

AEP Texas Central Company and Subsidiaries

2010 Second 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.
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, a service subsidiary providing management and professional services to AEP and its subsidiaries.
AOCI	Accumulated Other Comprehensive Income.
CO ₂	Carbon Dioxide and other greenhouse gases.
CTC	Competition Transition Charge.
CWIP	Construction Work in Progress.
ERCOT	Electric Reliability Council of Texas.
ETT	Electric Transmission Texas, LLC, a 50% equity interest joint venture with MidAmerican Energy Holdings Company formed to own and operate electric transmission facilities in ERCOT.
Federal EPA	United States Environmental Protection Agency.
FERC	Federal Energy Regulatory Commission.
FTR	Financial Transmission Right, a financial instrument that entitles the holder to receive compensation for certain congestion-related transmission charges that arise when the power grid is congested resulting in differences in locational prices.
GAAP	Accounting Principles Generally Accepted in the United States of America.
IRS	Internal Revenue Service.
MTM	Mark-to-Market.
OPEB	Other Postretirement Benefit Plans.
OTC	Over the counter.
PUCT	Public Utility Commission of Texas.
REP	Texas Retail Electric Provider.
Risk Management Contracts	Trading and nontrading derivatives, including those derivatives designated as cash flow and fair value hedges.
TCC	AEP Texas Central Company, an AEP electric utility subsidiary.
Texas Restructuring Legislation	Legislation enacted in 1999 to restructure the electric utility industry in Texas.
True-up Proceeding	A filing made under the Texas Restructuring Legislation to finalize the amount of stranded costs and other true-up items and the recovery of such amounts.
Utility Money Pool	AEP System's Utility Money Pool.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three and Six Months Ended June 30, 2010 and 2009
(in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
	2010	2009	2010	2009
REVENUES				
Electric Transmission and Distribution	\$ 223,546	\$ 219,820	\$ 437,592	\$ 407,887
Sales to AEP Affiliates	1,046	1,195	2,083	2,288
Other Revenues	1,958	1,161	741	1,783
TOTAL REVENUES	226,550	222,176	440,416	411,958
EXPENSES				
Other Operation	88,353	59,272	154,315	112,728
Maintenance	9,286	8,409	17,207	16,566
Depreciation and Amortization	65,444	67,062	127,299	117,517
Taxes Other Than Income Taxes	18,518	18,114	36,359	33,504
TOTAL EXPENSES	181,601	152,857	335,180	280,315
OPERATING INCOME	44,949	69,319	105,236	131,643
Other Income (Expense):				
Interest Income	129	72	186	358
Allowance for Equity Funds Used During Construction	303	643	647	1,013
Interest Expense	(38,050)	(38,784)	(76,362)	(76,651)
INCOME BEFORE INCOME TAX EXPENSE	7,331	31,250	29,707	56,363
Income Tax Expense	2,712	10,335	10,987	19,904
NET INCOME	4,619	20,915	18,720	36,459
Preferred Stock Dividend Requirements	60	60	120	120
EARNINGS ATTRIBUTABLE TO COMMON STOCK	\$ 4,559	\$ 20,855	\$ 18,600	\$ 36,339

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

See Condensed Notes to Condensed Consolidated Financial Statements.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S
EQUITY AND COMPREHENSIVE INCOME (LOSS)
For the Six Months Ended June 30, 2010 and 2009
(in thousands)
(Unaudited)

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2008	\$ 55,292	\$ 133,161	\$ 325,590	\$ -	\$ 514,043
Capital Contribution from Parent		35,000			35,000
Common Stock Dividends			(18,000)		(18,000)
Preferred Stock Dividends			(120)		(120)
Other Changes in Common Shareholder's Equity		3,096	(3,096)		-
SUBTOTAL – COMMON SHAREHOLDER'S EQUITY					<u>530,923</u>
COMPREHENSIVE INCOME					
Other Comprehensive Income, Net of Taxes:					
Cash Flow Hedges, Net of Tax of \$113				209	209
NET INCOME			36,459		<u>36,459</u>
TOTAL COMPREHENSIVE INCOME					<u>36,668</u>
TOTAL COMMON SHAREHOLDER'S EQUITY – JUNE 30, 2009	<u>\$ 55,292</u>	<u>\$ 171,257</u>	<u>\$ 340,833</u>	<u>\$ 209</u>	<u>\$ 567,591</u>
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2009	\$ 55,292	\$ 171,263	\$ 368,126	\$ 163	\$ 594,844
Common Stock Dividends			(18,320)		(18,320)
Preferred Stock Dividends			(120)		(120)
SUBTOTAL – COMMON SHAREHOLDER'S EQUITY					<u>576,404</u>
COMPREHENSIVE INCOME					
Other Comprehensive Loss, Net of Taxes:					
Cash Flow Hedges, Net of Tax of \$116				(215)	(215)
NET INCOME			18,720		<u>18,720</u>
TOTAL COMPREHENSIVE INCOME					<u>18,505</u>
TOTAL COMMON SHAREHOLDER'S EQUITY – JUNE 30, 2010	<u>\$ 55,292</u>	<u>\$ 171,263</u>	<u>\$ 368,406</u>	<u>\$ (52)</u>	<u>\$ 594,909</u>

See Condensed Notes to Condensed Consolidated Financial Statements.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

June 30, 2010 and December 31, 2009

(in thousands)

(Unaudited)

	2010	2009
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 200	\$ 200
Other Cash Deposits	160,486	180,044
Advances to Affiliates	129,082	113,993
Accounts Receivable:		
Customers	81,082	63,107
Affiliated Companies	5,802	12,234
Accrued Unbilled Revenues	54,314	47,017
Miscellaneous	69	102
Allowance for Uncollectible Accounts	(589)	(994)
Total Accounts Receivable	140,678	121,466
Materials and Supplies	26,077	26,925
Risk Management Assets	-	245
Prepayments and Other Current Assets	3,540	4,450
TOTAL CURRENT ASSETS	460,063	447,323
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Transmission	1,060,519	1,088,666
Distribution	1,877,282	1,836,606
Other Property, Plant and Equipment	234,519	229,058
Construction Work in Progress	56,188	80,373
Total Property, Plant and Equipment	3,228,508	3,234,703
Accumulated Depreciation and Amortization	694,987	686,371
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	2,533,521	2,548,332
OTHER NONCURRENT ASSETS		
Regulatory Assets	282,220	294,354
Securitized Transition Assets	1,834,006	1,896,362
Deferred Charges and Other Noncurrent Assets	45,583	33,167
TOTAL OTHER NONCURRENT ASSETS	2,161,809	2,223,883
TOTAL ASSETS	\$ 5,155,393	\$ 5,219,538

See Condensed Notes to Condensed Consolidated Financial Statements.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND SHAREHOLDERS' EQUITY
June 30, 2010 and December 31, 2009
(Unaudited)

	2010	2009
CURRENT LIABILITIES	(in thousands)	
Accounts Payable:		
General	\$ 19,070	\$ 16,048
Affiliated Companies	17,974	17,030
Long-term Debt Due Within One Year – Nonaffiliated	273,940	147,833
Risk Management Liabilities	1	-
Customer Deposits	13,037	12,232
Accrued Taxes	73,444	74,569
Accrued Interest	61,850	64,102
Other Current Liabilities	42,453	37,369
TOTAL CURRENT LIABILITIES	501,769	369,183
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	2,397,799	2,610,133
Long-Term Risk Management Liabilities	3	-
Deferred Income Taxes	996,588	1,007,166
Regulatory Liabilities and Deferred Investment Tax Credits	528,403	493,562
Deferred Credits and Other Noncurrent Liabilities	130,017	138,745
TOTAL NONCURRENT LIABILITIES	4,052,810	4,249,606
TOTAL LIABILITIES	4,554,579	4,618,789
Cumulative Preferred Stock Not Subject to Mandatory Redemption	5,905	5,905
Rate Matters (Note 2)		
Commitments and Contingencies (Note 3)		
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	171,263	171,263
Retained Earnings	368,406	368,126
Accumulated Other Comprehensive Income (Loss)	(52)	163
TOTAL COMMON SHAREHOLDER'S EQUITY	594,909	594,844
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 5,155,393	\$ 5,219,538

See Condensed Notes to Condensed Consolidated Financial Statements.

AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2010 and 2009
(in thousands)
(Unaudited)

	2010	2009
OPERATING ACTIVITIES		
Net Income	\$ 18,720	\$ 36,459
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	127,299	117,517
Deferred Income Taxes	(10,557)	(30,938)
Allowance for Equity Funds Used During Construction	(647)	(1,013)
Mark-to-Market of Risk Management Contracts	(81)	-
Property Taxes	(14,412)	(14,313)
Change in Other Noncurrent Assets	1,877	4,773
Change in Other Noncurrent Liabilities	8,705	178
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	(19,212)	27,985
Materials and Supplies	848	943
Accounts Payable	2,722	(1,282)
Customer Deposits	805	1,758
Accrued Taxes, Net	(1,814)	49,352
Accrued Interest	(2,252)	(2,128)
Other Current Assets	1,044	(158)
Other Current Liabilities	(278)	(14,310)
Net Cash Flows from Operating Activities	112,767	174,823
INVESTING ACTIVITIES		
Construction Expenditures	(76,196)	(95,213)
Change in Other Cash Deposits	19,558	26,997
Change in Advances to Affiliates, Net	(15,089)	(25,811)
Proceeds from Sale of Assets	65,075	91,645
Other Investing Activities	(725)	(690)
Net Cash Flows Used for Investing Activities	(7,377)	(3,072)
FINANCING ACTIVITIES		
Capital Contribution from Parent	-	35,000
Issuance of Long-term Debt – Nonaffiliated	-	(45)
Change in Advances from Affiliates, Net	-	(107,293)
Retirement of Long-term Debt – Nonaffiliated	(86,296)	(80,909)
Principal Payments for Capital Lease Obligations	(806)	(798)
Dividends Paid on Common Stock	(18,320)	(18,000)
Dividends Paid on Cumulative Preferred Stock	(120)	(120)
Other Financing Activities	152	411
Net Cash Flows Used for Financing Activities	(105,390)	(171,754)
Net Decrease in Cash and Cash Equivalents	-	(3)
Cash and Cash Equivalents at Beginning of Period	200	203
Cash and Cash Equivalents at End of Period	\$ 200	\$ 200
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest, Net of Capitalized Amounts	\$ 75,011	\$ 85,904
Net Cash Paid for Income Taxes	33,600	6,471
Noncash Acquisitions Under Capital Leases	291	482
Construction Expenditures Included in Accounts Payable at June 30,	7,908	10,492

See Condensed Notes to Condensed Consolidated Financial Statements.

INDEX TO CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Matters
2. Rate Matters
3. Commitments, Guarantees and Contingencies
4. Dispositions
5. Benefit Plans
6. Business Segments
7. Derivatives and Hedging
8. Fair Value Measurements
9. Income Taxes
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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 six months ended June 30, 2010 is not necessarily indicative of results that may be expected for the year ending December 31, 2010. The condensed consolidated financial statements are unaudited and should be read in conjunction with the audited 2009 financial statements and notes thereto, which are included in TCC's 2009 Annual Report.

Management reviewed subsequent events through July 30, 2010, the date that the 2010 second quarter report was issued.

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, power to direct the VIE and other factors. Management believes that 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 TCC is the primary beneficiary. In addition, TCC has not provided financial or other support to any VIE that was not previously contractually required.

AEP Texas Central Transition Funding I LLC and AEP Texas Central Transition Funding II 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 law. 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 \$1.9 billion at June 30, 2010 and are included in current and long-term debt on the Condensed Consolidated Balance Sheets. Transition Funding has securitized transition assets of \$1.8 billion at June 30, 2010, which are presented separately on the face of the Condensed Consolidated 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.

AEPSC provides certain managerial and professional services to TCC and other 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 TCC and other subsidiaries at AEPSC's cost. TCC and other 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 TCC and other subsidiaries that could require additional financial support from TCC and other subsidiaries or expose them to losses outside of the normal course of business. AEPSC and its billings

are subject to regulation by the FERC. TCC and other subsidiaries are exposed to losses to the extent they cannot recover the costs of AEPSC through their normal business operations. TCC is considered to have a significant interest in AEPSC due to its activity in AEPSC's cost reimbursement structure. However, TCC does 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. Total billings from AEPSC for the three months ended June 30, 2010 and 2009 were \$25 million and \$18 million, respectively, and for the six months ended June 30, 2010 and 2009 were \$45 million and \$34 million, respectively. The carrying amount of liabilities associated with AEPSC as of June 30, 2010 and December 31, 2009 were \$14 million and \$8 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

Adjustments to Benefit Plans Footnote

In Note 5 – Benefit Plans, the disclosure was expanded for TCC to reflect certain prior period amounts related to the Net Periodic Benefit Costs and the Estimated Future Benefit Payments and Contributions that were not previously disclosed. These omissions were not material to the financial statements and had no impact on TCC's previously reported net income, changes in shareholder's equity, financial position or cash flows.

2. RATE MATTERS

As discussed in TCC's 2009 Annual Report, TCC is involved in rate and regulatory proceedings at the FERC and the PUCT. The Rate Matters note within TCC's 2009 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 2010 and updates the 2009 Annual Report.

Regulatory Assets Not Yet Being Recovered

<u>Noncurrent Regulatory Assets (excluding fuel)</u>	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Regulatory assets not yet being recovered pending future proceedings to determine the recovery method and timing:	(in thousands)	
<u>Regulatory Assets Currently Earning a Return</u>		
Storm Related Costs	\$ 21,047	\$ 21,697
Total Regulatory Assets Not Yet Being Recovered	<u>\$ 21,047</u>	<u>\$ 21,697</u>

TEXAS RESTRUCTURING

Texas Restructuring Appeals

Pursuant to PUCT restructuring orders, TCC securitized net recoverable stranded generation costs of \$2.5 billion and is recovering the principal and interest on the securitization bonds through the end of 2020. TCC also refunded other net true-up regulatory liabilities of \$375 million during the period October 2006 through June 2008 via a CTC credit rate rider under PUCT restructuring orders. TCC and intervenors appealed the PUCT's true-up related orders. After rulings from the Texas District Court and the Texas Court of Appeals, TCC, the PUCT and intervenors filed petitions for review with the Texas Supreme Court. Review is discretionary and the Texas Supreme Court has not yet determined if it will grant review. The Texas Supreme Court requested a full briefing which has concluded. The following represent issues where either the Texas District Court or the Texas Court of Appeals recommended the PUCT decision be modified:

- The Texas District Court judge determined that the PUCT erred by applying an invalid rule to determine the carrying cost rate for the true-up of stranded costs. The Texas Court of Appeals reversed the District Court's unfavorable decision.
- The Texas District Court judge determined that the PUCT improperly reduced TCC's net stranded plant costs for commercial unreasonableness. This favorable decision was affirmed by the Texas Court of Appeals.

- The Texas Court of Appeals determined that the PUCT erred by not reducing stranded costs by the “excess earnings” that had already been refunded to affiliated REPs. This decision could be unfavorable unless the PUCT allows TCC to recover the refunds previously made to the REPs. See the “TCC Excess Earnings” section below.

Management cannot predict the outcome of the pending court proceedings and the PUCT remand decisions. If TCC ultimately succeeds in its appeals, it could have a favorable effect on future net income, cash flows and possibly financial condition. If intervenors succeed in their appeals, it could reduce future net income and cash flows and possibly impact financial condition.

TCC Deferred Investment Tax Credits and Excess Deferred Federal Income Taxes

In 2006, the PUCT reduced recovery of the amount securitized by \$103 million of tax benefits and associated carrying costs related to TCC’s generation assets. In 2006, TCC obtained a private letter ruling from the IRS which confirmed that such reduction was an IRS normalization violation. In order to avoid a normalization violation, the PUCT agreed to allow TCC to defer refunding the tax benefits of \$103 million plus interest through the CTC refund period pending resolution of the normalization issue. In 2008, the IRS issued final regulations, which supported the IRS’ private letter ruling which would make the refunding of or the reduction of the amount securitized by such tax benefits a normalization violation. After the IRS issued its final regulations, at the request of the PUCT, the Texas Court of Appeals remanded the tax normalization issue to the PUCT for the consideration of additional evidence including the IRS regulations. TCC is not accruing interest on the \$103 million because it is not probable that the PUCT will order TCC to violate the normalization provision of the Internal Revenue Code. If interest were accrued, management estimates interest expense would have been approximately \$17 million higher for the period July 2008 through June 2010.

Management believes that the PUCT will ultimately allow TCC to retain the deferred amounts, which would have a favorable effect on future net income and cash flows. Although unexpected, if the PUCT fails to issue a favorable order and orders TCC to return the tax benefits to customers, the resulting normalization violation could result in TCC’s repayment to the IRS of Accumulated Deferred Investment Tax Credits (ADITC) on all property, including transmission and distribution property. This amount approximates \$102 million as of June 30, 2010. It could also lead to a loss of TCC’s right to claim accelerated tax depreciation in future tax returns. If TCC is required to repay its ADITC to the IRS and is also required to refund ADITC plus unaccrued interest to customers, it would reduce future net income and cash flows and impact financial condition.

TCC Excess Earnings

In 2005, a Texas appellate court issued a decision finding that a PUCT order requiring TCC to refund to the REPs excess earnings prior to and outside of the true-up process was unlawful under the Texas Restructuring Legislation. From 2002 to 2005, TCC refunded \$55 million of excess earnings, including interest, under the overturned PUCT order. On remand, the PUCT must determine how to implement the Court of Appeals decision given that the unauthorized refunds were made to the REPs in lieu of reducing stranded costs in the true-up proceeding.

Certain parties have taken positions that, if adopted, could result in TCC being required to refund excess earnings and interest through the true-up process without receiving a refund from the REPs. If this were to occur, it would reduce future net income and cash flows and impact financial condition. Management cannot predict the outcome of the excess earnings remand.

OTHER TEXAS RATE MATTERS

Texas Base Rate Appeal

TCC filed a base rate case in 2006 seeking to increase base rates. The PUCT issued an order in 2007 which increased TCC’s base rates by \$20 million, eliminated a merger credit rider of \$20 million and reduced depreciation rates by \$7 million. The PUCT decision was appealed by TCC and various intervenors. On appeal, the Texas District Court affirmed the PUCT in most respects. Various intervenors appealed that decision. In June 2010, the Texas Court of Appeals affirmed the Texas District Court’s decision.

ETT 2007 Formation Appeal

ETT is a joint venture between AEP Utilities, Inc. and MidAmerican Energy Holdings Company Texas Transco, LLC. TCC and TNC have sold transmission assets both in service and under construction to ETT. The PUCT approved ETT's initial rates, a request for a transfer of in-service assets and CWIP and a certificate of convenience and necessity (CCN) to operate as a stand alone transmission utility in ERCOT. ETT was allowed a 9.96% return on equity. Intervenor appealed the PUCT's decision. In March 2010, the Texas Court of Appeals affirmed the PUCT's decision in all material respects. In April 2010, intervenors filed for rehearing at the Texas Court of Appeals which was denied in May 2010.

In a separate development, the Texas governor signed a new law that clarifies the PUCT's authority to grant CCNs to transmission only utilities such as ETT. ETT filed an application with the PUCT for a CCN under the new law. In March 2010, the PUCT approved the application for a CCN under the new law.

3. 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 adverse effect on the financial statements. The Commitments, Guarantees and Contingencies note within the 2009 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.

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. Prior to June 30, 2010, TCC entered into sales agreements including indemnifications with a maximum exposure of \$1 million related to sale of transmission assets to the Lower Colorado River Authority. There are no material liabilities recorded for any indemnifications and the risk of payment/performance is remote.

Master Lease Agreements

TCC leases certain equipment under master lease agreements. GE Capital Commercial Inc. (GE) notified management in November 2008 that they elected to terminate the Master Leasing Agreements in accordance with the termination rights specified within the contract. In 2011, TCC will be required to purchase all equipment under the lease and pay GE an amount equal to the unamortized value of all equipment then leased. In December 2008 and 2009, management signed new master lease agreements that include lease terms of up to 10 years.

For equipment under the GE master lease agreements that expire in 2011, the lessor is guaranteed receipt of up to 87% of the unamortized balance of the equipment at the end of the lease term. If the fair value of the leased equipment is below the unamortized balance at the end of the lease term, TCC is committed to pay the difference between the fair value and the unamortized balance, with the total guarantee not to exceed 87% of the unamortized balance. Under the new master 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. At June 30, 2010, the maximum potential loss for these lease agreements was approximately \$746 thousand assuming the fair value of the equipment is zero at the end of the lease term. Historically, at the end of the lease term the fair value has been in excess of the unamortized balance.

CONTINGENCIES

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 CO₂ 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 CO₂ 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 CO₂ emissions or that the Federal EPA could regulate CO₂ 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. The defendants' petition for rehearing was denied. Management believes the actions are without merit and intends to continue to defend against the claims. The Solicitor General requested an extension of time to file a petition for review by the U.S. Supreme Court and the remaining defendants received a similar extension of time. Petitions are currently due on or before August 2, 2010.

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 CO₂ 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. TCC was initially dismissed from this case without prejudice, but is named as a defendant in a pending fourth amended complaint. Unless the plaintiffs elect to file a petition for review by the U.S. Supreme Court, there will be no further proceedings in this case.

Management is unable to determine a range of potential losses that are reasonably possible of occurring.

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 CO₂ 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 refile in state court. The plaintiffs appealed the decision. Management believes the action is without merit and intends to defend against the claims. Management is unable to determine a range of potential losses that are reasonably possible of occurring.

Claims by the City of Brownsville, Texas Against TCC

In 2007, the City of Brownsville, Texas filed an original petition in litigation pending in the District Court of Dallas County, Texas. The petition seeks recovery against TCC based on allegations of breach of contract, breach of fiduciary duty, unjust enrichment, constructive trust, conversion, breach of the Texas theft liability act and fraud allegedly occurring in connection with a transaction in which Brownsville purchased TCC's interest in the Oklahoma

electric generating station. The court signed the Final Summary Judgment in favor of TCC on Brownsville's claims against TCC and severed TCC's claims against Brownsville for further proceedings. Brownsville filed an appeal to the Dallas Court of Appeals. The Court of Appeals ordered the parties to mediate this dispute. Mediation was unsuccessful. Brownsville filed its brief in December 2009 and TCC filed its reply in February 2010. Oral argument has not been scheduled. Management believes that the claims are without merit and intends to defend against them vigorously. Management is unable to determine a range of potential losses that are reasonably possible of occurring.

4. DISPOSITIONS

2010

TCC sold \$64 million of transmission facilities to ETT for the six months ended June 30, 2010. There were no gains or losses recorded on these transactions.

2009

TCC sold \$91 million of transmission facilities to ETT for the six months ended June 30, 2009. There were no gains or losses recorded on these transactions.

5. BENEFIT PLANS

TCC participates in an AEP sponsored qualified pension plan and two unfunded nonqualified pension plans. A substantial majority of employees are covered by the qualified plan or both the qualified and a nonqualified pension plan. In addition, TCC participates in OPEB plans sponsored by AEP to provide medical and life insurance benefits for retired employees.

Components of Net Periodic Benefit Cost

The following table provides the components of TCC's net periodic benefit cost for the plans for the three and six months ended June 30, 2010 and 2009:

	<u>Pension Plans</u>		<u>Other Postretirement Benefit Plans</u>	
	<u>Three Months Ended June 30, 2010</u>	<u>2009</u>	<u>Three Months Ended June 30, 2010</u>	<u>2009</u>
	(in thousands)			
Service Cost	\$ 1,388	\$ 1,347	\$ 615	\$ 561
Interest Cost	4,648	4,873	1,783	1,767
Expected Return on Plan Assets	(6,432)	(6,608)	(1,727)	(1,360)
Amortization of Transition Obligation	-	-	867	868
Amortization of Prior Service Credit	(318)	(359)	-	-
Amortization of Net Actuarial Loss	1,631	1,120	445	680
Net Periodic Benefit Cost	\$ 917	\$ 373	\$ 1,983	\$ 2,516

	<u>Pension Plans</u>		<u>Other Postretirement Benefit Plans</u>	
	<u>Six Months Ended June 30, 2010</u>	<u>2009</u>	<u>Six Months Ended June 30, 2010</u>	<u>2009</u>
	(in thousands)			
Service Cost	\$ 2,778	\$ 2,694	\$ 1,231	\$ 1,122
Interest Cost	9,296	9,746	3,566	3,533
Expected Return on Plan Assets	(12,864)	(13,215)	(3,455)	(2,719)
Amortization of Transition Obligation	-	-	1,735	1,735
Amortization of Prior Service Credit	(636)	(719)	-	-
Amortization of Net Actuarial Loss	3,261	2,240	889	1,360
Net Periodic Benefit Cost	\$ 1,835	\$ 746	\$ 3,966	\$ 5,031

The following table provides TCC's actual contributions and payments for the pension and OPEB plans during the first half of 2010 and the expected contributions and payments for the remainder of 2010:

<u>Paid as of June 30, 2010</u>		<u>Remainder Expected to be Paid in 2010</u>	
<u>Pension Plans</u>	<u>Other Postretirement Benefit Plans</u>	<u>Pension Plans</u>	<u>Other Postretirement Benefit Plans</u>
		(in thousands)	
\$ 4,474	\$ 4,572	\$ 4,277	\$ 4,290

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 gasoline and heating oil 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 June 30, 2010 and December 31, 2009 were 996 thousand gallons and 897 thousand gallons, respectively.

The following tables represent the gross fair value impact of TCC's derivative activity on the Condensed Consolidated Balance Sheets as of June 30, 2010 and December 31, 2009:

Fair Value of Derivative Instruments June 30, 2010

<u>Balance Sheet Location</u>	<u>Hedging Contracts</u>		<u>Total</u>
	<u>(a)</u>	<u>Other (a) (b)</u>	
	(in thousands)		
Current Risk Management Assets	\$ 66	\$ (66)	\$ -
Long-term Risk Management Assets	-	-	-
Total Assets	<u>66</u>	<u>(66)</u>	<u>-</u>
Current Risk Management Liabilities	95	(94)	1
Long-term Risk Management Liabilities	55	(52)	3
Total Liabilities	<u>150</u>	<u>(146)</u>	<u>4</u>
Total MTM Derivative Contract Net Assets (Liabilities)	<u>\$ (84)</u>	<u>\$ 80</u>	<u>\$ (4)</u>

Fair Value of Derivative Instruments
December 31, 2009

<u>Balance Sheet Location</u>	<u>Hedging Contracts</u>		<u>Total</u>
	<u>(a)</u>	<u>Other (a) (b)</u>	
	(in thousands)		
Current Risk Management Assets	\$ 246	\$ (1)	\$ 245
Long-term Risk Management Assets	-	-	-
Total Assets	<u>246</u>	<u>(1)</u>	<u>245</u>
Current Risk Management Liabilities	1	(1)	-
Long-term Risk Management Liabilities	-	-	-
Total Liabilities	<u>1</u>	<u>(1)</u>	<u>-</u>
Total MTM Derivative Contract Net Assets	<u>\$ 245</u>	<u>\$ -</u>	<u>\$ 245</u>

- (a) Derivative instruments within these categories are reported gross. These instruments are subject to master netting agreements and are presented on the Condensed Consolidated Balance Sheets on a net basis in accordance with the accounting guidance for “Derivatives and Hedging.”
- (b) Amounts represent counterparty netting of risk management and hedging contracts, associated cash collateral in accordance with the accounting guidance for “Derivatives and Hedging” and dedesignated risk management contracts.

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 Consolidated 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 financial fuel derivative contracts designated as cash flow hedges from Accumulated Other Comprehensive Income (Loss) on its balance sheets into Other Operation expense, Maintenance expense or Depreciation and Amortization expense, as it relates to capital projects, on its Condensed Consolidated Statements of Income. During the six months ended June 30, 2010 and 2009, TCC designated cash flow hedging strategies of forecasted fuel purchases. Hedge ineffectiveness was immaterial for this hedge strategy.

The following tables provides details on designated, effective cash flow hedges included in AOCI on TCC’s Condensed Consolidated Balance Sheets and the reasons for changes in cash flow hedges for the three and six months ended June 30, 2010 and 2009. 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 June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
	(in thousands)	
Balance in AOCI as of April 1,	\$ 146	\$ (28)
Changes in Fair Value Recognized in AOCI	(144)	245
Amount of (Gain) or Loss Reclassified from AOCI to Income		
Other Operation Expense	(24)	(6)
Maintenance Expense	(12)	-
Property, Plant and Equipment	(18)	(2)
Balance in AOCI as of June 30,	<u>\$ (52)</u>	<u>\$ 209</u>

**Total Accumulated Other Comprehensive Income (Loss) Activity for Cash Flow Hedges
For the Six Months Ended June 30, 2010 and 2009**

	2010	2009
	(in thousands)	
Balance in AOCI as of January 1,	\$ 163	\$ -
Changes in Fair Value Recognized in AOCI	(135)	217
Amount of (Gain) or Loss Reclassified from AOCI to Income		
Other Operation Expense	(35)	(6)
Maintenance Expense	(19)	-
Property, Plant and Equipment	(26)	(2)
Balance in AOCI as of June 30,	\$ (52)	\$ 209

Cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on TCC's Condensed Consolidated Balance Sheets at June 30, 2010 and December 31, 2009 were:

**Impact of Cash Flow Hedges on the Condensed Consolidated Balance Sheet
June 30, 2010 and December 31, 2009**

	June 30, 2010	December 31, 2009
	(in thousands)	
Hedging Assets (a)	\$ -	\$ 245
Hedging Liabilities (a)	(84)	-
AOCI Gain Net of Tax	(52)	163
Portion Expected to be Reclassified to Net Income During the Next Twelve Months	(16)	163

(a) Hedging Assets and Hedging Liabilities are included in Risk Management Assets and Liabilities on TCC's Condensed Consolidated Balance Sheet.

The actual amounts that TCC reclassifies from Accumulated Other Comprehensive Income (Loss) to Net Income can differ from the estimates above due to market price changes. As of June 30, 2010, the maximum length of time that TCC is hedging (with contracts subject to the accounting guidance for "Derivatives and Hedging") exposure to variability in future cash flows related to forecasted transactions is 18 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.

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 non-binding 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 and 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. Long-dated and illiquid complex or structured transactions and FTRs can introduce the need for internally developed modeling inputs based upon extrapolations and assumptions of observable market data to estimate fair value. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized as Level 3.

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. 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 June 30, 2010 and December 31, 2009 are summarized in the following table:

	June 30, 2010		December 31, 2009	
	Book Value	Fair Value	Book Value	Fair Value
	(in thousands)			
Long-term Debt	\$ 2,671,739	\$ 2,931,518	\$ 2,757,966	\$ 2,900,904

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 June 30, 2010 and December 31, 2009. 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 June 30, 2010

	Level 1	Level 2	Level 3	Other	Total
Assets:	(in thousands)				
Other Cash Deposits (a)	\$ 160,472	\$ -	\$ -	\$ 14	\$ 160,486
Risk Management Assets					
Cash Flow Hedges:					
Commodity Hedges (b)	-	66	-	(66)	-
Total Assets	\$ 160,472	\$ 66	\$ -	\$ (52)	\$ 160,486
Liabilities:					
Risk Management Liabilities					
Cash Flow Hedges:					
Commodity Hedges (b)	\$ -	\$ 150	\$ -	\$ (146)	\$ 4

**Assets and Liabilities Measured at Fair Value on a Recurring Basis
December 31, 2009**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Other</u>	<u>Total</u>
Assets:	(in thousands)				
Other Cash Deposits (a)	\$ 180,028	\$ -	\$ -	\$ 16	\$ 180,044
<u>Risk Management Assets</u>					
Cash Flow Hedges:					
Commodity Hedges (b)	-	246	-	(1)	245
Total Assets	<u>\$ 180,028</u>	<u>\$ 246</u>	<u>\$ -</u>	<u>\$ 15</u>	<u>\$ 180,289</u>

Liabilities:

<u>Risk Management Liabilities</u>					
Cash Flow Hedges:					
Commodity Hedges (b)	\$ -	\$ 1	\$ -	\$ (1)	\$ -

- (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 have been no transfers between Level 1 and Level 2 during the six months ended June 30, 2010.

9. INCOME TAXES

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.

TCC and other AEP subsidiaries are no longer subject to U.S. federal examination for years before 2001. TCC 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, 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 have a material adverse effect on 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 and 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 the ultimate resolution of these audits will not materially impact net income. With few exceptions, TCC is no longer subject to state or local income tax examinations by tax authorities for years before 2000.

Federal Legislation

The Patient Protection and Affordable Care Act and the related Health Care and Education Reconciliation Act (Health Care Acts) were enacted in March 2010. The Health Care Acts amend tax rules so that the portion of employer health care costs that are reimbursed by the Medicare Part D prescription drug subsidy will no longer be deductible by the employer for federal income tax purposes effective for years beginning after December 31, 2012. Because of the loss

of the future tax deduction, a reduction in the deferred tax asset related to the nondeductible OPEB liabilities accrued to date was recorded by TCC in March 2010. This reduction, which was offset by recording net tax regulatory assets, did not materially affect TCC's net income, cash flows or financial condition for the three months ended June 30, 2010.

10. FINANCING ACTIVITIES

Long-term Debt

Long-term debt principal payments made during the first six months of 2010 were:

<u>Type of Debt</u>	<u>Principal Amount Paid</u> (in thousands)	<u>Interest Rate</u> (%)	<u>Due Date</u>
Securitization Bonds	\$ 32,280	5.56	2010
Securitization Bonds	54,016	4.98	2010

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 loans to the Utility Money Pool as of June 30, 2010 and December 31, 2009 is included in Advances to Affiliates on TCC's balance sheets. TCC's Utility Money Pool activity and corresponding authorized borrowing limits for the six months ended June 30, 2010 are described in the following table:

<u>Maximum Borrowings from Utility Money Pool</u>	<u>Maximum Loans to Utility Money Pool</u>	<u>Average Borrowings from Utility Money Pool</u>	<u>Average Loans to Utility Money Pool</u>	<u>Loans to Utility Money Pool as of June 30, 2010</u>	<u>Authorized Short-Term Borrowing Limit</u>
(in thousands)					
\$ -	\$ 159,127	\$ -	\$ 124,176	\$ 129,082	\$ 250,000

Maximum, minimum and average interest rates for funds either borrowed from or loaned to the Utility Money Pool for the six months ended June 30, 2010 and 2009 are summarized in the following table:

	<u>Maximum Interest Rates for Funds Borrowed from the Utility Money Pool</u>	<u>Minimum Interest Rates for Funds Borrowed from the Utility Money Pool</u>	<u>Maximum Interest Rates for Funds Loaned to the Utility Money Pool</u>	<u>Minimum Interest Rates for Funds Loaned to the Utility Money Pool</u>	<u>Average Interest Rates for Funds Borrowed from the Utility Money Pool</u>	<u>Average Interest Rates for Funds Loaned to the Utility Money Pool</u>
2010	-	-	0.51%	0.09%	-	0.23%
2009	2.28%	0.65%	1.76%	0.72%	1.66%	0.73%

Dividend Restrictions

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 par value of the common stock multiplied by the number of shares outstanding. This restriction does not limit the ability of TCC to pay dividends out of retained earnings.

Charter and Leverage Restrictions

Provisions within the articles or certificates of incorporation of TCC relating to preferred stock or shares restrict the payment of cash dividends on common and preferred stock or shares. Pursuant to credit agreement leverage restrictions, as of June 30, 2010, approximately \$137 million of the retained earnings of TCC have restrictions related to the payment of dividends.

Credit Facilities

In June 2010, TCC and certain other companies in the AEP system reduced the \$627 million credit agreement to \$478 million. Under the facility, letters of credit may be issued. As of June 30, 2010, there were no outstanding amounts for TCC under the facility.

11. COST REDUCTION INITIATIVES

In April 2010, management began initiatives to decrease both labor and non-labor expenditures with a goal of achieving significant reductions in operation and maintenance expenses. A total of 2,461 positions were eliminated as a result of process improvements, streamlined organizational designs and other efficiencies. Most of the affected employees terminated employment May 31, 2010. The severance program provides two weeks of base pay for every year of service along with other severance benefits.

Management recorded a charge to expense in the second quarter of 2010 primarily related to the headcount reduction initiatives.

<u>Expense Allocation from AEPSC</u>	<u>Incurred</u>	<u>Settled</u>	<u>Remaining Balance at June 30, 2010</u>
	(in thousands)		
\$ 8,571	\$ 16,307	\$ 357	\$ 24,521

These costs relate primarily to severance benefits. They are included primarily in Other Operation on the income statement and Other Current Liabilities on the balance sheet.