within TCC's 2012 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

TCC 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. The status of certain sale agreements is discussed in TCC's 2012 Annual Report "Dispositions" section of Note 5. As of September 30, 2013, there were no material liabilities recorded for any indemnifications.

Master Lease Agreements

TCC leases certain equipment under master lease agreements. Under the lease agreements, the lessor is guaranteed a residual value up to a stated percentage of either the unamortized balance or the equipment cost at the end of the lease term. If the actual fair value of the leased equipment is below the guaranteed residual value at the end of the lease term, TCC is committed to pay the difference between the actual fair value and the residual value guarantee. Historically, at the end of the lease term the fair value has been in excess of the unamortized balance. As of September 30, 2013, the maximum potential loss for these lease agreements was approximately $2.5 million assuming the fair value of the equipment is zero at the end of the lease term.

CONTINGENCIES

Carbon Dioxide Public Nuisance Claims

In October 2009, the Fifth Circuit Court of Appeals reversed a decision by the Federal District Court for the District of Mississippi dismissing state common law nuisance claims in a putative class action by Mississippi residents asserting that CO_2 emissions exacerbated the effects of Hurricane Katrina. The Fifth Circuit held that there was no exclusive commitment of the common law issues raised in plaintiffs' complaint to a coordinate branch of government and that no initial policy determination was required to adjudicate these claims. The court granted petitions for rehearing. An additional recusal left the Fifth Circuit without a quorum to reconsider the decision and the appeal was dismissed, leaving the district court's decision in place. Plaintiffs filed a petition with the U.S. Supreme Court asking the court to remand the case to the Fifth Circuit and reinstate the panel decision. The petition was denied in January 2011. Plaintiffs refiled their complaint in federal district court. The court ordered all defendants to respond to the refiled complaints in October 2011. In March 2012, the court granted the defendants' motion for dismissal on several grounds, including the doctrine of collateral estoppel and the applicable statute of limitations. In May 2013, the U.S. Court of Appeals for the Fifth Circuit affirmed the district court's dismissal of the complaint. The plaintiffs did not appeal to the U.S. Supreme Court.

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. In September 2012, the Ninth Circuit Court of Appeals affirmed the trial court's decision, holding that the CAA displaced Kivalina's claims for damages. Plaintiffs filed seeking further review in the U.S. Supreme Court. In May 2013, the U.S. Supreme Court denied the plaintiffs' request for review.

5. BENEFIT PLANS

TCC participates in an AEP sponsored qualified pension plan and an unfunded nonqualified pension plan. Substantially all of TCC's employees are covered by the qualified plan or both the qualified and nonqualified pension plans. TCC 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 TCC's net periodic benefit cost (credit) for the plans for the three and nine months ended September 30, 2013 and 2012:

	Pension Plans		Other Postretirement Benefit Plans	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Service Cost	$ 1,211	$ 1,300	$ 295	$ 616
Interest Cost	3,315	3,775	1,104	1,603
Expected Return on Plan Assets	(4,701)	(5,571)	(1,782)	(1,651)
Amortization of Prior Service Cost (Credit)	80	(316)	(1,072)	(296)
Amortization of Net Actuarial Loss	2,988	2,537	1,017	889
Net Periodic Benefit Cost (Credit)	$ 2,893	$ 1,725	$ (438)	$ 1,161

	Pension Plans		Other Postretirement Benefit Plans	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Service Cost	$ 3,633	$ 3,899	$ 885	$ 1,845
Interest Cost	9,947	11,325	3,311	4,810
Expected Return on Plan Assets	(14,105)	(16,715)	(5,344)	(4,953)
Amortization of Prior Service Cost (Credit)	240	(947)	(3,216)	(887)
Amortization of Net Actuarial Loss	8,964	7,612	3,051	2,667
Net Periodic Benefit Cost (Credit)	$ 8,679	$ 5,174	$ (1,313)	$ 3,482

6. BUSINESS SEGMENTS

TCC has one reportable segment, an integrated electricity transmission and distribution business. TCC's other activities are insignificant.

7. DERIVATIVES AND HEDGING

Cash Flow Hedging Strategies

TCC's vehicle fleet is exposed to gasoline and diesel fuel price volatility. AEPSC, on behalf of TCC, enters into financial heating oil and gasoline derivative contracts in order to mitigate price risk of future fuel purchases. Not all fuel price risk exposure is hedged. The gross notional volumes of TCC's outstanding derivative contracts for heating oil and gasoline as of September 30, 2013 and December 31, 2012 were 698 thousand gallons and 801 thousand gallons, respectively.

According to the accounting guidance for "Derivatives and Hedging," TCC reflects the fair values of derivative instruments subject to netting agreements with the same counterparty net of related cash collateral. For certain risk management contracts, TCC is required to post or receive cash collateral based on third party contractual agreements and risk profiles. For the September 30, 2013 condensed balance sheet, TCC netted $11 thousand of cash collateral paid to third parties against short-term and long-term risk management liabilities. For the December 31, 2012 condensed balance sheet, TCC had no netting of cash collateral paid to third parties against short-term and long-term risk management liabilities.

The following tables represent the gross fair value impact of TCC's derivative activity on the condensed balance sheets as of September 30, 2013 and December 31, 2012:

Fair Value of Derivative Instruments
September 30, 2013

Balance Sheet Location	Hedging Contracts (a)	Gross Amounts Offset in the Statement of Financial Position (b)	Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c)
		(in thousands)	
Current Risk Management Assets	$ 19	$ (4)	$ 15
Long-term Risk Management Assets	-	-	-
Total Assets	19	(4)	15
Current Risk Management Liabilities	17	(3)	14
Long-term Risk Management Liabilities	11	(11)	-
Total Liabilities	28	(14)	14
Total MTM Derivative Contract Net Assets (Liabilities)	$ (9)	$ 10	$ 1

Fair Value of Derivative Instruments
December 31, 2012

Balance Sheet Location	Hedging Contracts (a)	Gross Amounts Offset in the Statement of Financial Position (b)	Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c)
		(in thousands)	
Current Risk Management Assets	$ 62	$ (28)	$ 34
Long-term Risk Management Assets	-	-	-
Total Assets	62	(28)	34
Current Risk Management Liabilities	28	(28)	-
Long-term Risk Management Liabilities	-	-	-
Total Liabilities	28	(28)	-
Total MTM Derivative Contract Net Assets (Liabilities)	$ 34	$ -	$ 34

(a) Derivative instruments within these categories are reported gross. These instruments are subject to master netting agreements and are presented on the condensed balance sheets on a net basis in accordance with the accounting guidance for "Derivatives and Hedging."
(b) Amounts include counterparty netting of risk management and hedging contracts and associated cash collateral in accordance with the accounting guidance for "Derivatives and Hedging."
(c) There are no derivative contracts subject to a master netting arrangement or similar agreement which are not offset in the statement of financial position.

Accounting for Cash Flow Hedging Strategies

For cash flow hedges (i.e. hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), TCC initially reports the effective portion of the gain or loss on the derivative instrument as a component of Accumulated Other Comprehensive Income (Loss) on its condensed balance sheets until the period the hedged item affects Net Income. TCC records hedge ineffectiveness as a regulatory asset (for losses) or a regulatory liability (for gains).

TCC reclassifies gains and losses on heating oil and gasoline derivative contracts designated as cash flow hedges from Accumulated Other Comprehensive Income (Loss) on its condensed balance sheets into Other Operation expense, Maintenance expense or Depreciation and Amortization expense, as it relates to capital projects, on its condensed statements of income. During the three and nine months ended September 30, 2013 and 2012, TCC designated heating oil and gasoline derivatives as cash flow hedges. Hedge ineffectiveness was immaterial for this hedge strategy.

For details on designated, effective cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on TCC’s condensed balance sheets and the reasons for changes in cash flow hedges for the three and nine months ended September 30, 2013 and 2012, see Note 2.

Cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on TCC's condensed balance sheets as of September 30, 2013 and December 31, 2012 were:

Impact of Cash Flow Hedges on the Condensed Balance Sheet
September 30, 2013 and December 31, 2012

	September 30, 2013	December 31, 2012
	(in thousands)	
Hedging Assets (a)	$ 15	$ 34
Hedging Liabilities (a)	25	-
AOCI Gain (Loss) Net of Tax	(6)	29
Portion Expected to be Reclassified to Net Income During the Next Twelve Months	1	29

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

The actual amounts that TCC reclassifies from Accumulated Other Comprehensive Income (Loss) to Net Income can differ from the estimate above due to market price changes. As of September 30, 2013, the maximum length of time that TCC is hedging (with contracts subject to the accounting guidance for "Derivatives and Hedging") its exposure to variability in future cash flows related to forecasted transactions was 15 months.

8. 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. The AEP System's market risk oversight staff independently monitors its valuation policies and procedures and provides members of the Commercial Operations Risk Committee (CORC) various daily, weekly and monthly reports, regarding compliance with policies and procedures. The CORC consists of AEPSC's Chief Operating Officer, Chief Financial Officer, Executive Vice President of Energy Supply, Senior Vice President of Commercial Operations and Chief Risk Officer.

For commercial activities, exchange traded derivatives, namely futures contracts, are generally fair valued based on unadjusted quoted prices in active markets and are classified as Level 1. Level 2 inputs primarily consist of OTC broker quotes in moderately active or less active markets, as well as exchange traded contracts where there is insufficient market liquidity to warrant inclusion in Level 1. Management verifies price curves using these broker quotes and classifies these fair values within Level 2 when substantially all of the fair value can be corroborated. Management typically obtains multiple broker quotes, which are nonbinding in nature, but are based on recent trades in the marketplace. When multiple broker quotes are obtained, the quoted bid and ask prices are averaged. In certain circumstances, a broker quote may be discarded if it is a clear outlier. Management uses a historical correlation analysis between the broker quoted location and the illiquid locations. If the points are highly correlated, these locations are included within Level 2 as well. Certain OTC and bilaterally executed derivative instruments are executed in less active markets with a lower availability of pricing information. Illiquid transactions, complex structured transactions, FTRs and counterparty credit risk may require nonmarket based inputs. Some of these inputs may be internally developed or extrapolated and utilized to estimate fair value. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized as Level 3. The main driver of the contracts being classified as Level 3 is the inability to substantiate energy price curves in the market. A significant portion of the Level 3 instruments have been economically hedged which greatly limits potential earnings volatility.

For Restricted Cash for Securitized Transition Funding, items classified as Level 1 are investments in money market funds. They are valued based on observable inputs primarily unadjusted quoted prices in active markets for identical assets.

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 TCC's Long-term Debt as of September 30, 2013 and December 31, 2012 are summarized in the following table:

	September 30, 2013		December 31, 2012	
	Book Value	Fair Value	Book Value	Fair Value
	(in thousands)			
Long-term Debt	$ 2,909,171	$ 3,100,934	$ 2,924,566	$ 3,328,785

Fair Value Measurements of Financial Assets and Liabilities

The following tables set forth, by level within the fair value hierarchy, TCC's financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2013 and December 31, 2012. As required by the accounting guidance for "Fair Value Measurements and Disclosures," financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. There have not been any significant changes in management's valuation techniques.

Assets and Liabilities Measured at Fair Value on a Recurring Basis
September 30, 2013

	Level 1	Level 2	Level 3	Other	Total
Assets:			(in thousands)		
Restricted Cash for Securitized Transition Funding (a)	$ 153,322	$ -	$ -	$ 6	$ 153,328
Risk Management Assets					
Cash Flow Hedges:					
Commodity Hedges (b)	-	13	-	2	15
Total Assets	$ 153,322	$ 13	$ -	$ 8	$ 153,343
Liabilities:					
Risk Management Liabilities					
Cash Flow Hedges:					
Commodity Hedges (b)	$ -	$ 22	$ -	$ (8)	$ 14

Assets and Liabilities Measured at Fair Value on a Recurring Basis
December 31, 2012

	Level 1	Level 2	Level 3	Other	Total
Assets:			(in thousands)		
Restricted Cash for Securitized Transition Funding (a)	$ 215,218	$ -	$ -	$ 14	$ 215,232
Risk Management Assets					
Cash Flow Hedges:					
Commodity Hedges (b)	-	62	-	(28)	34
Total Assets	$ 215,218	$ 62	$ -	$ (14)	$ 215,266
Liabilities:					
Risk Management Liabilities					
Cash Flow Hedges:					
Commodity Hedges (b)	$ -	$ 28	$ -	$ (28)	$ -

(a) Amounts in "Other" column primarily represent cash deposits with third parties. Level 1 amounts primarily represent investments in money market funds.
(b) Amounts in "Other" column primarily represent counterparty netting of risk management and hedging contracts and associated cash collateral under the accounting guidance for "Derivatives and Hedging."

There were no transfers between Level 1 and Level 2 during the three and nine months ended September 30, 2013 and 2012.

9. INCOME TAXES

AEP System Tax Allocation Agreement

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

Federal and State Income Tax Audit Status

The IRS examination of years 2009 and 2010 started in October 2011 and was completed in the second quarter of 2013. The completion of the federal audit did not result in a material impact on net income or financial condition. Cash flows will be negatively impacted by $11 million with the payment of the previously accrued taxes. Although the outcome of tax audits is uncertain, in management's opinion, adequate provisions for federal income taxes have been made for potential liabilities resulting from such matters. In addition, TCC accrues interest on these uncertain tax positions. Management is not aware of any issues for open tax years that upon final resolution are expected to materially impact net income.

TCC and other AEP subsidiaries file income tax returns in various state and local jurisdictions. These taxing authorities routinely examine the tax returns. TCC and other AEP subsidiaries are currently under examination in several state and local jurisdictions. Management believes that previously filed tax returns have positions that may be challenged by these tax authorities. However, management believes that adequate provisions for income taxes have been made for potential liabilities resulting from such challenges and that the ultimate resolution of these audits will not materially impact net income. TCC is no longer subject to state or local income tax examinations by tax authorities for years before 2008.

Federal Tax Regulations

In the third quarter of 2013, the U.S. Treasury Department issued final regulations regarding the deduction and capitalization of expenditures related to tangible property, effective for the tax years beginning in 2014. The U.S. Treasury Department had previously issued guidance in the form of proposed and temporary regulations which was generally effective for tax years beginning in 2012, which was moved to tax years beginning in 2014 in November, 2012. In addition, the IRS has issued Revenue Procedures under the Industry Issue Resolutions program that provides specific guidance for the implementation of the regulations for the electric utility industry. The impact of these final regulations is not material to net income, cash flows or financial condition.

10. FINANCING ACTIVITIES

Long-term Debt

Long-term debt issued and principal payments made during the first nine months of 2013 are shown in the tables below:

	Type of Debt	Principal Amount	Interest Rate	Due Date
Issuances:		**(in thousands)**	**(%)**	
	Other Long-term Debt	$ 75,000 (a)	Variable	2016
	Pollution Control Bonds	120,265	4.00	2030

	Type of Debt	Principal Amount Paid	Interest Rate	Due Date
Principal Payments:		**(in thousands)**	**(%)**	
	Securitization Bonds	$ 75,378	4.98	2013
	Securitization Bonds	67,237	5.96	2013
	Securitization Bonds	41,904	5.09	2015
	Securitization Bonds	26,260	0.88	2017

(a) Draw on a $100 million three-year revolving credit facility to be used for general corporate purposes.

Dividend Restrictions

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

Federal Power Act

The Federal Power Act prohibits TCC 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 book value of the common stock. This restriction does not limit the ability of TCC to pay dividends out of retained earnings.

Leverage Restrictions

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

Utility Money Pool – AEP System

The AEP System uses a corporate borrowing program to meet the short-term borrowing needs of 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 the AEP System Utility Money Pool agreement filed with the FERC. The amounts of outstanding borrowings from the Utility Money Pool as of September 30, 2013 and December 31, 2012 are included in Advances from Affiliates on TCC's condensed balance sheets. TCC's Utility Money Pool activity and corresponding authorized borrowing limit for the nine months ended September 30, 2013 are described in the following table:

Maximum Borrowings from the Utility Money Pool	Maximum Loans to the Utility Money Pool	Average Borrowings from the Utility Money Pool	Average Loans to the Utility Money Pool	Borrowings from the Utility Money Pool as of September 30, 2013	Authorized Short-Term Borrowing Limit
		(in thousands)			
$ 194,978	$ 4,221	$ 102,795	$ 3,142	$ 32,756	$ 250,000

Maximum, minimum and average interest rates for funds either borrowed from or loaned to the Utility Money Pool for the nine months ended September 30, 2013 and 2012 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
2013	0.43 %	0.28 %	0.31 %	0.28 %	0.35 %	0.30 %
2012	0.56 %	0.44 %	0.48 %	0.46 %	0.48 %	0.47 %

11. VARIABLE INTEREST ENTITIES

The accounting guidance for "Variable Interest Entities" is a consolidation model that considers if a company has a controlling financial interest in a VIE. A controlling financial interest will have both (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Entities are required to consolidate a VIE when it is determined that they have a controlling financial interest in a VIE and therefore, are the primary beneficiary of that VIE, as defined by the accounting guidance for "Variable Interest Entities." In determining whether TCC is the primary beneficiary of a VIE, management considers factors such as equity at risk, the amount of the VIE's variability TCC absorbs, guarantees of indebtedness, voting rights including kick-out rights, the power to direct the VIE, variable interests held by related parties and other factors. Management believes that significant assumptions and judgments were applied consistently.

AEP Texas Central Transition Funding I LLC, AEP Texas Central Transition Funding II LLC and AEP Texas Central Transition Funding III LLC, wholly-owned subsidiaries of TCC, (collectively Transition Funding) were formed for the sole purpose of issuing and servicing securitization bonds related to Texas Restructuring Legislation. Management has concluded that TCC is the primary beneficiary of Transition Funding because TCC has the power to direct the most significant activities of the VIE and TCC's equity interest could potentially be significant. Therefore, TCC is required to consolidate Transition Funding. The securitized bonds totaled $2.1 billion and $2.3 billion as of September 30, 2013 and December 31, 2012, respectively, and are included in current and long-term debt on the condensed balance sheets. Transition Funding has securitized transition assets of $1.9 billion and $2.1 billion as of September 30, 2013 and December 31, 2012, respectively, which are presented separately on the face of the condensed balance sheets. The securitized transition assets represent the right to impose and collect Texas true-up costs from customers receiving electric transmission or distribution service from TCC under recovery mechanisms approved by the PUCT. The securitization bonds are payable only from and secured by the securitized transition assets. The bondholders have no recourse to TCC or any other AEP entity. TCC acts as the servicer for Transition Funding's securitized transition asset and remits all related amounts collected from customers to Transition Funding for interest and principal payments on the securitization bonds and related costs.

The balances below represent the assets and liabilities of Transition Funding that are consolidated. These balances include intercompany transactions that are eliminated upon consolidation.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
VARIABLE INTEREST ENTITIES
September 30, 2013 and December 31, 2012
(in thousands)

	Transition Funding	
ASSETS	**2013**	**2012**
Current Assets	$ 196,640	$ 249,286
Other Noncurrent Assets (a)	1,989,404	2,167,217
Total Assets	$ 2,186,044	$ 2,416,503
LIABILITIES AND EQUITY		
Current Liabilities	$ 297,679	$ 303,775
Noncurrent Liabilities	1,870,302	2,094,678
Equity	18,063	18,050
Total Liabilities and Equity	$ 2,186,044	$ 2,416,503

(a) Includes an intercompany item eliminated in consolidation as of September 30, 2013 and December 31, 2012 of $84 million and $89 million, respectively.

AEPSC provides certain managerial and professional services to AEP's subsidiaries. AEP is the sole equity owner of AEPSC. AEP management controls the activities of AEPSC. The costs of the services are based on a direct charge or on a prorated basis and billed to the AEP subsidiary companies at AEPSC's cost. AEP subsidiaries have not provided financial or other support outside the reimbursement of costs for services rendered. AEPSC finances its operations through cost reimbursement from other AEP subsidiaries. There are no other terms or arrangements between AEPSC and any of the AEP subsidiaries that could require additional financial support from an AEP subsidiary or expose them to losses outside of the normal course of business. AEPSC and its billings are subject to regulation by the FERC. AEP subsidiaries are exposed to losses to the extent they cannot recover the costs of AEPSC through their normal business operations. AEP subsidiaries are considered to have a significant interest in AEPSC due to their activity in AEPSC's cost reimbursement structure. However, AEP subsidiaries do not have control over AEPSC. AEPSC is consolidated by AEP. In the event AEPSC would require financing or other support outside the cost reimbursement billings, this financing would be provided by AEP. TCC's total billings from AEPSC for the three months ended September 30, 2013 and 2012 were $15 million and $16 million, respectively, and for the nine months ended September 30, 2013 and 2012 were $46 million and $45 million, respectively. The carrying amount of liabilities associated with AEPSC as of September 30, 2013 and December 31, 2012 was $12 million and $10 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

12. SUSTAINABLE COST REDUCTIONS

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

TCC recorded a charge of $3.2 million to Other Operation expense in 2012 primarily related to severance benefits as a result of the sustainable cost reductions initiative. In addition, the sustainable cost reduction activity for the nine months ended September 30, 2013 is described in the following table:

Balance as of December 31, 2012	Expense Allocation from AEPSC	Incurred	Settled	Adjustments	Remaining Balance as of September 30, 2013
(in thousands)					
$ 699	$ 218	$ -	$ (684)	$ (194)	$ 39

These expenses, net of adjustments, relate primarily to severance benefits and are included primarily in Other Operation expense on the condensed statements of income. The remaining liability is included in Other Current Liabilities on the condensed balance sheets. Management does not expect additional costs to be incurred related to this initiative.