

AMERICAN ELECTRIC POWER CO INC
 Form 10-Q
 April 26, 2018

UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549
 FORM 10-Q
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
 OF THE SECURITIES EXCHANGE ACT OF 1934
 For The Quarterly Period Ended March 31, 2018
 OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
 OF THE SECURITIES EXCHANGE ACT OF 1934
 For The Transition Period from _____ to _____

Commission Registrants; States of Incorporation;
 File Number Address and Telephone Number

I.R.S. Employer
 Identification Nos.

1-3525	AMERICAN ELECTRIC POWER COMPANY, INC. (A New York Corporation)	13-4922640
333-221643	AEP TEXAS INC. (A Delaware Corporation)	51-0007707
333-217143	AEP TRANSMISSION COMPANY, LLC (A Delaware Limited Liability Company)	46-1125168
1-3457	APPALACHIAN POWER COMPANY (A Virginia Corporation)	54-0124790
1-3570	INDIANA MICHIGAN POWER COMPANY (An Indiana Corporation)	35-0410455
1-6543	OHIO POWER COMPANY (An Ohio Corporation)	31-4271000
0-343	PUBLIC SERVICE COMPANY OF OKLAHOMA (An Oklahoma Corporation)	73-0410895
1-3146	SOUTHWESTERN ELECTRIC POWER COMPANY (A Delaware Corporation) 1 Riverside Plaza, Columbus, Ohio 43215-2373 Telephone (614) 716-1000	72-0323455

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants

were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes
 No "

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate websites, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files). Yes
 No "

Indicate by check mark whether American Electric Power Company, Inc. is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See

the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large Accelerated filer
 Accelerated filer
 Non-accelerated filer
 (Do not check if a smaller reporting company)

Smaller reporting company
 Emerging growth company

Indicate by check mark whether AEP Texas Inc., AEP Transmission Company, LLC, Appalachian Power Company, Indiana Michigan Power Company, Ohio Power Company, Public Service Company of Oklahoma and Southwestern Electric Power Company are large accelerated filers, accelerated filers, non-accelerated filers, smaller reporting companies, or emerging growth companies. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large Accelerated filer
 Accelerated filer
 Non-accelerated filer
 (Do not check if a smaller reporting company)

Smaller reporting company
 Emerging growth company

If an emerging growth company, indicate by check mark if the registrants have elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark

whether
the
registrants
are shell
companies
(as defined
in Rule
12b-2 of
the
Exchange
Act). Yes
" No x

AEP Texas Inc., AEP Transmission Company, LLC, Appalachian Power Company, Indiana Michigan Power Company, Ohio Power Company, Public Service Company of Oklahoma and Southwestern Electric Power Company meet the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and are therefore filing this Form 10-Q with the reduced disclosure format specified in General Instruction H(2) to Form 10-Q.

	Number of Shares of Common Stock Outstanding of the Registrants as of April 26, 2018
American Electric Power Company, Inc.	492,523,470 (\$6.50 par value)
AEP Texas Inc.	100 (\$0.01 par value)
AEP Transmission Company, LLC (a)	NA
Appalachian Power Company	13,499,500 (no par value)
Indiana Michigan Power Company	1,400,000 (no par value)
Ohio Power Company	27,952,473 (no par value)
Public Service Company of Oklahoma	9,013,000 (\$15 par value)
Southwestern Electric Power Company	7,536,640 (\$18 par value)

(a) 100% interest is held by AEP Transmission Holding Company, LLC, a wholly-owned subsidiary of American Electric Power Company, Inc.

NA Not applicable.

AMERICAN ELECTRIC
POWER COMPANY, INC.
AND SUBSIDIARY
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This combined Form 10-Q is separately filed by American Electric Power Company, Inc., AEP Texas Inc., AEP Transmission Company, LLC, Appalachian Power Company, Indiana Michigan Power Company, Ohio Power Company, Public Service Company of Oklahoma and Southwestern Electric Power Company. Information contained herein relating to any individual registrant is filed by such registrant on its own

behalf. Each registrant makes no representation as to information relating to the other registrants.

GLOSSARY OF TERMS

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

Term	Meaning
AEGCo	AEP Generating Company, an AEP electric utility subsidiary.
AEP	American Electric Power Company, Inc., an investor-owned electric public utility holding company which includes American Electric Power Company, Inc. (Parent) and majority owned consolidated subsidiaries and consolidated affiliates.
AEP Credit	AEP Credit, Inc., a consolidated variable interest entity of AEP which securitizes accounts receivable and accrued utility revenues for affiliated electric utility companies.
AEP System	American Electric Power System, an electric system, owned and operated by AEP subsidiaries.
AEP Texas	AEP Texas Inc., an AEP electric utility subsidiary.
AEP Transmission Holdco	AEP Transmission Holding Company, LLC, a wholly-owned subsidiary of AEP.
AEPEP	AEP Energy Partners, Inc., a subsidiary of AEP dedicated to wholesale marketing and trading, hedging activities, asset management and commercial and industrial sales in the deregulated Ohio and Texas markets.
AEPRO	AEP River Operations, LLC, a commercial barge operation sold in November 2015.
AEpsc	American Electric Power Service Corporation, an AEP service subsidiary providing management and professional services to AEP and its subsidiaries.
AEPTCo	AEP Transmission Company, LLC, a subsidiary of AEP Transmission Holdco, is an intermediate holding company that owns seven wholly-owned transmission companies.
AEPTCo Parent	AEP Transmission Company, LLC, the holding company of the State Transcos within the AEPTCo consolidation.
AFUDC	Allowance for Funds Used During Construction.
AGR	AEP Generation Resources Inc., a competitive AEP subsidiary in the Generation & Marketing segment.
ALJ	Administrative Law Judge.
AOCI	Accumulated Other Comprehensive Income.
APCo	Appalachian Power Company, an AEP electric utility subsidiary.
Appalachian Consumer Rate Relief Funding	Appalachian Consumer Rate Relief Funding LLC, a wholly-owned subsidiary of APCo and a consolidated variable interest entity formed for the purpose of issuing and servicing securitization bonds related to the under-recovered ENEC deferral balance.
APSC	Arkansas Public Service Commission.
ARAM	Average Rate Assumption Method, an IRS approved method used to calculate the reversal of Excess Accumulated Deferred Income Taxes for ratemaking purposes.
ASC	Accounting Standard Codification.
ASU	Accounting Standards Update.
CAA	Clean Air Act.
CAIR	Clean Air Interstate Rule.
CO ₂	Carbon dioxide and other greenhouse gases.
Cook Plant	Donald C. Cook Nuclear Plant, a two-unit, 2,278 MW nuclear plant owned by I&M.
CWIP	Construction Work in Progress.
DCC Fuel	DCC Fuel VI LLC, DCC Fuel VII, DCC Fuel VIII, DCC Fuel IX, DCC Fuel X and DCC Fuel XI consolidated variable interest entities formed for the purpose of acquiring, owning and leasing nuclear fuel to I&M.
Desert Sky	

Desert Sky Wind Farm, a 160.5 MW wind electricity generation facility located on Indian Mesa in Pecos County, Texas.

DHLC

Dolet Hills Lignite Company, LLC, a wholly-owned lignite mining subsidiary of SWEPCo.

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Term	Meaning
DIR	Distribution Investment Rider.
EIS	Energy Insurance Services, Inc., a nonaffiliated captive insurance company and consolidated variable interest entity of AEP.
ENEC	Expanded Net Energy Cost.
Energy Supply	AEP Energy Supply LLC, a nonregulated holding company for AEP's competitive generation, wholesale and retail businesses, and a wholly-owned subsidiary of AEP.
ERCOT	Electric Reliability Council of Texas regional transmission organization.
ESP	Electric Security Plans, a PUCO requirement for electric utilities to adjust their rates by filing with the PUCO.
ETR	Effective tax rates.
ETT	Electric Transmission Texas, LLC, an equity interest joint venture between AEP Transmission Holdco and Berkshire Hathaway Energy Company formed to own and operate electric transmission facilities in ERCOT.
FASB	Financial Accounting Standards Board.
Federal EPA	United States Environmental Protection Agency.
FERC	Federal Energy Regulatory Commission.
FGD	Flue Gas Desulfurization or scrubbers.
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.
Global Settlement	In February 2017, the PUCO approved a settlement agreement filed by OPCo in December 2016 which resolved all remaining open issues on remand from the Supreme Court of Ohio in OPCo's 2009 - 2011 and June 2012 - May 2015 ESP filings. It also resolved all open issues in OPCo's 2009, 2014 and 2015 SEET filings and 2009, 2012 and 2013 Fuel Adjustment Clause Audits.
I&M	Indiana Michigan Power Company, an AEP electric utility subsidiary.
IRS	Internal Revenue Service.
IURC	Indiana Utility Regulatory Commission.
KGPCo	Kingsport Power Company, an AEP electric utility subsidiary.
KPCo	Kentucky Power Company, an AEP electric utility subsidiary.
KPSC	Kentucky Public Service Commission.
kV	Kilovolt.
KWh	Kilowatthour.
LPSC	Louisiana Public Service Commission.
Market Based Mechanism	An order from the LPSC established to evaluate proposals to construct or acquire generating capacity. The LPSC directs that the market based mechanism shall be a request for proposal competitive solicitation process.
MISO	Midcontinent Independent System Operator.
MMBtu	Million British Thermal Units.
MPSC	Michigan Public Service Commission.
MTM	Mark-to-Market.
MW	Megawatt.
MWh	Megawatthour.
Nonutility Money Pool	Centralized funding mechanism AEP uses to meet the short-term cash requirements of certain nonutility subsidiaries.
NO ₂	Nitrogen dioxide.
NO _x	Nitrogen oxide.

NSR New Source Review.
OATT Open Access Transmission Tariff.
OCC Corporation Commission of the State of Oklahoma.

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Term	Meaning
Ohio Phase-in-Recovery Funding	Ohio Phase-in-Recovery Funding LLC, a wholly-owned subsidiary of OPCo and a consolidated variable interest entity formed for the purpose of issuing and servicing securitization bonds related to phase-in recovery property.
OPCo	Ohio Power Company, an AEP electric utility subsidiary.
OPEB	Other Postretirement Benefit Plans.
OTC	Over the counter.
OVEC	Ohio Valley Electric Corporation, which is 43.47% owned by AEP.
Parent	American Electric Power Company, Inc., the equity owner of AEP subsidiaries within the AEP consolidation.
PJM	Pennsylvania – New Jersey – Maryland regional transmission organization.
PM	Particulate Matter.
PPA	Purchase Power and Sale Agreement.
PSO	Public Service Company of Oklahoma, an AEP electric utility subsidiary.
PUCO	Public Utilities Commission of Ohio.
PUCT	Public Utility Commission of Texas.
Registrant Subsidiaries	AEP subsidiaries which are SEC registrants: AEP Texas, AEPTCo, APCo, I&M, OPCo, PSO and SWEPCo.
Registrants	SEC registrants: AEP, AEP Texas, AEPTCo, APCo, I&M, OPCo, PSO and SWEPCo.
Risk Management Contracts	Trading and nontrading derivatives, including those derivatives designated as cash flow and fair value hedges.
Rockport Plant	A generation plant, consisting of two 1,310 MW coal-fired generating units near Rockport, Indiana. AEGCo and I&M jointly-own Unit 1. In 1989, AEGCo and I&M entered into a sale-and-leaseback transaction with Wilmington Trust Company, an unrelated, unconsolidated trustee for Rockport Plant, Unit 2.
RPM	Reliability Pricing Model.
RSR	Retail Stability Rider.
RTO	Regional Transmission Organization, responsible for moving electricity over large interstate areas.
Sabine	Sabine Mining Company, a lignite mining company that is a consolidated variable interest entity for AEP and SWEPCo.
SCR	Selective Catalytic Reduction, NO _x reduction technology at Rockport Plant.
SEC	U.S. Securities and Exchange Commission.
SEET	Significantly Excessive Earnings Test.
SNF	Spent Nuclear Fuel.
SO ₂	Sulfur dioxide.
SPP	Southwest Power Pool regional transmission organization.
SSO	Standard service offer.
State Transcos	AEPTCo's seven wholly-owned, FERC regulated, transmission only electric utilities, each of which is geographically aligned with AEP existing utility operating companies.
SWEPCo	Southwestern Electric Power Company, an AEP electric utility subsidiary.
Tax Reform	On December 22, 2017, President Trump signed into law legislation referred to as the "Tax Cuts and Jobs Act" (the TCJA). The TCJA includes significant changes to the Internal Revenue Code of 1986, including a reduction in the corporate federal income tax rate from 35% to 21% effective January 1, 2018.
TCC	Formerly AEP Texas Central Company, now a division of AEP Texas.
Texas Restructuring Legislation	Legislation enacted in 1999 to restructure the electric utility industry in Texas.

TNC
TRA

Formerly Texas North Company, now a division of AEP Texas.
Tennessee Regulatory Authority.

Transition Funding

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 Legislation.

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Term	Meaning
Transource Energy	Transource Energy, LLC, a consolidated variable interest entity formed for the purpose of investing in utilities which develop, acquire, construct, own and operate transmission facilities in accordance with FERC-approved rates.
Trent	Trent Wind Farm, a 150 MW wind electricity generation facility located between Abilene and Sweetwater in West Texas.
Turk Plant	John W. Turk, Jr. Plant, a 600 MW coal-fired plant in Arkansas that is 73% owned by SWEPCo.
UMWA	United Mine Workers of America.
UPA	Unit Power Agreement.
Utility Money Pool	Centralized funding mechanism AEP uses to meet the short-term cash requirements of certain utility subsidiaries.
VIE	Variable Interest Entity.
Virginia SCC	Virginia State Corporation Commission.
Wind Catcher Project	Wind Catcher Energy Connection Project, a joint PSO and SWEPCo project which includes the acquisition of a wind generation facility, totaling approximately 2,000 MW of wind generation, and the construction of a generation interconnection tie-line totaling approximately 350 miles.
WPCo	Wheeling Power Company, an AEP electric utility subsidiary.
WVPSC	Public Service Commission of West Virginia.

FORWARD-LOOKING INFORMATION

This report made by the Registrants contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Many forward-looking statements appear in “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations” of the 2017 Annual Report, but there are others throughout this document which may be identified by words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “will,” “should,” “would,” “project,” “continue” and similar expressions, and include statements reflecting future results or guidance and statements of outlook. These matters are subject to risks and uncertainties that could cause actual results to differ materially from those projected. Forward-looking statements in this document are presented as of the date of this document. Except to the extent required by applicable law, management undertakes no obligation to update or revise any forward-looking statement. Among the factors that could cause actual results to differ materially from those in the forward-looking statements are:

Economic growth or contraction within and changes in market demand and demographic patterns in AEP service territories.

Inflationary or deflationary interest rate trends.

Volatility in the financial markets, particularly developments affecting the availability or cost of capital to finance new capital projects and refinance existing debt.

The availability and cost of funds to finance working capital and capital needs, particularly during periods when the time lag between incurring costs and recovery is long and the costs are material.

Electric load and customer growth.

Weather conditions, including storms and drought conditions, and the ability to recover significant storm restoration costs.

The cost of fuel and its transportation, the creditworthiness and performance of fuel suppliers and transporters and the cost of storing and disposing of used fuel, including coal ash and spent nuclear fuel.

Availability of necessary generation capacity, the performance of generation plants and the availability of fuel, including processed nuclear fuel, parts and service from reliable vendors.

The ability to recover fuel and other energy costs through regulated or competitive electric rates.

The ability to build renewable generation, transmission lines and facilities (including the ability to obtain any necessary regulatory approvals and permits) when needed at acceptable prices and terms and to recover those costs.

New legislation, litigation and government regulation, including oversight of nuclear generation, energy commodity trading and new or heightened requirements for reduced emissions of sulfur, nitrogen, mercury, carbon, soot or particulate matter and other substances that could impact the continued operation, cost recovery and/or profitability of generation plants and related assets.

Evolving public perception of the risks associated with fuels used before, during and after the generation of electricity, including nuclear fuel.

Timing and resolution of pending and future rate cases, negotiations and other regulatory decisions, including rate or other recovery of new investments in generation, distribution and transmission service, environmental compliance and excess accumulated deferred income taxes.

Resolution of litigation.

The ability to constrain operation and maintenance costs.

Prices and demand for power generated and sold at wholesale.

Changes in technology, particularly with respect to energy storage and new, developing, alternative or distributed sources of generation.

The ability to recover through rates any remaining unrecovered investment in generation units that may be retired before the end of their previously projected useful lives.

Volatility and changes in markets for capacity and electricity, coal and other energy-related commodities, particularly changes in the price of natural gas.

Changes in utility regulation and the allocation of costs within regional transmission organizations, including ERCOT, PJM and SPP.

Changes in the creditworthiness of the counterparties with contractual arrangements, including participants in the energy trading market.

Actions of rating agencies, including changes in the ratings of debt.

The impact of volatility in the capital markets on the value of the investments held by the pension, other postretirement benefit plans, captive insurance entity and nuclear decommissioning trust and the impact of such volatility on future funding requirements.

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Accounting pronouncements periodically issued by accounting standard-setting bodies.

Impact of federal tax reform on customer rates, income tax expense and cash flows.

Other risks and unforeseen events, including wars, the effects of terrorism (including increased security costs), embargoes, cyber security threats and other catastrophic events.

The forward-looking statements of the Registrants speak only as of the date of this report or as of the date they are made. The Registrants expressly disclaim any obligation to update any forward-looking information. For a more detailed discussion of these factors, see “Risk Factors” in Part I of the 2017 Annual Report and in Part II of this report.

Investors should note that the Registrants announce material financial information in SEC filings, press releases and public conference calls. Based on guidance from the SEC, the Registrants may use the Investors section of AEP’s website (www.aep.com) to communicate with investors about the Registrants. It is possible that the financial and other information posted there could be deemed to be material information. The information on AEP’s website is not part of this report.

AMERICAN ELECTRIC POWER COMPANY, INC. AND SUBSIDIARY COMPANIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

EXECUTIVE OVERVIEW

Customer Demand

AEP's weather-normalized retail sales volumes for the first quarter of 2018 increased by 1.5% from the first quarter of 2017. AEP's first quarter 2018 industrial sales volumes increased 2.5% compared to the first quarter of 2017. The growth in industrial sales was spread across most industries and most operating companies. Weather-normalized residential and commercial sales increased 1.4% and 0.5% in the first quarter of 2018, respectively, from the first quarter of 2017.

Federal Tax Reform

In December 2017, legislation referred to as Tax Reform was signed into law. Tax Reform includes significant changes to the Internal Revenue Code of 1986, as amended, (the Code) and had a material impact on the Registrants financial statements in the reporting period of its enactment. Tax Reform lowered the corporate federal income tax rate from 35% to 21%. Tax Reform provisions related to regulated public utilities generally allow for the continued deductibility of interest expense, eliminate bonus depreciation for certain property acquired after September 27, 2017 and continue certain rate normalization requirements for accelerated depreciation benefits.

The Registrants expect the mechanism and time period to provide the benefits of Tax Reform to customers will continue to vary by jurisdiction. Tax Reform did not have a material impact on net income in the first quarter of 2018 and is not expected to have a material impact on future net income. However, the Registrants anticipate a decrease in future cash flows primarily due to the elimination of bonus depreciation, the reduction in the federal tax rate from 35% to 21% and the flow back of excess accumulated deferred income taxes (Excess ADIT). Further, the Registrants expect that access to capital markets will be sufficient to satisfy any liquidity needs that result from any such decrease in future cash flows.

Provisional Amounts

The Registrants applied Staff Accounting Bulletin 118 (SAB 118), issued by the SEC staff in December 2017, and made reasonable estimates for the measurement and accounting of the effects of Tax Reform which are reflected in the financial statements as provisional amounts based on the best information available. While the Registrants were able to make reasonable estimates of the impact of Tax Reform in 2017, the final impact may differ from the recorded provisional amounts to the extent refinements are made to the estimated cumulative differences or as a result of additional guidance or technical corrections that may be issued by the IRS that may impact management's interpretation and assumptions utilized. The Registrants expect to complete the analysis of the provisional items during the second half of 2018.

Reduction in the Corporate Federal Income Tax Rate - Pending Rate Reductions

State utility commissions have issued orders or instructions requiring public utilities, including the Registrants, to record liabilities to reflect the impact of the reduction in the corporate federal income tax rate in excess of the enacted corporate federal income tax rate of 21% beginning in 2018. During the first quarter of 2018, AEP recorded estimated

provisions for revenue refunds totaling \$120 million as a result of the reduction in the corporate federal tax rate.

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Excess Accumulated Deferred Income Taxes - Pending Rate Reductions

As of March 31, 2018, the Registrants have approximately \$4.4 billion of Excess ADIT, as well as an incremental liability of \$1.2 billion to reflect the \$4.4 billion Excess ADIT on a pre-tax basis, presented in Regulatory Liabilities and Deferred Investment Tax Credits on the balance sheets. The Excess ADIT is reflected on a pretax basis to appropriately contemplate future tax consequences in the periods when the regulatory liability is settled. As of March 31, 2018, approximately \$3.4 billion of the Excess ADIT relates to temporary differences associated with depreciable property subject to rate normalization requirements.

As reflected in the Registrants' respective estimated annual ETR for 2018, AEP's regulated public utilities began amortizing the Excess ADIT associated with certain depreciable property subject to rate normalization requirements using the ARAM during the first quarter of 2018. This amortization resulted in a \$17 million reduction in Income Tax Expense in the first quarter of 2018. As a result of state utility commission orders or instructions, the Registrants recorded estimated provisions for revenue refund offsetting the amortization of the Excess ADIT totaling \$17 million in the first quarter of 2018.

In addition, with respect to the remaining \$1 billion of Excess ADIT recorded in Regulatory Liabilities and Deferred Investment Tax Credits that are not subject to rate normalization requirements, the Registrants continue to work with the various state utility commissions to determine the appropriate mechanism and time period to provide these benefits of Tax Reform to customers. The corresponding reduction in Income Tax Expense will be reported in the interim period in which these benefits of Tax Reform are provided to customers.

Merchant Generation Assets

In September 2016, AEP signed an agreement to sell Darby, Gavin, Lawrenceburg and Waterford Plants totaling 5,329 MWs of competitive generation to a nonaffiliated party. The sale closed in January 2017 for approximately \$2.2 billion. The net proceeds from the transaction were approximately \$1.2 billion in cash after taxes, repayment of debt associated with these assets and transaction fees, which resulted in an after tax gain of approximately \$129 million. AEP primarily used these proceeds to reduce outstanding debt and invest in its regulated businesses including transmission, and contracted renewable projects. See "Dispositions" section of Note 6 for additional information.

In February 2017, AEP signed an agreement to sell its 25.4% ownership share of Zimmer Plant to Dynegy Corporation. Simultaneously, AEP signed an agreement to purchase Dynegy Corporation's 40% ownership share of Conesville Plant, Unit 4. The transactions closed in the second quarter of 2017 and did not have a material impact on net income, cash flows or financial condition.

In December 2017, AEP signed an amendment to the Cardinal Station Agreement with Buckeye Power Incorporated, which terminates certain commercial arrangements between the parties and transitions management oversight and administrative support of the Cardinal facility from AEP to Buckeye Power Incorporated. The amendment required approval from Rural Utilities Service and the FERC, which were obtained in February 2018. The new amendment became effective March 2018 and did not have a material impact on net income, cash flows or financial condition.

Management continues to evaluate potential alternatives for its remaining merchant generation assets. These potential alternatives may include, but are not limited to, transfer or sale of AEP's ownership interests or a wind down of merchant coal-fired generation fleet operations. Management has not set a specific time frame for a decision on these assets. These alternatives could result in additional losses which could reduce future net income and cash flows and impact financial condition.

Renewable Generation Portfolio

The growth of AEP's renewable generation portfolio reflects the company's strategy to diversify generation resources to provide clean energy options to customers that meet both their energy and capacity needs.

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Contracted Renewable Generation Facilities

AEP continues to develop its renewable portfolio within the Generation & Marketing segment. Activities include working directly with wholesale and large retail customers to provide tailored solutions based upon market knowledge, technology innovations and deal structuring which may include distributed solar, wind, combined heat and power, energy storage, waste heat recovery, energy efficiency, peaking generation and other forms of cost reducing energy technologies. Generation & Marketing also develops and/or acquires large scale renewable generation projects that are backed with long-term contracts. As of March 31, 2018, subsidiaries within AEP's Generation & Marketing segment have approximately 400 MWs of contracted renewable generation projects in operation. In addition, as of March 31, 2018, these subsidiaries have approximately 10 MWs of new renewable generation projects under construction with total estimated capital costs of \$26 million related to these projects.

In January 2018, AEP admitted a nonaffiliate as a member of Desert Sky Wind Farm LLC and Trent Wind Farm LLC (collectively the "LLCs") to own and repower Desert Sky and Trent, which is expected to be completed in 2018. The nonaffiliated member contributed full turbine sets to each project in exchange for a 20.1% interest in the LLCs. AEP's 79.9% share of the LLCs, or 248 MWs, represents \$232 million of additional estimated capital, of which \$131 million has been incurred and recorded in CWIP as of March 31, 2018. AEP is subject to a put and a call option after certain conditions are met, either of which would liquidate the nonaffiliated member's interest. See Note 13 - Variable Interest Entities for additional information.

Regulated Renewable Generation Facilities

In July 2017, APCo submitted filings with the Virginia SCC and the WVPSC requesting regulatory approval to acquire two wind generation facilities totaling approximately 225 MWs of wind generation. The wind generating facilities are located in West Virginia and Ohio and, if approved, are anticipated to be in-service in the second half of 2019. APCo will assume ownership of the facilities at or near the anticipated in-service date. APCo currently plans to sell the Renewable Energy Certificates associated with the generation from these facilities. In December 2017, the WVPSC staff and an industrial intervenor filed testimony in West Virginia and the Virginia SCC staff filed testimony in Virginia arguing that APCo's forecast of natural gas and energy prices was too high and, with the exception of the WVPSC staff's recommended approval of the facility located in West Virginia, did not support approval of APCo's acquisition of the facilities. In January 2018, APCo filed supplemental testimony with the WVPSC to address changes in the economics of the wind projects as a result of Tax Reform. A hearing at the WVPSC was held in March 2018 and briefs were filed in April 2018. The WVPSC staff, the industrial intervenor and the Consumer Advocate Division of the Public Service Commission all recommended that the WVPSC deny APCo's request for approval of the wind farms. Also in April 2018, the Virginia SCC denied APCo's application to acquire the two wind generation facilities. APCo filed a petition for reconsideration with the Virginia SCC, which was denied.

In July 2017, PSO and SWEPCo submitted filings with the OCC, LPSC, APSC and PUCT requesting various regulatory approvals needed for the companies to proceed with the Wind Catcher Project. The Wind Catcher Project includes the acquisition of a wind generation facility, totaling approximately 2,000 MWs of wind generation, and the construction of a generation interconnection tie-line totaling approximately 380 miles. Total investment for the project is estimated to be \$4.5 billion and will serve both retail and FERC wholesale load. PSO and SWEPCo will have a 30% and 70% ownership share, respectively, in these assets. The wind generating facility is located in Oklahoma and, if approved by all state commissions, is anticipated to be in-service by the end of 2020. In July 2017, the LPSC approved SWEPCo's request for an exemption to the Market Based Mechanism. In August 2017 and December 2017, the OCC denied the Oklahoma Attorney General's respective August and December 2017 motions to dismiss. Also in December 2017, the companies filed a request at the FERC to transfer the wind generation facility to PSO and SWEPCo upon its construction by a third party, which was approved in April 2018. The transfer remains subject to the approval of the project at the respective state commissions. Parties' testimony filed in the Oklahoma, Texas and

Louisiana dockets generally opposes the companies' request. In February 2018, the ALJ in Oklahoma recommended that PSO's request for preapproval of future recovery of Wind Catcher Project costs be denied. In March 2018, oral arguments were held before three Oklahoma Commissioners regarding the ALJ report and parties agreed to waive the 240 day statutory deadline for an order to continue the discussions. A non-unanimous settlement agreement was filed in Arkansas in

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February 2018, a unanimous settlement was filed in April 2018 in Louisiana and a non-unanimous settlement was filed in April 2018 in Oklahoma, with further settlement discussion continuing. The settlement agreements and the companies' rebuttal testimony filed in Oklahoma, Texas, Arkansas and Louisiana, generally contain certain commitments of PSO and SWEPCo, including a most favored nation clause, a cap on the cost of the investment, guarantees of qualification for production tax credits, minimum annual production from the project and a net benefits guarantee for ten years. In addition, PSO and SWEPCo committed in each jurisdiction to the timely filing of a base rate case to shorten the duration of cost recovery through a temporary mechanism.

Hurricane Harvey

In August 2017, Hurricane Harvey hit the coast of Texas, causing power outages in the AEP Texas service territory. As rebuilding efforts continue, AEP Texas' total costs related to this storm are not yet final. AEP Texas' current estimated cost is approximately \$325 million to \$375 million, including capital expenditures. AEP Texas has a PUCT approved catastrophe reserve which allows for the deferral of incremental storm expenses as a regulatory asset, and currently recovers approximately \$1 million annually through base rates. As of March 31, 2018, the total balance of AEP Texas' catastrophe reserve deferral is \$129 million, inclusive of approximately \$105 million of net incremental storm expenses related to Hurricane Harvey. As of March 31, 2018, AEP Texas has recorded approximately \$186 million of capital expenditures related to Hurricane Harvey. Also, as of March 31, 2018, AEP Texas has received \$10 million in insurance proceeds, which were applied to the regulatory asset and property, plant and equipment. Management, in conjunction with the insurance adjusters, is reviewing all damages to determine the extent of coverage for additional insurance reimbursement. Any future insurance recoveries received will also be applied to, and will offset, the regulatory asset and property, plant and equipment, as applicable. Management believes the amount recorded as a regulatory asset is probable of recovery and AEP Texas is currently evaluating recovery options for the regulatory asset, including securitization. The standard process for storm cost recovery in Texas requires two filings with the PUCT. Management expects the first filing by the end of third quarter of 2018. If the ultimate costs of the incident are not recovered by insurance or through the regulatory process, it would have an adverse effect on future net income, cash flows and financial condition.

June 2015 - May 2018 ESP Including PPA Application and Proposed ESP Extension through 2024

In March 2016, a contested stipulation agreement related to the PPA rider application was modified and approved by the PUCO. The approved PPA rider is subject to audit and review by the PUCO. Consistent with the terms of the modified and approved stipulation agreement, and based upon a September 2016 PUCO order, in November 2016, OPCo refiled its amended ESP extension application and supporting testimony. The amended filing proposed to extend the ESP through May 2024 and included (a) an extension of the OVEC PPA rider, (b) a proposed 10.41% return on common equity on capital costs for certain riders, (c) the continuation of riders previously approved in the June 2015 - May 2018 ESP, (d) proposed increases in rate caps related to OPCo's DIR and (e) the addition of various new riders, including a Renewable Resource Rider.

In August 2017, OPCo and various intervenors filed a stipulation agreement with the PUCO. The stipulation extends the term of the ESP through May 2024 and includes: (a) an extension of the OVEC PPA rider, (b) a proposed 10% return on common equity on capital costs for certain riders, (c) the continuation of riders previously approved in the June 2015 - May 2018 ESP, (d) rate caps related to OPCo's DIR ranging from \$215 million to \$290 million for the periods 2018 through 2021, (e) the addition of various new riders, including a Smart City Rider and a Renewable Generation Rider, (f) a decrease in annual depreciation rates based on a depreciation study using data through December 2015 and (g) amortization of approximately \$24 million annually beginning January 2018 of OPCo's excess distribution accumulated depreciation reserve, which was \$239 million as of December 31, 2015. Upon PUCO approval of the stipulation, OPCo will cease recording \$39 million in annual amortization previously approved to end in December 2018 in accordance with PUCO's December 2011 OPCo distribution base rate case order. In the

stipulation, OPCo and intervenors agree that OPCo can request in future proceedings a change in meter depreciation rates due to retired meters pursuant to the smart grid Phase 2 project. DIR rate caps will be reset in OPCo's next distribution base rate case which must be filed by June 2020.

In October 2017, intervenor testimony opposing the stipulation agreement was filed recommending: (a) a return on common equity to not exceed 9.3% for riders earning a return on capital investments, (b) that OPCo should file a base distribution case concurrent with the conclusion of the current ESP in May 2018 and (c) denial of certain new riders proposed in OPCo's ESP extension. The stipulation was reviewed by the PUCO at a hearing in November 2017.

In April 2018, the PUCO issued an order approving the stipulation agreement, with no significant changes.

2016 SEET Filing

In December 2016, OPCo recorded a 2016 SEET provision of \$58 million based upon projected earnings data for companies in the comparable utilities risk group. In determining OPCo's return on equity in relation to the comparable utilities risk group, management excluded the following items resolved in OPCo's Global Settlement: (a) gain on the deferral of RSR costs, (b) refunds to customers related to the SEET remands and (c) refunds to customers related to fuel adjustment clause proceedings.

In May 2017, OPCo submitted its 2016 SEET filing with the PUCO in which management indicated that OPCo did not have significantly excessive earnings in 2016 based upon actual earnings data for the comparable utilities risk group.

In January 2018, the PUCO staff filed testimony that OPCo did not have significantly excessive earnings. Also in January 2018, an intervenor filed testimony recommending a \$53 million refund to customers. In February 2018, OPCo and PUCO staff filed a stipulation agreement in which both parties agreed that OPCo did not have significantly excessive earnings in 2016.

A 2016 SEET hearing was held in April 2018 and management expects to receive an order in the second half of 2018. While management believes that OPCo's adjusted 2016 earnings were not excessive, management did not adjust OPCo's 2016 SEET provision due to risks that the PUCO could rule against OPCo's proposed SEET adjustments, including treatment of the Global Settlement issues described above, adjust the comparable risk group or adopt a different 2016 SEET threshold. If the PUCO orders a refund of 2016 OPCo earnings, it could negatively affect future SEET filings, reduce future net income and cash flows and impact financial condition. See "2016 SEET Filing" section of Note 4 for additional information.

Rockport Plant, Unit 2 SCR

In October 2016, I&M filed an application with the IURC for approval of a Certificate of Public Convenience and Necessity (CPCN) to install SCR technology at Rockport Plant, Unit 2 by December 2019. The equipment will allow I&M to reduce emissions of NO_x from Rockport Plant, Unit 2 in order for I&M to continue to operate that unit under current environmental requirements. The estimated cost of the SCR project is \$274 million, excluding AFUDC, to be shared equally between I&M and AEGCo. As of March 31, 2018, total costs incurred related to this project, including AFUDC, were approximately \$28 million. The filing included a request for authorization for I&M to defer its Indiana jurisdictional ownership share of costs including investment carrying costs at a weighted average cost of capital (WACC), depreciation over a 10-year period as provided by statute and other related expenses. I&M proposed recovery of these costs using the existing Clean Coal Technology Rider in a future filing subsequent to approval of the SCR project. The AEGCo ownership share of the proposed SCR project will be billable under the Rockport UPA to I&M and KPCo and will be subject to future regulatory approval for recovery.

In March 2018, the IURC issued an order approving: (a) the CPCN, (b) the \$274 million estimated cost of the SCR, excluding AFUDC, (c) deferral accounting for the Indiana jurisdictional ownership share of costs, including investment carrying costs, (d) depreciation of the SCR asset over 10 years and (e) recovery of these costs using I&M's

existing Indiana Clean Coal Technology Rider.

In April 2018, a group of intervenors filed a Petition for Reconsideration and Rehearing of the March 2018 IURC order. The intervenors requested that the IURC reopen the proceeding primarily to address whether allowing I&M any cost recovery for the SCR would constitute a cross-subsidization issue and to reverse its finding approving cost recovery for the Rockport Plant, Unit 2 SCR project. Also in April 2018, I&M filed a response to the intervenors' petition.

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2017 Indiana Base Rate Case

In July 2017, I&M filed a request with the IURC for a \$263 million annual increase in Indiana rates based upon a proposed 10.6% return on common equity with the annual increase to be implemented after June 2018. Upon implementation, this proposed annual increase would be subject to a temporary offsetting \$23 million annual reduction to customer bills through December 2018 for a credit adjustment rider related to the timing of estimated in-service dates of certain capital expenditures. The proposed annual increase includes \$78 million related to increased annual depreciation rates and an \$11 million increase related to the amortization of certain Cook Plant and Rockport Plant regulatory assets. The increase in depreciation rates includes a change in the expected retirement date for Rockport Plant, Unit 1 from 2044 to 2028 combined with increased investment at the Cook Plant, including the Cook Plant Life Cycle Management Project.

In November 2017, various intervenors filed testimony that included annual revenue increase recommendations ranging from \$125 million to \$152 million. The recommended returns on common equity ranged from 8.65% to 9.1%. In addition, certain parties recommended longer recovery periods than I&M proposed for recovery of regulatory assets and depreciation expenses related to Rockport Plant, Units 1 and 2. In January 2018, in response to a January 2018 IURC request related to the impact of Tax Reform on I&M's pending base rate case, I&M filed updated schedules supporting a \$191 million annual increase in Indiana base rates if the effect of Tax Reform was included in the cost of service.

In February 2018, I&M and all parties to the case, except one industrial customer, filed a Stipulation and Settlement Agreement for a \$97 million annual increase in Indiana rates effective July 1, 2018 subject to a temporary offsetting reduction to customer bills through December 2018 for a credit rider related to the timing of estimated in-service dates of certain capital expenditures. The one industrial customer agreed to not oppose the Stipulation and Settlement Agreement. The difference between I&M's requested \$263 million annual increase and the \$97 million annual increase in the Stipulation and Settlement Agreement is primarily a result of: (a) the reduction in the federal income tax rate due to Tax Reform, (b) the feedback of credits for excess deferred income taxes, (c) a 9.95% return on equity, (d) longer recovery periods of regulatory assets, (e) lower depreciation expense primarily for meters and (f) an increase in the sharing of off-system sales margins with customers from 50% to 95%. If the Stipulation and Settlement is approved, I&M will also refund \$4 million from July through December 2018 for the impact of Tax Reform for the period January through June 2018. A hearing at the IURC was held in March 2018 and an IURC order is expected in the second quarter of 2018. If any of these costs are not recoverable, it could reduce future net income and cash flows and impact financial condition.

2017 Michigan Base Rate Case

In May 2017, I&M filed a request with the MPSC for a \$52 million annual increase in Michigan base rates based upon a proposed 10.6% return on common equity with the increase to be implemented no later than April 2018. The proposed annual increase includes \$23 million related to increased annual depreciation rates and a \$4 million increase related to the amortization of certain Cook Plant regulatory assets. The increase in depreciation rates is primarily due to the proposed change in the expected retirement date for Rockport Plant, Unit 1 from 2044 to 2028 combined with increased investment at the Cook Plant related to the Life Cycle Management Project.

In February 2018, an MPSC ALJ issued a Proposal for Decision and recommended an annual revenue increase of \$49 million, including an intervenors' proposed capacity rate based on PJM's net cost of new entry value of \$289/MW-day and MPSC staff's recommended calculation of depreciation expense for both units of Rockport Plant through 2028 and a return on common equity of 9.8%. If the maximum 10% of customers choose an alternate supplier starting in February 2019, the estimated annual pretax loss due to the reduced capacity rate would be approximately \$9 million until adjusted in the next base rate case.

In April 2018, the MPSC issued an order that generally approved the ALJ proposal resulting in an annual revenue increase of \$49 million, effective April 2018 based on a 9.9% return on common equity. The MPSC also approved the ALJ's recommendation related to the capacity rate.

Merchant Portion of Turk Plant

SWEP Co constructed the Turk Plant, a base load 600 MW pulverized coal ultra-supercritical generating unit in Arkansas, which was placed into service in December 2012 and is included in the Vertically Integrated Utilities segment. SWEP Co owns 73% (440 MWs) of the Turk Plant and operates the facility.

The APSC granted approval for SWEP Co to build the Turk Plant by issuing a Certificate of Environmental Compatibility and Public Need (CECPN) for the SWEP Co Arkansas jurisdictional share of the Turk Plant (approximately 20%). Following an appeal by certain intervenors, the Arkansas Supreme Court issued a decision that reversed the APSC's grant of the CECPN. In June 2010, in response to an Arkansas Supreme Court decision, the APSC issued an order which reversed and set aside the previously granted CECPN. This share of the Turk Plant output is currently not subject to cost-based rate recovery and is being sold into the wholesale market. Approximately 80% of the Turk Plant investment is recovered under cost-based rate recovery in Texas, Louisiana and through SWEP Co's wholesale customers under FERC-based rates. As of March 31, 2018, the net book value of Turk Plant was \$1.5 billion, before cost of removal, including materials and supplies inventory and CWIP. If SWEP Co cannot ultimately recover its investment and expenses related to the Turk Plant, it could reduce future net income and cash flows and impact financial condition.

2017 Louisiana Formula Rate Filing

In April 2017, the LPSC approved an uncontested stipulation agreement that SWEP Co filed for its formula rate plan for test year 2015. The filing included a net annual increase not to exceed \$31 million, which was effective May 2017 and includes SWEP Co's Louisiana jurisdictional share of Welsh Plant and Flint Creek Plant environmental controls which were placed in service in 2016. The net annual increase is subject to refund. In October 2017, SWEP Co filed testimony in Louisiana supporting the prudence of its environmental control investment for Welsh Plant, Units 1 and 3 and Flint Creek power plants. These environmental costs are subject to prudence review. A hearing at the LPSC is scheduled for May 2018. If any of these costs are not recoverable, it could reduce future net income and cash flows and impact financial condition.

2018 Louisiana Formula Rate Filing

In April 2018, SWEP Co filed its formula rate plan for test year 2017 with the LPSC. The filing included a net \$28 million annual increase, which will be effective August 2018. The filing included a reduction in the federal income tax rate due to Tax Reform. The return of excess deferred income tax benefits to customers will be addressed in a supplemental filing and will reduce the \$28 million annual increase. The increase includes SWEP Co's jurisdictional share of Welsh Plant and Flint Creek Plant environmental controls, whose prudence review hearing is scheduled for May 2018. If any of these costs are not recoverable, it could reduce future net income and cash flows and impact financial condition.

2017 Kentucky Base Rate Case

In January 2018, the KPSC issued an order approving a non-unanimous settlement agreement with certain modifications resulting in an annual revenue increase of \$12 million, effective January 2018, based on a 9.7% return on equity. The KPSC's primary revenue requirement modification to the settlement agreement was a \$14 million annual revenue reduction for the decrease in the corporate federal income tax rate due to Tax Reform. The KPSC approved: (a) the deferral of a total of \$50 million of Rockport Plant UPA expenses for the years 2018 through 2022, with the manner and timing of recovery of the deferral to be addressed in KP Co's next base rate case, (b) the recovery/return of 80% of certain annual PJM OATT expenses above/below the corresponding level recovered in base rates, (c) KP Co's commitment to not file a base rate case for three years with rates effective no earlier than 2021 and

(d) increased depreciation expense based upon updated Big Sandy Plant, Unit 1 depreciation rates using a 20-year depreciable life.

In February 2018, KPCo filed with the KPSC for rehearing of the January 2018 base case order and requested an additional \$2.3 million of annual revenue increases related to: (a) the calculation of federal income tax expense, (b) recovery of purchased power costs associated with forced outages and (c) capital structure adjustments. Also in

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February 2018, an intervenor filed for rehearing recommending that the reduced corporate federal income tax rate be reflected in lower purchased power expense related to the Rockport UPA. In February 2018, the KPSC issued an order granting rehearing of these items, with an exception for the capital structure adjustments, which was denied by the KPSC.

2016 Texas Base Rate Case

In December 2016, SWEPCo filed a request with the PUCT for a net increase in Texas annual revenues of \$69 million based upon a 10% return on common equity. In January 2018, the PUCT issued a final order approving a net increase in Texas annual revenues of \$50 million based upon a return on common equity of 9.6%, effective May 2017. The final order also included (a) approval to recover the Texas jurisdictional share of environmental investments placed in service, as of June 30, 2016, at various plants, including Welsh Plant, Units 1 and 3, (b) approval of recovery of, but no return on, the Texas jurisdictional share of the net book value of Welsh Plant, Unit 2, (c) approval of \$2 million additional vegetation management expenses and (d) the rejection of SWEPCo's proposed transmission cost recovery mechanism.

As a result of the final order, in 2017 SWEPCo (a) recorded an impairment charge of \$19 million, which includes \$7 million associated with the lack of return on Welsh Plant, Unit 2 and \$12 million related to other disallowed plant investments, (b) recognized \$32 million of additional revenues, for the period of May 2017 through December 2017, that will be surcharged to customers and (c) recognized an additional \$7 million of expenses consisting primarily of depreciation expense and vegetation management expense, offset by the deferral of rate case expenses. SWEPCo implemented new rates in February 2018 billings. The \$32 million of additional 2017 revenues will be collected by the end of 2018. In March 2018, the PUCT clarified and corrected portions of the final order, without changing the overall decision or amounts of the rate change. This order is subject to appeal as early as the second quarter of 2018. In April 2018, SWEPCo made an income tax rate refund tariff filing which includes an annual revenue reduction of approximately \$18 million to reflect the difference between rates collected under the final order and the rates that would be collected under Tax Reform. The filing did not address the return of excess deferred income tax benefits to customers.

Virginia Legislation Affecting Earnings Reviews

In 2015, amendments to Virginia law governing the regulation of investor-owned electric utilities were enacted. Under the amended Virginia law, APCo's existing generation and distribution base rates were frozen until after the Virginia SCC ruled on APCo's next biennial review. These amendments also precluded the Virginia SCC from performing biennial reviews of APCo's earnings for the years 2014 through 2017.

In March 2018, new Virginia legislation impacting investor-owned utilities was enacted, effective July 1, 2018, that will: (a) on a one-time basis, require APCo to exclude \$10 million of fuel expenses from the July 2018 over/under calculation, (b) reduce APCo's base rates by \$50 million annually no later than July 30, 2018, on an interim basis and subject to true-up, to reflect the lower federal income tax rate due to Tax Reform, (c) require APCo to file its next generation and distribution base rate case by March 31, 2020 using 2017, 2018 and 2019 test years ("triennial review"), (d) require an adjustment in APCo's base rates on April 1, 2019 to reflect actual annual reductions in corporate income taxes due to Tax Reform, (e) require APCo to obtain approval from the Virginia SCC for energy efficiency programs with projected costs in the aggregate of at least \$140 million over the 10-year period from July 1, 2018 through July 1, 2028 and (f) require APCo to construct and/or acquire solar generation facilities in Virginia of at least 200 MW of aggregate capacity. Triennial reviews are subject to an earnings test which provides that any over earnings may be reinvested in approved energy distribution grid transformation projects. The Virginia SCC's triennial review of 2017-2019 APCo earnings could reduce future net income and cash flows and impact financial condition.

FERC Transmission Complaint - AEP's PJM Participants

In October 2016, seven parties filed a complaint at the FERC that alleged the base return on common equity used by AEP's transmission owning subsidiaries within PJM in calculating formula transmission rates under the PJM OATT is excessive and should be reduced from 10.99% to 8.32%, effective upon the date of the complaint. In November 2017, a FERC order set the matter for hearing and settlement procedures. In March 2018, AEP's transmission owning

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subsidiaries within PJM and six of the complainants filed a settlement agreement with the FERC (the seventh complainant abstained). If approved by the FERC the settlement agreement (a) establishes a base ROE for AEP's transmission owning subsidiaries within PJM of 9.85% (10.35% inclusive of the RTO incentive adder of 0.5%), effective January 1, 2018, (b) requires AEP's transmission owning subsidiaries within PJM to provide a one-time refund of \$50 million, attributable from the date of the complaint through December 31, 2017, to be credited to customer bills in the second quarter of 2018 and (c) increases the cap on the equity portion of the capital structure to 55% from 50%. As part of the settlement agreement, AEP's transmission owning subsidiaries within PJM also filed updated transmission formula rates incorporating the reduction in the corporate federal income tax rate due to Tax Reform, effective January 1, 2018 and providing for the amortization of the portion of the excess accumulated deferred income taxes that are not subject to the normalization method of accounting, ratably over a ten year period through credits to the federal income tax expense component of the revenue requirement. In April 2018, an ALJ accepted the interim settlement rates, pending the FERC's consideration of the settlement, and the rates are subject to refund or surcharge, with interest.

In April 2018, certain intervenors filed comments at the FERC recommending a base ROE of 8.48% and a one-time refund of \$184 million. In addition, the FERC trial staff filed comments recommending a base ROE of 8.41% and one-time refund of \$175 million. Also in April 2018, another intervenor recommended the refund be calculated in accordance with the base ROE that will ultimately be approved by the FERC. Management intends to file reply comments providing further support for the 9.85% base ROE agreed to in the settlement agreement.

Management believes the \$50 million refund in the settlement agreement is the best estimate of the probable liability. If the FERC orders revenue reductions in excess of the terms of the settlement agreement, it could reduce future net income and cash flows and impact financial condition. A decision from the FERC is pending.

Modifications to AEP's PJM Transmission Rates

In November 2016, AEP's transmission owning subsidiaries within PJM filed an application at the FERC to modify the PJM OATT formula transmission rate calculation, including an adjustment to recover a tax-related regulatory asset and a shift from historical to projected expenses. In March 2017, the FERC accepted the proposed modifications effective January 1, 2017, subject to refund, and set this matter for hearing and settlement procedures. The modified PJM OATT formula rates are based on projected calendar year financial activity and projected plant balances. In December 2017, AEP's transmission owning subsidiaries within PJM filed an uncontested settlement agreement with the FERC resolving all outstanding issues. In April 2018, the FERC approved the uncontested settlement agreement and rates were implemented effective January 1, 2018.

FERC Transmission Complaint - AEP's SPP Participants

In June 2017, several parties filed a complaint at the FERC that states the base return on common equity used by AEP's transmission owning subsidiaries within SPP in calculating formula transmission rates under the SPP OATT is excessive and should be reduced from 10.7% to 8.36%, effective upon the date of the complaint. In November 2017, a FERC order set the matter for hearing and settlement procedures. Management believes its financial statements adequately address the impact of the complaint. If the FERC orders revenue reductions as a result of the complaint, including refunds from the date of the complaint filing, it could reduce future net income and cash flows and impact financial condition.

Modifications to AEP's SPP Transmission Rates

In October 2017, AEP's transmission owning subsidiaries within SPP filed an application at the FERC to modify the SPP OATT formula transmission rate calculation, including an adjustment to recover a tax-related regulatory asset

and a shift from historical to projected expenses. The modified SPP OATT formula rates are based on projected 2018 calendar year financial activity and projected plant balances. In December 2017, the FERC accepted the proposed modifications effective January 1, 2018, subject to refund, and set this matter for hearing and settlement procedures. If the FERC determines that any of these costs are not recoverable, it could reduce future net income and cash flows and impact financial condition.

FERC SWEPCo Power Supply Agreements Complaint - East Texas Electric Cooperative, Inc. (ETEC) and Northeast Texas Electric Cooperative, Inc. (NTEC)

In September 2017, ETEC and NTEC filed a complaint at the FERC that states the base return on common equity used by SWEPCo in calculating their power supply formula rates is excessive and should be reduced from 11.1% to 8.41%, effective upon the date of the complaint. In November 2017, a FERC order set the matter for hearing and settlement procedures. Management believes its financial statements adequately address the impact of the complaint. If the FERC orders revenue reductions as a result of the complaint, including refunds from the date of the complaint filing, it could reduce future net income and cash flows and impact financial condition.

Welsh Plant - Environmental Impact

Management currently estimates that the investment necessary to meet proposed environmental regulations through 2025 for Welsh Plant, Units 1 and 3 could total approximately \$850 million, excluding AFUDC. As of March 31, 2018, SWEPCo had incurred costs of \$399 million, including AFUDC, related to these projects. Management continues to evaluate the impact of environmental rules and related project cost estimates. As of March 31, 2018, the total net book value of Welsh Plant, Units 1 and 3 was \$625 million, before cost of removal, including materials and supplies inventory and CWIP.

In 2016, as approved by the APSC, SWEPCo began recovering \$79 million related to the Arkansas jurisdictional share of these environmental costs, subject to prudence review in the next Arkansas filed base rate proceeding. In April 2017, the LPSC approved recovery of \$131 million in investments related to its Louisiana jurisdictional share of environmental controls installed at Welsh Plant, effective May 2017. SWEPCo's approved Louisiana jurisdictional share of Welsh Plant deferrals: (a) are \$11 million, excluding \$6 million of unrecognized equity as of March 31, 2018, (b) is subject to review by the LPSC, and (c) includes a WACC return on environmental investments and the related depreciation expense and taxes. In January 2018, SWEPCo received written approval from the PUCT to recover its project costs from retail customers in its 2016 Texas base rate case and is recovering these costs from wholesale customers through SWEPCo's FERC-approved agreements. See "2016 Texas Base Rate Case" and "2017 Louisiana Formula Rate Filing" disclosures above.

If any of these costs are not recoverable, it could reduce future net income and cash flows and impact financial condition. See "Welsh Plant - Environmental Impact" section of Note 4 for additional information.

Westinghouse Electric Company Bankruptcy Filing

In March 2017, Westinghouse filed a petition to reorganize under Chapter 11 of the U.S. Bankruptcy Code. Westinghouse and I&M have a number of significant ongoing contracts relating to reactor services, nuclear fuel fabrication and ongoing engineering projects. The most significant of these relate to Cook Plant fuel fabrication. As part of the reorganization, the bankruptcy court approved Westinghouse's sale of its nuclear business to Brookfield WEC Holdings, a nonaffiliated third party. Pursuant to the sale, Brookfield will assume all of I&M's contracts with Westinghouse. The sale is subject to regulatory approvals and is expected to close in the third quarter of 2018.

LITIGATION

In the ordinary course of business, AEP is involved in employment, commercial, environmental and regulatory litigation. Since it is difficult to predict the outcome of these proceedings, management cannot predict the eventual resolution, timing or amount of any loss, fine or penalty. Management assesses the probability of loss for each contingency and accrues a liability for cases that have a probable likelihood of loss if the loss can be estimated. For details on the regulatory proceedings and pending litigation see Note 4 – Rate Matters and Note 5 – Commitments,

Guarantees and Contingencies. Adverse results in these proceedings have the potential to reduce future net income and cash flows and impact financial condition.

Rockport Plant Litigation

In July 2013, the Wilmington Trust Company filed a complaint in the U.S. District Court for the Southern District of New York against AEGCo and I&M alleging that it will be unlawfully burdened by the terms of the modified NSR consent decree after the Rockport Plant, Unit 2 lease expiration in December 2022. The terms of the consent decree allow the installation of environmental emission control equipment, repowering or retirement of the unit. The plaintiffs further allege that the defendants' actions constitute breach of the lease and participation agreement. The plaintiffs seek a judgment declaring that the defendants breached the lease, must satisfy obligations related to installation of emission control equipment and indemnify the plaintiffs. The New York court granted a motion to transfer this case to the U.S. District Court for the Southern District of Ohio. In October 2013, a motion to dismiss the case was filed on behalf of AEGCo and I&M.

In January 2015, the court issued an opinion and order granting the motion in part and denying the motion in part. The court dismissed certain of the plaintiffs' claims, including the dismissal without prejudice of plaintiffs' claims seeking compensatory damages. Several claims remained, including the claim for breach of the participation agreement and a claim alleging breach of an implied covenant of good faith and fair dealing. In June 2015, AEGCo and I&M filed a motion for partial judgment on the claims seeking dismissal of the breach of participation agreement claim as well as any claim for indemnification of costs associated with this case. The plaintiffs subsequently filed an amended complaint to add another claim under the lease and also filed a motion for partial summary judgment. In November 2015, AEGCo and I&M filed a motion to strike the plaintiffs' motion for partial judgment and filed a motion to dismiss the case for failure to state a claim.

In March 2016, the court entered an opinion and order in favor of AEGCo and I&M, dismissing certain of the plaintiffs' claims for breach of contract and dismissing claims for breach of implied covenant of good faith and fair dealing, and further dismissing plaintiffs' claim for indemnification of costs. By the same order, the court permitted plaintiffs to move forward with their claim that AEGCo and I&M failed to exercise prudent utility practices in the maintenance and operation of Rockport Plant, Unit 2. In April 2016, the plaintiffs filed a notice of voluntary dismissal of all remaining claims with prejudice and the court subsequently entered a final judgment. In May 2016, plaintiffs filed an appeal in the U.S. Court of Appeals for the Sixth Circuit on whether AEGCo and I&M are in breach of certain contract provisions that plaintiffs allege operate to protect the plaintiffs' residual interests in the unit and whether the trial court erred in dismissing plaintiffs' claims that AEGCo and I&M breached the covenant of good faith and fair dealing.

In April 2017, the U.S. Court of Appeals for the Sixth Circuit issued an opinion reversing the district court's decisions which had dismissed certain of plaintiffs' claims for breach of contract and remanding the case to the district court to enter summary judgment in plaintiffs' favor consistent with that ruling. In April 2017, AEGCo and I&M filed a petition for rehearing with the U.S. Court of Appeals for the Sixth Circuit, which was granted. In June 2017, the U.S. Court of Appeals for the Sixth Circuit issued an amended opinion and judgment which reverses the district court's dismissal of certain of the owners' claims under the lease agreements, vacates the denial of the owners' motion for partial summary judgment and remands the case to the district court for further proceedings. The amended opinion and judgment also affirms the district court's dismissal of the owners' breach of good faith and fair dealing claim as duplicative of the breach of contract claims and removes the instruction to the district court in the original opinion to enter summary judgment in favor of the owners.

In July 2017, AEP filed a motion with the U.S. District Court for the Southern District of Ohio in the original NSR litigation, seeking to modify the consent decree to eliminate the obligation to install certain future controls at Rockport Plant, Unit 2 if AEP does not acquire ownership of that Unit, and to modify the consent decree in other respects to preserve the environmental benefits of the consent decree. In November 2017, the district court granted the owners' unopposed motion to stay the lease litigation to afford time for resolution of AEP's motion to modify the consent

decree. See “Proposed Modification of the NSR Litigation Consent Decree” section below for additional information.

Management will continue to defend against the claims. Given that the district court dismissed plaintiffs' claims seeking compensatory relief as premature, and that plaintiffs have yet to present a methodology for determining or any analysis supporting any alleged damages, management is unable to determine a range of potential losses that are reasonably possible of occurring.

ENVIRONMENTAL ISSUES

AEP has a substantial capital investment program and is incurring additional operational costs to comply with environmental control requirements. Additional investments and operational changes will need to be made in response to existing and anticipated requirements such as new CAA requirements to reduce emissions from fossil fuel-fired power plants, rules governing the beneficial use and disposal of coal combustion by-products, clean water rules and renewal permits for certain water discharges.

AEP is engaged in litigation about environmental issues, was notified of potential responsibility for the clean-up of contaminated sites and incurred costs for disposal of SNF and future decommissioning of the nuclear units. AEP, along with various industry groups, affected states and other parties challenged some of the Federal EPA requirements in court. Management is also engaged in the development of possible future requirements including the items discussed below. Management believes that further analysis and better coordination of these environmental requirements would facilitate planning and lower overall compliance costs while achieving the same environmental goals.

AEP will seek recovery of expenditures for pollution control technologies and associated costs from customers through rates in regulated jurisdictions. Environmental rules could result in accelerated depreciation, impairment of assets or regulatory disallowances. If AEP is unable to recover the costs of environmental compliance, it would reduce future net income and cash flows and impact financial condition.

Environmental Controls Impact on the Generating Fleet

The rules and proposed environmental controls discussed below will have a material impact on the generating units in the AEP System. Management continues to evaluate the impact of these rules, project scope and technology available to achieve compliance. As of March 31, 2018, the AEP System had a total generating capacity of approximately 25,600 MWs, of which approximately 13,500 MWs are coal-fired. Management continues to refine the cost estimates of complying with these rules and other impacts of the environmental proposals on the fossil generating facilities. Based upon management estimates, AEP's investment to meet these existing and proposed requirements ranges from approximately \$2.1 billion to \$2.7 billion through 2025.

The cost estimates will change depending on the timing of implementation and whether the Federal EPA provides flexibility in finalizing proposed rules or revising certain existing requirements. The cost estimates will also change based on: (a) the states' implementation of these regulatory programs, including the potential for state implementation plans (SIPs) or federal implementation plans (FIPs) that impose more stringent standards, (b) additional rulemaking activities in response to court decisions, (c) the actual performance of the pollution control technologies installed on the units, (d) changes in costs for new pollution controls, (e) new generating technology developments, (f) total MWs of capacity retired and replaced, including the type and amount of such replacement capacity and (g) other factors. In addition, management is continuing to evaluate the economic feasibility of environmental investments on both regulated and competitive plants.

The table below represents the plants or units of plants retired in 2016 and 2015 with a remaining net book value. As of March 31, 2018, the net book value before cost of removal, including related materials and supplies inventory and CWIP balances, of the units listed below was approved for recovery, except for \$218 million. Management is seeking or will seek recovery of the remaining net book value of \$218 million in future rate proceedings.

Company	Plant Name and Unit	Generating Capacity (in MWs)	Amounts Pending Regulatory Approval (in millions)
APCo	Kanawha River Plant	400	\$ 44.8
APCo	Clinch River Plant, Unit 3	235	32.6
APCo (a)	Clinch River Plant, Units 1 and 2	470	31.8
APCo	Sporn Plant, Units 1 and 3	300	17.2
APCo	Glen Lyn Plant	335	13.4
I&M (b)	Tanners Creek Plant	995	27.7
SWEPco	Welsh Plant, Unit 2	528	50.6
Total		3,263	\$ 218.1

APCo obtained permits following the Virginia SCC's and WVPSC's approval to convert its 470 MW Clinch River Plant, Units 1 and 2 to natural gas. In 2015, APCo retired the coal-related assets of Clinch River Plant, Units 1 and 2. Clinch River Plant, Unit 1 and Unit 2 began operations as natural gas units in February 2016 and April 2016, respectively.

I&M requested recovery of the Indiana (approximately 65%) and Michigan (approximately 14%) jurisdictional shares of the remaining retirement costs of Tanners Creek Plant in the 2017 Indiana and Michigan base rate cases. In April 2018, a final order was received in Michigan which approved I&M's request for a return of and on its jurisdictional share of the remaining retirement costs of Tanners Creek Plant. See "2017 Indiana Base Rate Case" and "2017 Michigan Base Rate Case" sections of Note 4 for additional information.

In January 2017, Dayton Power and Light Company announced the future retirement of the 2,308 MW Stuart Plant, Units 1-4. The retirement is scheduled for June 2018. Stuart Plant, Units 1-4 are operated by Dayton Power and Light Company and are jointly owned by AGR and nonaffiliated entities. AGR owns 600 MWs of the Stuart Plant, Units 1-4. As of March 31, 2018, AGR's net book value of the Stuart Plant, Units 1-4 was zero.

To the extent existing generation assets are not recoverable, it could materially reduce future net income and cash flows and impact financial condition.

Proposed Modification of the NSR Litigation Consent Decree

In 2007, the U.S. District Court for the Southern District of Ohio approved a consent decree between the AEP subsidiaries in the eastern area of the AEP System and the Department of Justice, the Federal EPA, eight northeastern states and other interested parties to settle claims that the AEP subsidiaries violated the NSR provisions of the CAA when they undertook various equipment repair and replacement projects over a period of nearly 20 years. The consent decree's terms include installation of environmental control equipment on certain generating units, a declining cap on SO₂ and NO_x emissions from the AEP System and various mitigation projects.

In July 2017, AEP filed a motion with the U.S. District Court for the Southern District of Ohio seeking to modify the consent decree to eliminate an obligation to install future controls at Rockport Plant, Unit 2 if AEP does not acquire ownership of that unit, and to modify the consent decree in other respects to preserve the environmental benefits of the

consent decree. The district court granted AEP's request to delay the deadline to install SCR technology at Rockport Plant, Unit 2 until June 2020. AEP also proposed to retire Conesville Plant, Units 5 and 6 by December 31, 2022 and to retire one unit at Rockport Plant by December 31, 2028. Plaintiffs opposed AEP's motion.

In January 2018, AEP filed a supplemental motion proposing to install the SCR at Rockport Plant, Unit 2 and achieve the final SO₂ emission cap applicable to the plant under the consent decree by the end of 2020, before the expiration of the initial lease term. Responsive filings were filed in February 2018 by parties opposing AEP's proposed

modifications to the consent decree. AEP was directed to file a detailed statement of the specific relief requested to address the changed circumstances at Rockport, and the opposing parties were provided with an opportunity to respond thereto. The motion remains pending and a decision from the court is expected in 2018.

AEP is seeking to modify the consent decree as a means to resolve or substantially narrow the issues in pending litigation with the owners of Rockport Plant, Unit 2. See “Rockport Plant Litigation” in Management’s Discussion and Analysis of Financial Condition and Results of Operations and in Note 5 - Commitments, Guarantees and Contingencies for additional information.

Clean Air Act Requirements

The CAA establishes a comprehensive program to protect and improve the nation’s air quality and control sources of air emissions. The states implement and administer many of these programs and could impose additional or more stringent requirements. The primary regulatory programs that continue to drive investments in AEP’s existing generating units include: (a) periodic revisions to the National Ambient Air Quality Standards (NAAQS) and the development of SIPs to achieve any more stringent standards; (b) implementation of the regional haze program by the states and the Federal EPA; (c) regulation of hazardous air pollutant emissions under the Mercury and Air Toxics Standards (MATS) Rule; (d) implementation and review of the Cross-State Air Pollution Rule (CSAPR), a FIP designed to eliminate significant contributions from sources in upwind states to nonattainment or maintenance areas in downwind states and (e) the Federal EPA’s regulation of greenhouse gas emissions from fossil-fueled electric generating units under Section 111 of the CAA.

In March 2017, President Trump issued a series of executive orders designed to allow the Federal EPA to review and take appropriate action to revise or rescind regulatory requirements that place undue burdens on affected entities, including specific orders directing the Federal EPA to review rules that unnecessarily burden the production and use of energy. The Federal EPA published notice and an opportunity to comment on how to identify such requirements and what steps can be taken to reduce or eliminate such burdens. Future changes that result from this effort may affect AEP’s compliance plans.

Notable developments in significant CAA regulatory requirements affecting AEP’s operations are discussed in the following sections.

NAAQS

The Federal EPA issued new, more stringent NAAQS for SO₂ in 2010, PM in 2012 and ozone in 2015; the existing standards for NO₂ were retained after review by the Federal EPA in 2018. Implementation of these standards is underway. States are still in the process of evaluating the attainment status and need for additional control measures in order to attain and maintain the 2010 SO₂ NAAQS. In December 2017, the Federal EPA published final designations for certain areas’ compliance with the 2010 SO₂ NAAQS. States may develop additional requirements for AEP’s facilities as a result of these designations. In April 2017, the Federal EPA requested a stay of proceedings in the U.S. Court of Appeals for the District of Columbia Circuit where challenges to the 2015 ozone standard are pending, to allow reconsideration of that standard by the new administration. The Federal EPA initially announced a one-year delay in the designation of ozone non-attainment areas, but withdrew that decision. In December 2017, the Federal EPA issued a notice of data availability and requested public comment on recommended designations for compliance with the 2015 ozone standard. In March 2018, the Federal EPA responded to additional data regarding certain areas submitted by Texas. The Federal EPA anticipates completing the designations process within 120 days of providing notice to the states. The Federal EPA has also issued information to assist the states in developing plans that address their obligations under the interstate transport provisions of the CAA. State implementation plans for the 2015 ozone standard are due in October 2018. Management cannot currently predict the nature, stringency or timing of additional

requirements for AEP's facilities based on the outcome of these activities.

Regional Haze

The Federal EPA issued a Clean Air Visibility Rule (CAVR), detailing how the CAA's requirement that certain facilities install best available retrofit technology (BART) will address regional haze in federal parks and other protected areas. BART requirements apply to facilities built between 1962 and 1977 that emit more than 250 tons per year of certain pollutants in specific industrial categories, including power plants. CAVR will be implemented through SIPs or, if SIPs are not adequate or are not developed on schedule, through FIPs. In January 2017, the Federal EPA revised the rules governing submission of SIPs to implement the visibility programs, including a provision that postpones the due date for the next comprehensive SIP revisions until 2021. Petitions for review of the final rule revisions have been filed in the U.S. Court of Appeals for the District of Columbia Circuit.

The Federal EPA proposed disapproval of regional haze SIPs in a few states, including Arkansas and Texas. In March 2012, the Federal EPA disapproved certain portions of the Arkansas regional haze SIP. In April 2015, the Federal EPA published a proposed FIP to replace the disapproved portions, including revised BART determinations for the Flint Creek Plant that were consistent with the environmental controls under construction. In September 2016, the Federal EPA published a final FIP that retains its BART determinations, but accelerates the schedule for implementation of certain required controls. The final rule is being challenged in the courts. In March 2017, the Federal EPA filed a motion that was granted by the U.S. Court of Appeals for the Eighth Circuit to hold the case in abeyance for 90 days to allow the parties to engage in settlement negotiations. Arkansas issued a proposed SIP revision to allow sources to participate in the CSAPR ozone season program in lieu of the source-specific NO_x BART requirements in the FIP, and the Federal EPA has approved that SIP revision. Arkansas issued a second proposal to revise the SO₂ BART determinations, and the public comment period on that action has closed. The Federal EPA has asked the Eighth Circuit to continue to hold litigation in abeyance to facilitate settlement discussions. Arkansas and other affected parties filed motions to stay the compliance deadlines pending further action from the Federal EPA and the motion was granted. Management cannot predict the outcome of these proceedings.

In January 2016, the Federal EPA disapproved portions of the Texas regional haze SIP and promulgated a final FIP that did not include any BART determinations. That rule was challenged and stayed by the U.S. Court of Appeals for the Fifth Circuit. The parties engaged in a settlement discussion but were unable to reach an agreement. In March 2017, the U.S. Court of Appeals for the Fifth Circuit granted partial remand of the final rule. In January 2017, the Federal EPA proposed source-specific BART requirements for SO₂ from sources in Texas, including Welsh Plant, Unit 1. Management submitted comments on the proposal and engaged in discussions with the Texas Commission on Environmental Quality (TCEQ) regarding the development of an alternative to source-specific BART. In September 2017, the Federal EPA issued a final rule withdrawing Texas from the annual CSAPR budget programs and reaffirming CSAPR as a BART alternative. The Federal EPA then issued a separate rule finalizing the regional haze requirements for electric generating units in Texas and confirmed TCEQ's determination that no new PM limitations are required for regional haze. The Federal EPA also finalized a FIP that allows participation in the CSAPR ozone season program to satisfy the NO_x regional haze obligations for electric generating units. Additionally, the Federal EPA finalized an intrastate SO₂ emissions trading program based on CSAPR allowance allocations as an alternative to source-specific SO₂ requirements. The proposed source-specific approach called for a wet FGD system to be installed on Welsh Plant, Unit 1. The opportunity to use emissions trading to satisfy the regional haze requirements for NO_x and SO₂ at AEP's affected generating units provides greater flexibility and lower cost compliance options than the original proposal. A challenge to the FIP has been filed in the U.S. Court of Appeals for the Fifth Circuit by various intervenors. The Federal EPA and petitioners filed a joint motion to hold the case in abeyance pending the Federal EPA's review of challengers' petition for reconsideration. In March 2018, that motion was granted. Management supports the intrastate trading program contained in the FIP as a compliance alternative to source-specific controls.

In June 2012, the Federal EPA published revisions to the regional haze rules to allow states participating in the CSAPR trading programs to use those programs in place of source-specific BART for SO₂ and NO_x emissions based

on its determination that CSAPR results in greater visibility improvements than source-specific BART in the CSAPR states. The rule was challenged in the U.S. Court of Appeals for the District of Columbia Circuit. In March 2018, the U.S. Court of Appeals for the District of Columbia Circuit affirmed the Federal EPA rule.

CSAPR

In 2011, the Federal EPA issued CSAPR as a replacement for the CAIR, a regional trading program designed to address interstate transport of emissions that contributed significantly to downwind nonattainment with the 1997 ozone and PM NAAQS. Certain revisions to the rule were finalized in 2012. CSAPR relies on newly-created SO₂ and NO_x allowances and individual state budgets to compel further emission reductions from electric utility generating units. Interstate trading of allowances is allowed on a restricted sub-regional basis.

Numerous affected entities, states and other parties filed petitions to review the CSAPR in the U.S. Court of Appeals for the District of Columbia Circuit. The court stayed implementation of the rule. Following extended proceedings in the U.S. Court of Appeals for the District of Columbia Circuit and the U.S. Supreme Court, but while the litigation was still pending, the U.S. Court of Appeals for the District of Columbia Circuit granted the Federal EPA's motion to lift the stay and allow Phase I of CSAPR to take effect on January 1, 2015 and Phase II to take effect on January 1, 2017. In July 2015, the U.S. Court of Appeals for the District of Columbia Circuit found that the Federal EPA over-controlled the SO₂ and/or NO_x budgets of 14 states. The U.S. Court of Appeals for the District of Columbia Circuit remanded the rule to the Federal EPA to timely revise the rule consistent with the court's opinion while CSAPR remains in place.

In October 2016, a final rule was issued to address the remand and to incorporate additional changes necessary to address the 2008 ozone standard. The final rule significantly reduces ozone season budgets in many states and discounts the value of banked CSAPR ozone season allowances beginning with the 2017 ozone season. The rule has been challenged in the courts and petitions for administrative reconsideration have been filed. In March 2018, the U.S. Court of Appeals for the District of Columbia Circuit denied the petitions and other challenges to the rule. Management has been complying with the more stringent ozone season budgets while these petitions were pending. In a related case, other parties challenged in the U.S. Court of Appeals for the District of Columbia Circuit a final rule withdrawing Texas from the CSAPR annual program and reaffirming that compliance with CSAPR remained better than compliance with BART. The U.S. Court of Appeals for the District of Columbia Circuit granted a motion in March 2018 to hold the case in abeyance until completion of the Federal EPA's review of pending petitions for reconsideration of the Texas regional haze rule discussed above.

Mercury and Other Hazardous Air Pollutants (HAPs) Regulation

In 2012, the Federal EPA issued a rule addressing a broad range of HAPs from coal and oil-fired power plants. The rule establishes unit-specific emission rates for units burning coal on a 30-day rolling average basis for mercury, PM (as a surrogate for particles of nonmercury metals) and hydrogen chloride (as a surrogate for acid gases). In addition, the rule proposes work practice standards, such as boiler tune-ups, for controlling emissions of organic HAPs and dioxin/furans. Compliance was required within three years. Management obtained administrative extensions for up to one year at several units to facilitate the installation of controls or to avoid a serious reliability problem.

In April 2014, the U.S. Court of Appeals for the District of Columbia Circuit denied all of the petitions for review of the April 2012 final rule. Industry trade groups and several states filed petitions for further review in the U.S. Supreme Court and the court granted those petitions in November 2014.

In June 2015, the U.S. Supreme Court reversed the decision of the U.S. Court of Appeals for the District of Columbia Circuit. The U.S. Court of Appeals for the District of Columbia Circuit remanded the MATS rule for further proceedings consistent with the U.S. Supreme Court's decision that the Federal EPA was unreasonable in refusing to consider costs in its determination whether to regulate emissions of HAPs from power plants. The Federal EPA issued notice of a supplemental finding concluding that it is appropriate and necessary to regulate HAP emissions from coal-fired and oil-fired units. Management submitted comments on the proposal. In April 2016, the Federal EPA

affirmed its determination that regulation of HAPs from electric generating units is necessary and appropriate. Petitions for review of the Federal EPA's April 2016 determination have been filed in the U.S. Court of Appeals for the District of Columbia Circuit. Oral argument was scheduled for May 2017, but in April 2017 the Federal EPA requested that oral argument be postponed to facilitate its review of the rule. The rule remains in effect.

Climate Change, CO₂ Regulation and Energy Policy

The majority of the states where AEP has generating facilities passed legislation establishing renewable energy, alternative energy and/or energy efficiency requirements that can assist in reducing carbon emissions. Management is taking steps to comply with these requirements, including increasing wind and solar installations and power purchases and broadening the AEP System's portfolio of energy efficiency programs.

In October 2015, the Federal EPA published the final standards for new, modified and reconstructed fossil fuel fired steam generating units and combustion turbines, and final guidelines for the development of state plans to regulate CO₂ emissions from existing sources. The final standard for new combustion turbines is 1,000 pounds of CO₂ per MWh and the final standard for new fossil steam units is 1,400 pounds of CO₂ per MWh. Reconstructed turbines are subject to the same standard as new units and no standard for modified combustion turbines was issued. Reconstructed fossil steam units are subject to a standard of 1,800 pounds of CO₂ per MWh for larger units and 2,000 pounds of CO₂ per MWh for smaller units. Modified fossil steam units will be subject to a site specific standard no lower than the standards that would be applied if the units were reconstructed.

The final emissions guidelines for existing sources, known as the Clean Power Plan (CPP), are based on a series of declining emission rates that are implemented beginning in 2022 through 2029. The final emission rate is 771 pounds of CO₂ per MWh for existing natural gas combined cycle units and 1,305 pounds of CO₂ per MWh for existing fossil steam units in 2030 and thereafter. The Federal EPA also developed a set of rate-based and mass-based state goals.

The Federal EPA also published proposed "model" rules that could be adopted by the states that would allow sources within "trading ready" state programs to trade, bank or sell allowances or credits issued by the states. These rules would also be the basis for any federal plan issued by the Federal EPA in a state that fails to submit or receive approval for a state plan. In June 2016, the Federal EPA issued a separate proposal for the Clean Energy Incentive Program (CEIP) that was included in the model rules.

The final rules are being challenged in the courts. In February 2016, the U.S. Supreme Court issued a stay on the final CPP, including all of the deadlines for submission of initial or final state plans. The stay will remain in effect until a final decision is issued by the U.S. Court of Appeals for the District of Columbia Circuit and the U.S. Supreme Court considers any petition for review. In April 2017, the Federal EPA withdrew its previously issued proposals for model trading rules and a CEIP.

In March 2017, the Federal EPA filed in the U.S. Court of Appeals for the District of Columbia Circuit notice of: (a) an Executive Order from the President of the United States titled "Promoting Energy Independence and Economic Growth" directing the Federal EPA to review the CPP and related rules; (b) the Federal EPA's initiation of a review of the CPP and (c) a forthcoming rulemaking related to the CPP consistent with the Executive Order, if the Federal EPA determines appropriate. In this same filing, the Federal EPA also presented a motion to hold the litigation in abeyance until 30 days after the conclusion of review of any resulting rulemaking. The District of Columbia Circuit granted the Federal EPA's motion in part and has requested periodic status reports. In October 2017, the Federal EPA issued a proposed rule repealing the CPP and withdrawing the legal memoranda issued in connection with the rule. The Federal EPA has re-examined its legal interpretation of the "best system of emission reduction" and found that based on the statutory text, legislative history, use of similar terms elsewhere in the CAA and its own historic implementation of Section 111 that a narrower interpretation of the term limits it to those designs, processes, control technologies and other systems that can be applied directly to or at the source. Since the primary systems relied on in the CPP are not consistent with that interpretation, the Federal EPA proposes that the rule be withdrawn. The comment period on the proposed repeal has been extended to April 2018. In December 2017, the Federal EPA issued an advanced notice of proposed rulemaking seeking information that should be considered by the Federal EPA in developing guidelines for state programs. Management is actively monitoring these rulemakings and participating in the development of any

new guidelines.

AEP has taken action to reduce and offset CO₂ emissions from its generating fleet and expects CO₂ emissions from its operations to continue to decline due to the retirement of some of its coal-fired generation units, and actions taken to diversify the generation fleet and increase energy efficiency where there is regulatory support for such activities. In February 2018, AEP announced new intermediate and long-term CO₂ emission reduction goals, based on the output

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of the company's integrated resource plans, which take into account economics, customer demand, regulations, and grid reliability and resiliency, and reflect the company's current business strategy. The intermediate goal is a 60% reduction from 2000 CO₂ emission levels from AEP generating facilities by 2030; the long-term goal is an 80% reduction of CO₂ emissions from AEP generating facilities from 2000 levels by 2050. AEP's total projected CO₂ emissions in 2018 are approximately 90 million metric tons, a 46% reduction from AEP's 2000 CO₂ emissions of approximately 167 million metric tons.

Federal and state legislation or regulations that mandate limits on the emission of CO₂ could result in significant increases in capital expenditures and operating costs, which in turn, could lead to increased liquidity needs and higher financing costs. Excessive costs to comply with future legislation or regulations might force AEP to close some coal-fired facilities and could lead to possible impairment of assets.

Coal Combustion Residual Rule

In April 2015, the Federal EPA published a final rule to regulate the disposal and beneficial re-use of coal combustion residuals (CCR), including fly ash and bottom ash generated at coal-fired electric generating units and also FGD gypsum generated at some coal-fired plants. The final rule has been challenged in the courts.

The final rule became effective in October 2015. CCR are regulated as non-hazardous solid wastes and facilities managing CCR must meet new minimum federal solid waste management standards. The rule applies to new and existing active CCR landfills and CCR surface impoundments at operating electric utility or independent power production facilities. The rule imposes construction and operating obligations, including location restrictions, liner criteria, structural integrity requirements for impoundments, operating criteria and additional groundwater monitoring requirements to be implemented on a schedule spanning an approximate four year implementation period. Certain records must be posted to a publicly available internet site.

In December 2016, the U.S. Congress passed legislation authorizing states to submit programs to regulate CCR facilities, and the Federal EPA to approve such programs if they are no less stringent than the minimum federal standards. The Federal EPA may also enforce compliance with the minimum standards until a state program is approved or if states fail to adopt their own programs. In September 2017, the Federal EPA granted industry petitions to reconsider the CCR rule and asked that litigation regarding the rule be held in abeyance. The U.S. Court of Appeals for the District of Columbia Circuit heard oral argument in November 2017. In March 2018, the Federal EPA issued a proposed rule to modify certain provisions of the solid waste management standards and provide additional flexibility to facilities regulated under approved state programs. The comment period is open until the end of April 2018. Management supports the adoption of more flexible compliance alternatives subject to the Federal EPA or state oversight.

Other utilities and industrial sources have been engaged in litigation with environmental advocacy groups who claim that releases of contaminants from wells, CCR units, pipelines and other facilities to ground waters that have a hydrologic connection to a surface water body represents an "unpermitted discharge" under the Clean Water Act. The Federal EPA has opened a rulemaking docket to solicit information to determine whether it should provide additional clarification of the scope of Clean Water Act permitting requirements for discharges to ground water. Comments are due in May 2018. Management is unable to predict the outcome of these cases on the Federal EPA's rulemaking, but they could impose significant additional costs on AEP's facilities.

Because AEP currently uses surface impoundments and landfills to manage CCR materials at generating facilities, significant costs will be incurred to upgrade or close and replace these existing facilities at some point in the future as the new rule is implemented. Management recorded a \$95 million increase in asset retirement obligations in 2015 primarily due to the publication of the final rule. Management will continue to evaluate the rule's impact on operations.

Clean Water Act (CWA) Regulations

In 2014, the Federal EPA issued a final rule setting forth standards for existing power plants that is intended to reduce mortality of aquatic organisms pinned against a plant's cooling water intake screen (impingement) or entrained in the cooling water. Entrainment is when small fish, eggs or larvae are drawn into the cooling water system and affected by heat, chemicals or physical stress. The final rule affects all plants withdrawing more than two million gallons of cooling water per day. The rule offers seven technology options to comply with the impingement standard and requires site-specific studies to determine appropriate entrainment compliance measures at facilities withdrawing more than 125 million gallons per day. Additional requirements may be imposed as a result of consultation with other federal agencies to protect threatened and endangered species and their habitats. Facilities with existing closed cycle recirculating cooling systems, as defined in the rule, are not expected to require any technology changes. Facilities subject to both the impingement standard and site-specific entrainment studies will typically be given at least three years to conduct and submit the results of those studies to the permit agency. Compliance timeframes will then be established by the permit agency through each facility's NPDES permit for installation of any required technology changes, as those permits are renewed over the next five to eight years. Petitions for review of the final rule were filed by industry and environmental groups and are currently pending in the U.S. Court of Appeals for the Second Circuit.

In addition, the Federal EPA developed revised effluent limitation guidelines for electricity generating facilities. A final rule was issued in November 2015. The final rule establishes limits on FGD wastewater, fly ash and bottom ash transport water and flue gas mercury control wastewater to be imposed as soon as possible after November 2018 and no later than December 2023. These new requirements will be implemented through each facility's wastewater discharge permit. The rule has been challenged in the U.S. Court of Appeals for the Fifth Circuit. In March 2017, industry associations filed a petition for reconsideration of the rule with the Federal EPA. In April 2017, the Federal EPA granted reconsideration of the rule and issued a stay of the rule's future compliance deadlines, which has now expired. In April 2017, the U.S. Court of Appeals for the Fifth Circuit granted a stay of the litigation for 120 days. In June 2017, the Federal EPA also issued a proposal to temporarily postpone certain compliance deadlines in the rule. A final rule revising the compliance deadlines for FGD wastewater and bottom ash transport water to be no earlier than 2020 was issued in September 2017. Management submitted comments supporting the proposed postponement. Management continues to assess technology additions and retrofits to comply with the rule and the impacts of the Federal EPA's recent actions on facilities' wastewater discharge permitting. Management is actively participating in the reconsideration proceedings.

In June 2015, the Federal EPA and the U.S. Army Corps of Engineers jointly issued a final rule to clarify the scope of the regulatory definition of "waters of the United States" in light of recent U.S. Supreme Court cases. The CWA provides for federal jurisdiction over "navigable waters" defined as "the waters of the United States." This jurisdictional definition applies to all CWA programs, potentially impacting generation, transmission and distribution permitting and compliance requirements. Among those programs are permits for wastewater and storm water discharges, permits for impacts to wetlands and water bodies and oil spill prevention planning. The final definition continues to recognize traditional navigable waters of the U.S. as jurisdictional as well as certain exclusions. The rule also contains a number of new specific definitions and criteria for determining whether certain other waters are jurisdictional because of a "significant nexus." Management believes that clarity and efficiency in the permitting process is needed. Management remains concerned that the rule introduces new concepts and could subject more of AEP's operations to CWA jurisdiction, thereby increasing the time and complexity of permitting. The final rule is being challenged in both courts of appeal and district courts. The U.S. Court of Appeals for the Sixth Circuit granted a nationwide stay of the rule pending jurisdictional determinations. In February 2016, the U.S. Court of Appeals for the Sixth Circuit issued a decision holding that it has exclusive jurisdiction to decide the challenges to the "waters of the United States" rule. Industry, state and related associations filed petitions for a rehearing of the jurisdictional decision. In April 2016, the U.S. Court of Appeals for the Sixth Circuit denied the petitions. In January 2017, the decision was appealed to the U.S. Supreme Court, which granted certiorari to review the jurisdictional issue. Oral argument was heard in October

2017. In January 2018, the U.S. Supreme Court ruled that challenges to the definition of “waters of the United States” must be filed in the federal district court, and remanded the case to the U.S. Court of Appeals for the Sixth Circuit with directions to dismiss the petitions for review for lack of jurisdiction. The stay has been lifted and the Sixth Circuit case has been dismissed. Challenges to the rule will proceed in federal district courts.

In March 2017, the Federal EPA published a notice of intent to review the rule and provide an advanced notice of a proposed rulemaking consistent with the Executive Order of the President of the United States directing the Federal EPA and U.S. Army Corps of Engineers to review and rescind or revise the rule. In June 2017, the agencies signed a notice of proposed rule to rescind the definition of “waters of the United States” that was adopted in June 2015, and to re-codify the definition of that phrase as it existed immediately prior to that action. This action would effectively retain the status quo until a new rule is adopted by the agencies. The Federal EPA and U.S. Army Corps of Engineers also finalized a new rule to extend the applicability date of the 2015 rule by two years before the nationwide stay issued by the U.S. Court of Appeals for the Sixth Circuit was lifted. Challenges to the applicability date rule have been filed by third parties in several federal district courts. Management will participate in further rulemaking activities.

RESULTS OF OPERATIONS

SEGMENTS

AEP's primary business is the generation, transmission and distribution of electricity. Within its Vertically Integrated Utilities segment, AEP centrally dispatches generation assets and manages its overall utility operations on an integrated basis because of the substantial impact of cost-based rates and regulatory oversight. Intersegment sales and transfers are generally based on underlying contractual arrangements and agreements.

AEP's reportable segments and their related business activities are outlined below:

Vertically Integrated Utilities

• Generation, transmission and distribution of electricity for sale to retail and wholesale customers through assets owned and operated by AEGCo, APCo, I&M, KGPCo, KPCo, PSO, SWEPCo and WPCo.

Transmission and Distribution Utilities

• Transmission and distribution of electricity for sale to retail and wholesale customers through assets owned and operated by AEP Texas and OPCo.

- OPCo purchases energy and capacity at auction to serve SSO customers and provides transmission and distribution services for all connected load.

AEP Transmission Holdco

• Development, construction and operation of transmission facilities through investments in AEPTCo. These investments have FERC-approved returns on equity.

• Development, construction and operation of transmission facilities through investments in AEP's transmission-only joint ventures. These investments have PUCT-approved or FERC-approved returns on equity.

Generation & Marketing

• Competitive generation in ERCOT and PJM.

• Marketing, risk management and retail activities in ERCOT, PJM, SPP and MISO.

• Contracted renewable energy investments and management services.

The remainder of AEP's activities is presented as Corporate and Other. While not considered a reportable segment, Corporate and Other primarily includes the purchasing of receivables from certain AEP utility subsidiaries, Parent's guarantee revenue received from affiliates, investment income, interest income and interest expense and other nonallocated costs.

The following discussion of AEP's results of operations by operating segment includes an analysis of Gross Margin, which is a non-GAAP financial measure. Gross Margin includes Total Revenues less the costs of Fuel and Other Consumables Used for Electric Generation as well as Purchased Electricity for Resale and Amortization of Generation Deferrals as presented in the Registrants statements of income as applicable. Under the various state utility rate making processes, these expenses are generally reimbursable directly from and billed to customers. As a result, they do not typically impact Operating Income or Earnings Attributable to AEP Common Shareholders. Management believes that Gross Margin provides a useful measure for investors and other financial statement users to analyze AEP's financial performance in that it excludes the effect on Total Revenues caused by volatility in these expenses.

Operating Income, which is presented in accordance with GAAP in AEP's statements of income, is the most directly comparable GAAP financial measure to the presentation of Gross Margin. AEP's definition of Gross Margin may not be directly comparable to similarly titled financial measures used by other companies.

The following table presents Earnings (Loss) Attributable to AEP Common Shareholders by segment:

	Three Months Ended March 31, 2018 2017 (in millions)	
Vertically Integrated Utilities	\$231.2	\$219.5
Transmission and Distribution Utilities	125.4	119.1
AEP Transmission Holdco	104.0	71.8
Generation & Marketing	18.2	186.2
Corporate and Other	(24.4)	(4.4)
Earnings Attributable to AEP Common Shareholders	\$454.4	\$592.2

AEP CONSOLIDATED

First Quarter of 2018 Compared to First Quarter of 2017

Earnings Attributable to AEP Common Shareholders decreased from \$592 million in 2017 to \$454 million in 2018 primarily due to:

- A decrease in earnings in the Generation & Marketing segment primarily due to the 2017 gain resulting from the sale of certain merchant generation assets.

This decrease was partially offset by:

- An increase in transmission investment primarily at AEP Transmission Holdco, which resulted in higher revenues and income.
- An increase in weather-related usage.
- Favorable rate proceedings in AEP's various jurisdictions.

AEP's results of operations by operating segment are discussed below.

VERTICALLY INTEGRATED UTILITIES

Vertically Integrated Utilities	Three Months Ended	
	2018	2017
	(in millions)	
Revenues	\$2,408.0	\$2,290.4
Fuel and Purchased Electricity	857.8	788.4
Gross Margin	1,550.2	1,502.0
Other Operation and Maintenance	740.0	660.1
Depreciation and Amortization	313.3	278.3
Taxes Other Than Income Taxes	109.9	101.1
Operating Income	387.0	462.5
Interest and Investment Income	2.6	3.1
Carrying Costs Income	2.8	4.1
Allowance for Equity Funds Used During Construction	7.4	6.2
Non-Service Cost Components of Net Periodic Benefit Cost	18.1	5.9
Interest Expense	(137.9)	(134.9)
Income Before Income Tax Expense and Equity Earnings	280.0	346.9
Income Tax Expense	47.7	127.7
Equity Earnings of Unconsolidated Subsidiaries	0.5	1.3
Net Income	232.8	220.5
Net Income Attributable to Noncontrolling Interests	1.6	1.0
Earnings Attributable to AEP Common Shareholders	\$231.2	\$219.5

Summary of KWh Energy Sales for Vertically Integrated Utilities

	Three Months	
	Ended March	
	31,	
	2018	2017
	(in millions of	
	KWhs)	
Retail:		
Residential	9,572	8,239
Commercial	5,868	5,689
Industrial	8,497	8,264
Miscellaneous	553	536
Total Retail	24,490	22,728
Wholesale (a)	5,738	6,507

Total KWhs 30,228 29,235

(a) Includes off-system sales, municipalities and cooperatives, unit power and other wholesale customers.

Heating degree days and cooling degree days are metrics commonly used in the utility industry as a measure of the impact of weather on revenues. In general, degree day changes in the eastern region have a larger effect on revenues than changes in the western region due to the relative size of the two regions and the number of customers within each region.

Summary of Heating and Cooling Degree Days for Vertically Integrated Utilities

Three
Months
Ended
March 31,
2018 2017
(in degree
days)

Eastern Region

Actual – Heating (a) 1,637 1,181
Normal – Heating (b)1,602 1,615

Actual – Cooling (c) 6 1
Normal – Cooling (b)5 5

Western Region

Actual – Heating (a) 881 530
Normal – Heating (b)875 892

Actual – Cooling (c) 36 82
Normal – Cooling (b)27 24

(a) Heating degree days are calculated on a 55 degree temperature base.

(b) Normal Heating/Cooling represents the thirty-year average of degree days.

(c) Cooling degree days are calculated on a 65 degree temperature base.

First Quarter of 2018 Compared to First Quarter of 2017
 Reconciliation of First Quarter of 2017 to First Quarter of 2018
 Earnings Attributable to AEP Common Shareholders from Vertically
 Integrated Utilities
 (in millions)

First Quarter of 2017	\$219.5
Changes in Gross Margin:	
Retail Margins	49.5
Off-system Sales	1.0
Transmission Revenues	2.7
Other Revenues	(5.0)
Total Change in Gross Margin	48.2
Changes in Expenses and Other:	
Other Operation and Maintenance	(79.9)
Depreciation and Amortization	(35.0)
Taxes Other Than Income Taxes	(8.8)
Interest and Investment Income	(0.5)
Carrying Costs Income	(1.3)
Allowance for Equity Funds Used During Construction	1.2
Non-Service Cost Components of Net Periodic Pension Cost	12.2
Interest Expense	(3.0)
Total Change in Expenses and Other	(115.1)
Income Tax Expense	80.0
Equity Earnings	(0.8)
Net Income Attributable to Noncontrolling Interests	(0.6)
First Quarter of 2018	\$231.2

The major components of the increase in Gross Margin, defined as revenues less the related direct cost of fuel, including consumption of chemicals and emissions allowances, and purchased electricity were as follows:

Retail Margins increased \$50 million primarily due to the following:

• An \$89 million increase in weather-related usage primarily in the eastern region.

• The effect of rate proceedings in AEP's service territories which included:

• A \$25 million increase for I&M from rate proceedings primarily in Indiana.

• A \$22 million increase for SWEPCo due to rider and base rate revenue increases in Texas and Louisiana.

• An \$11 million increase for APCo primarily due to increases from rate riders in Virginia.

• A \$4 million increase for PSO due to new rates implemented in March 2018, inclusive of a \$2 million decrease due to the change in the corporate federal tax rate.

For the rate increases described above, \$26 million relate to riders/trackers, which have corresponding increases in expense items below.

These increases were partially offset by:

• A \$71 million decrease due to the 2018 provisions for customer refunds primarily related to Tax Reform. This decrease is offset in Income Tax Expense below.

•

A \$16 million decrease due to lower weather-normalized margins, primarily due to SWEPCo and I&M wholesale customer load loss from contracts that expired at the end of 2017.

• A \$4 million decrease primarily due to increased fuel and other variable production costs not recovered through fuel clauses or other trackers.

• A \$4 million decrease for I&M in FERC generation wholesale municipal and cooperative revenues primarily due to changes to the annual formula rate.

Transmission Revenues increased \$3 million primarily due to an increase in transmission investments in SPP. Other Revenues decreased \$5 million primarily due to reduced rates for KPCo Demand Side Management programs beginning in 2018. This decrease is partially offset in Other Operation and Maintenance expense below.

Expenses and Other and Income Tax Expense changed between years as follows:

Other Operation and Maintenance expenses increased \$80 million primarily due to the following:

A \$45 million increase in recoverable expenses, primarily fuel support and PJM expenses fully recovered in rate recovery riders/trackers in Gross Margins above.

A \$15 million increase in plant maintenance primarily for I&M, KPCo and SWEPCo.

A \$14 million increase due to the Wind Catcher Project for SWEPCo and PSO.

A \$10 million increase in transmission services primarily in SPP.

A \$9 million increase due to an increase in estimated expense for claims related to asbestos exposure.

These increases were partially offset by:

A \$7 million decrease due to an increased Nuclear Electric Insurance Limited distribution in 2018.

• A \$6 million decrease in distribution expenses primarily due to distribution system improvements in 2017.

Depreciation and Amortization expenses increased \$35 million primarily due to a higher depreciable base.

Taxes Other Than Income Taxes increased \$9 million primarily due to:

A \$4 million increase in state gross receipts tax due to a prior period refund.

A \$3 million increase in property tax driven by an increase in utility plant.

Non-Service Cost Components of Net Periodic Benefit Cost decreased \$12 million primarily due to favorable asset returns for the funded Pension and OPEB plans and by moving to a Medicare Advantage arrangement for post-65 retirees in the Non-UMWA OPEB plan. Additionally, the decrease was partially due to the implementation of ASU 2017-07 in 2018, which eliminated AEP's ability to capitalize a portion of its non-service cost components.

Income Tax Expense decreased \$80 million primarily due to the change in the corporate federal income tax rate from 35% in 2017 to 21% in 2018 as a result of Tax Reform, amortization of excess accumulated deferred income taxes associated with certain depreciable property and a decrease in pretax book income.

TRANSMISSION AND DISTRIBUTION UTILITIES

	Three Months Ended March 31,	
	2018	2017
Transmission and Distribution Utilities	(in millions)	
Revenues	\$1,162.4	\$1,086.4
Purchased Electricity	244.6	223.4
Amortization of Generation Deferrals	58.6	60.9
Gross Margin	859.2	802.1
Other Operation and Maintenance	352.7	287.9
Depreciation and Amortization	172.6	156.2
Taxes Other Than Income Taxes	137.4	126.9
Operating Income	196.5	231.1
Interest and Investment Income	1.4	3.5
Carrying Costs Income	0.7	1.9
Allowance for Equity Funds Used During Construction	8.0	4.2
Non-Service Cost Components of Net Periodic Benefit Cost	8.2	2.2
Interest Expense	(60.1)	(60.0)
Income Before Income Tax Expense	154.7	182.9
Income Tax Expense	29.3	63.8
Net Income	125.4	119.1
Net Income Attributable to Noncontrolling Interests	—	—
Earnings Attributable to AEP Common Shareholders	\$125.4	\$119.1

Summary of KWh Energy Sales for Transmission and Distribution Utilities

	Three Months Ended March 31,	
	2018	2017
	(in millions of KWhs)	
Retail:		
Residential	6,797	5,894
Commercial	5,864	5,753
Industrial	5,514	5,476
Miscellaneous	153	160
Total Retail (a)	18,328	17,283
Wholesale (b)	667	798
Total KWhs	18,995	18,081

(a) Represents energy delivered to distribution customers.

(b) Primarily Ohio's contractually obligated purchases of OVEC power sold into PJM.

Heating degree days and cooling degree days are metrics commonly used in the utility industry as a measure of the impact of weather on revenues. In general, degree day changes in the eastern region have a larger effect on revenues than changes in the western region due to the relative size of the two regions and the number of customers within each region.

Summary of Heating and Cooling Degree Days for Transmission and Distribution Utilities

Three
Months
Ended
March 31,
2018 2017
(in degree
days)

Eastern Region

Actual – Heating (a) 1,884 1,403
Normal – Heating (b)1,884 1,899

Actual – Cooling (c) 4 3
Normal – Cooling (b)3 3

Western Region

Actual – Heating (a) 230 102
Normal – Heating (b)191 195

Actual – Cooling (d) 196 258
Normal – Cooling (b)119 113

- (a) Heating degree days are calculated on a 55 degree temperature base.
- (b) Normal Heating/Cooling represents the thirty-year average of degree days.
- (c) Eastern Region cooling degree days are calculated on a 65 degree temperature base.
- (d) Western Region cooling degree days are calculated on a 70 degree temperature base.

First Quarter of 2018 Compared to First Quarter of 2017
 Reconciliation of First Quarter of 2017 to First Quarter of 2018
 Earnings Attributable to AEP Common Shareholders from
 Transmission and Distribution Utilities
 (in millions)

First Quarter of 2017	\$ 119.1
Changes in Gross Margin:	
Retail Margins	53.8
Off-System Sales	5.5
Transmission Revenues	(4.0)
Other Revenues	1.8
Total Change in Gross Margin	57.1
Changes in Expenses and Other:	
Other Operation and Maintenance	(64.8)
Depreciation and Amortization	(16.4)
Taxes Other Than Income Taxes	(10.5)
Interest and Investment Income	(2.1)
Carrying Costs Income	(1.2)
Allowance for Equity Funds Used During Construction	3.8
Non-Service Cost Components of Net Periodic Benefit Cost	6.0
Interest Expense	(0.1)
Total Change in Expenses and Other	(85.3)
Income Tax Expense	34.5
First Quarter of 2018	\$ 125.4

The major components of the increase in Gross Margin, defined as revenues less the related direct cost of purchased electricity and amortization of generation deferrals were as follows:

Retail Margins increased \$54 million primarily due to the following:

• A \$39 million net increase in Ohio Basic Transmission Cost Rider revenues and recoverable PJM expenses. This increase was partially offset by a corresponding increase in Other Operation and Maintenance below.

• A \$21 million increase in Ohio revenues associated with the Universal Service Fund (USF). This increase was offset by a corresponding increase in Other Operation and Maintenance expenses below.

• A \$10 million increase in Texas weather-related usage primarily driven by a 125% increase in heating degree days partially offset by a 24% decrease in cooling degree days.

• A \$10 million increase in weather-normalized margins, primarily in the residential and commercial classes.

• A \$9 million increase in Texas revenues associated with the Transmission Cost Recovery Factor revenue rider. This increase was partially offset by an increase in Other Operation and Maintenance expenses below.

• A \$7 million increase in Texas revenues associated with the Distribution Cost Recovery Factor revenue rider.

• A \$6 million increase in Ohio rider revenues associated with the DIR. This increase was partially offset in various expenses below.

• A \$4 million net increase in Ohio RSR revenues less associated amortizations.

These increases were partially offset by:

•

A \$21 million decrease due to the 2018 provisions for customer refunds primarily related to Tax Reform. This decrease is offset in Income Tax Expense below.

An \$11 million decrease in Energy Efficiency/Peak Demand Reduction rider revenues in Ohio. This decrease was partially offset by a corresponding decrease in Other Operation and Maintenance expenses below.

A \$10 million decrease in margin for the Ohio Phase-In-Recovery Rider including associated amortizations.

A \$7 million decrease in Ohio due to the recovery of lower current year losses from a power contract with OVEC. This decrease was offset by a corresponding increase in Margins from Off-system Sales below.

A \$7 million decrease in Ohio revenues associated with smart grid riders. This decrease was partially offset by a corresponding decrease in various expenses below.

Margins from Off-system Sales increased \$6 million primarily due to lower current year losses from a power contract with OVEC in Ohio which was offset in Retail Margins above as a result of the OVEC PPA rider beginning in January 2017.

Transmission Revenues decreased \$4 million primarily due to the following:

An \$11 million decrease mainly due to the 2018 provisions for customer refunds primarily due to Tax Reform. This decrease is offset in Income Tax Expense below.

This decrease was partially offset by:

A \$7 million increase due to recovery of increased transmission investment in ERCOT.

Expenses and Other and Income Tax Expense changed between years as follows:

Other Operation and Maintenance expenses increased \$65 million primarily due to the following:

A \$44 million increase in transmission expenses that were fully recovered in rate recovery riders/trackers within Gross Margins above.

A \$21 million increase in remitted USF surcharge payments to the Ohio Department of Development to fund an energy assistance program for qualified Ohio customers. This increase was offset by a corresponding increase in Retail Margins above.

These increases were partially offset by:

A \$9 million decrease in Ohio Energy Efficiency/Peak Demand Reduction expenses that were fully recovered in rate recovery riders/trackers within Retail Margins above.

Depreciation and Amortization expenses increased \$16 million primarily due to the following:

A \$7 million increase in depreciation expense due to an increase in depreciable base of transmission and distribution assets.

A \$6 million increase in recoverable DIR depreciation expense in Ohio. This increase was offset in Retail Margins above.

A \$5 million increase due to securitization amortizations related to Texas securitized transition funding. This increase was offset in Other Revenues above and in Interest Expense below.

Taxes Other Than Income Taxes increased \$11 million primarily due to the following:

A \$6 million increase in property taxes due to additional investments in transmission and distribution assets and higher tax rates.

A \$4 million increase in state excise taxes due to an increase in metered kWhs. This increase was offset in Retail Margins above.

Allowance for Equity Funds Used During Construction increased \$4 million due to increased transmission projects in Texas.

Non-Service Cost Components of Net Periodic Benefit Cost decreased \$6 million primarily due to favorable asset returns for the funded Pension and OPEB plans and by moving to a Medicare Advantage arrangement for post-65 retirees in the Non-UMWA OPEB plan. Additionally, the decrease was partially due to the implementation of ASU 2017-07 in 2018, which eliminated AEP's ability to capitalize a portion of its non-service cost components.

Income Tax Expense decreased \$35 million primarily due to the change in the corporate federal income tax rate from 35% in 2017 to 21% in 2018 as a result of Tax Reform and a decrease in pretax book income.

AEP TRANSMISSION HOLDCO

AEP Transmission Holdco	Three Months Ended March 31,	
	2018	2017
	(in millions)	
Transmission Revenues	\$205.5	\$156.1
Other Operation and Maintenance	21.9	14.1
Depreciation and Amortization	31.8	24.6
Taxes Other Than Income Taxes	32.7	28.0
Operating Income	119.1	89.4
Interest and Investment Income	0.3	0.2
Allowance for Equity Funds Used During Construction	15.3	10.8
Non-Service Cost Components of Net Periodic Benefit Cost	0.7	0.1
Interest Expense	(21.1)	(17.3)
Income Before Income Tax Expense and Equity Earnings	114.3	83.2
Income Tax Expense	27.5	36.4
Equity Earnings of Unconsolidated Subsidiaries	18.0	26.0
Net Income	104.8	72.8
Net Income Attributable to Noncontrolling Interests	0.8	1.0
Earnings Attributable to AEP Common Shareholders	\$104.0	\$71.8

Summary of Investment in Transmission Assets for AEP Transmission Holdco

	As of March 31,	
	2018	2017
	(in millions)	
Plant in Service	\$5,912.8	\$4,476.5
Construction Work in Progress	1,533.7	1,188.8
Accumulated Depreciation and Amortization	200.0	120.6
Total Transmission Property, Net	\$7,246.5	\$5,544.7

First Quarter of 2018 Compared to First Quarter of 2017

Reconciliation of First Quarter of 2017 to First Quarter of 2018

Earnings Attributable to AEP Common Shareholders from AEP Transmission Holdco
(in millions)

First Quarter of 2017	\$71.8
Changes in Transmission Revenues:	
Transmission Revenues	49.4
Total Change in Transmission Revenues	49.4
Changes in Expenses and Other:	
Other Operation and Maintenance	(7.8)
Depreciation and Amortization	(7.2)
Taxes Other Than Income Taxes	(4.7)
Interest and Investment Income	0.1
Allowance for Equity Funds Used During Construction	4.5
Non-Service Cost Components of Net Periodic Pension Cost	0.6
Interest Expense	(3.8)
Total Change in Expenses and Other	(18.3)
Income Tax Expense	8.9
Equity Earnings of Unconsolidated Subsidiaries	(8.0)
Net Income Attributable to Noncontrolling Interests	0.2
First Quarter of 2018	\$104.0

The major components of the increase in transmission revenues, which consists of wholesale sales to affiliates and nonaffiliates, were as follows:

Transmission Revenues increased \$49 million primarily due to the following:

Formula rate increases of \$68 million driven by continued investment in transmission assets.

This increase was partially offset by:

A \$19 million decrease due to the 2018 provisions for customer refunds primarily related to Tax Reform. This decrease is offset in Income Tax Expense below.

Expenses and Other, Income Tax Expense and Equity Earnings of Unconsolidated Subsidiaries changed between years as follows:

Other Operation and Maintenance expenses increased \$8 million primarily due to increased transmission investment.

Depreciation and Amortization expenses increased \$7 million primarily due to a higher depreciable base.

Taxes Other Than Income Taxes increased \$5 million primarily due to higher property taxes as a result of increased transmission investment.

Allowance for Equity Funds Used During Construction increased \$5 million primarily due to increased transmission investment resulting in a higher CWIP balance.

Interest Expense increased \$4 million primarily due to higher outstanding long-term debt balances.

Income Tax Expense decreased \$9 million primarily due to the change in the corporate federal income tax rate from 35% in 2017 to 21% in 2018 as a result of Tax Reform, partially offset by an increase in pretax book income.

Equity Earnings of Unconsolidated Subsidiaries decreased \$8 million primarily due to lower earnings at ETT resulting from decreased revenues driven by Tax Reform and by an ETT rate reduction that went into effect in March 2017, increased operating expenses, decreased AFUDC and increased interest expense.

GENERATION & MARKETING

Generation & Marketing	Three Months Ended March 31,	
	2018	2017
	(in millions)	
Revenues	\$505.1	\$591.4
Fuel, Purchased Electricity and Other	408.8	405.2
Gross Margin	96.3	186.2
Other Operation and Maintenance	67.6	99.8
Gain on Sale of Merchant Generation Assets	—	(226.5)
Depreciation and Amortization	6.9	5.7
Taxes Other Than Income Taxes	3.2	2.0
Operating Income	18.6	305.2
Interest and Investment Income	2.5	2.2
Non-Service Cost Components of Net Periodic Benefit Cost	3.9	2.3
Interest Expense	(3.9)	(6.5)
Income Before Income Tax Expense	21.1	303.2
Income Tax Expense	3.0	117.0
Net Income	18.1	186.2
Net Loss Attributable to Noncontrolling Interests	(0.1)	—
Earnings Attributable to AEP Common Shareholders	\$18.2	\$186.2

Summary of MWhs Generated for Generation & Marketing

Fuel Type:	Three Months Ended March 31,	
	2018	2017
	(in millions of MWhs)	
Coal	4	6
Natural Gas	—	2
Total MWhs	4	8

First Quarter of 2018 Compared to First Quarter of 2017
 Reconciliation of First Quarter of 2017 to First Quarter of 2018
 Earnings Attributable to AEP Common Shareholders from Generation
 & Marketing
 (in millions)

First Quarter of 2017	\$ 186.2
Changes in Gross Margin:	
Generation	(53.6)
Retail, Trading and Marketing	(37.7)
Other	1.4
Total Change in Gross Margin	(89.9)
Changes in Expenses and Other:	
Other Operation and Maintenance	32.2
Gain on Sale of Merchant Generation Assets	(226.5)
Depreciation and Amortization	(1.2)
Taxes Other Than Income Taxes	(1.2)
Interest and Investment Income	0.3
Non-Service Cost Components of Net Periodic Benefit Cost	1.6
Interest Expense	2.6
Total Change in Expenses and Other	(192.2)
Income Tax Expense	114.0
Net Loss Attributable to Noncontrolling Interests	0.1
First Quarter of 2018	\$ 18.2

The major components of the decrease in Gross Margin, defined as revenues less the related direct cost of fuel, including consumption of chemicals and emissions allowances, purchased electricity and certain cost of service for retail operations were as follows:

• Generation decreased \$54 million primarily due to the reduction of revenues associated with the sale of certain merchant generation assets in 2017.

• Retail, Trading and Marketing decreased \$38 million primarily due to reduced wholesale trading and marketing revenues, mark-to-market hedge losses and lower retail margins.

Expenses and Other and Income Tax Expense changed between years as follows:

• Other Operation and Maintenance expenses decreased \$32 million primarily due to the following:

• A \$21 million decrease in expenses due to the sale of certain merchant generation assets in 2017.

• An \$11 million decrease in expenses due to an impairment of certain merchant generation assets in 2017.

• Gain on Sale of Merchant Generation Assets decreased \$227 million due to the sale of certain merchant generation assets in 2017.

Income Tax Expense decreased \$114 million primarily due to a reduction in pretax book income due to the gain on sale of certain merchant generation assets in 2017 and the change in corporate federal income tax rate from 35% in 2017 to 21% in 2018 as a result of Tax Reform.

CORPORATE AND OTHER

First Quarter of 2018 Compared to First Quarter of 2017

Earnings Attributable to AEP Common Shareholders from Corporate and Other decreased from a loss of \$4 million in 2017 to a loss of \$24 million in 2018. The loss in 2018 is primarily due to a \$20 million impairment of an equity investment and related assets and a \$12 million increase in interest expense partially offset by a \$9 million decrease in general corporate expenses.

AEP SYSTEM INCOME TAXES

First Quarter of 2018 Compared to First Quarter of 2017

Income Tax Expense decreased \$241 million primarily due to the change in the corporate federal income tax rate from 35% in 2017 to 21% in 2018 as a result of Tax Reform, the amortization of excess accumulated deferred income taxes associated with certain depreciable property in 2018 and a decrease in pretax book income.

FINANCIAL CONDITION

AEP measures financial condition by the strength of its balance sheet and the liquidity provided by its cash flows.

LIQUIDITY AND CAPITAL RESOURCES

Debt and Equity Capitalization

	March 31, 2018		December 31, 2017	
	(dollars in millions)			
Long-term Debt, including amounts due within one year	\$21,461.0	50.3 %	\$21,173.3	51.5 %
Short-term Debt	2,658.8	6.2	1,638.6	4.0
Total Debt	24,119.8	56.5	22,811.9	55.5
AEP Common Equity	18,483.3	43.4	18,287.0	44.4
Noncontrolling Interests	28.3	0.1	26.6	0.1
Total Debt and Equity Capitalization	\$42,631.4	100.0%	\$41,125.5	100.0%

AEP's ratio of debt-to-total capital increased from 55.5% as of December 31, 2017 to 56.5% as of March 31, 2018 primarily due to an increase in short-term debt due to increasing construction expenditures for distribution and transmission investments.

Liquidity

Liquidity, or access to cash, is an important factor in determining AEP's financial stability. Management believes AEP has adequate liquidity under its existing credit facilities. As of March 31, 2018, AEP had a \$3 billion revolving credit facility commitment to support its operations. Additional liquidity is available from cash from operations and a receivables securitization agreement. Management is committed to maintaining adequate liquidity. AEP generally uses short-term borrowings to fund working capital needs, property acquisitions and construction until long-term funding is arranged. Sources of long-term funding include issuance of long-term debt, sale-leaseback or leasing agreements or common stock.

Commercial Paper Credit Facilities

AEP manages liquidity by maintaining adequate external financing commitments. As of March 31, 2018, available liquidity was approximately \$1.3 billion as illustrated in the table below:

	Amount (in millions)	Maturity
Commercial Paper Backup:		
Revolving Credit Facility	\$ 3,000.0	June 2021
Cash and Cash Equivalents	183.4	
Total Liquidity Sources	3,183.4	
Less: AEP Commercial Paper Outstanding	1,886.2	
Net Available Liquidity	\$ 1,297.2	

AEP uses its commercial paper program to meet the short-term borrowing needs of its subsidiaries. The program is used to fund both a Utility Money Pool, which funds the utility subsidiaries, and a Nonutility Money Pool, which funds certain nonutility subsidiaries. In addition, the program also funds, as direct borrowers, the short-term debt requirements of other subsidiaries that are not participants in either money pool for regulatory or operational reasons. The maximum amount of commercial paper outstanding during the first three months of 2018 was \$2.2 billion. The weighted-average interest rate for AEP's commercial paper during 2018 was 2.07%.

Other Credit Facilities

An uncommitted facility gives the issuer of the facility the right to accept or decline each request made under the facility. AEP issues letters of credit on behalf of subsidiaries under four uncommitted facilities totaling \$305 million. In March 2018, one of the uncommitted credit facilities was reduced by \$40 million. The Registrants' maximum future payments for letters of credit issued under the uncommitted facilities as of March 31, 2018 was \$81 million with maturities ranging from May 2018 to March 2019.

Securitized Accounts Receivables

AEP's receivables securitization agreement provides a commitment of \$750 million from bank conduits to purchase receivables and expires in June 2019.

Debt Covenants and Borrowing Limitations

AEP's credit agreements contain certain covenants and require it to maintain a percentage of debt to total capitalization at a level that does not exceed 67.5%. The method for calculating outstanding debt and capitalization is contractually defined in AEP's credit agreements. Debt as defined in the revolving credit agreements excludes securitization bonds and debt of AEP Credit. As of March 31, 2018, this contractually-defined percentage was 54.8%. Nonperformance under these covenants could result in an event of default under these credit agreements. In addition, the acceleration of AEP's payment obligations, or the obligations of certain of AEP's major subsidiaries, prior to maturity under any other agreement or instrument relating to debt outstanding in excess of \$50 million, would cause an event of default under these credit agreements. This condition also applies in a majority of AEP's non-exchange traded commodity contracts and would similarly allow lenders and counterparties to declare the outstanding amounts payable. However, a default under AEP's non-exchange traded commodity contracts would not cause an event of default under its credit agreements.

The revolving credit facilities do not permit the lenders to refuse a draw on any facility if a material adverse change occurs.

Utility Money Pool borrowings and external borrowings may not exceed amounts authorized by regulatory orders and AEP manages its borrowings to stay within those authorized limits.

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Dividend Policy and Restrictions

The Board of Directors declared a quarterly dividend of \$0.62 per share in April 2018. Future dividends may vary depending upon AEP's profit levels, operating cash flow levels and capital requirements, as well as financial and other business conditions existing at the time. Parent's income primarily derives from common stock equity in the earnings of its utility subsidiaries. Various financing arrangements and regulatory requirements may impose certain restrictions on the ability of the subsidiaries to transfer funds to Parent in the form of dividends. Management does not believe these restrictions will have any significant impact on its ability to access cash to meet the payment of dividends on its common stock.

Credit Ratings

AEP and its utility subsidiaries do not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit downgrade, but its access to the commercial paper market may depend on its credit ratings. In addition, downgrades in AEP's credit ratings by one of the rating agencies could increase its borrowing costs. Counterparty concerns about the credit quality of AEP or its utility subsidiaries could subject AEP to additional collateral demands under adequate assurance clauses under its derivative and non-derivative energy contracts.

CASH FLOW

AEP relies primarily on cash flows from operations, debt issuances and its existing cash and cash equivalents to fund its liquidity and investing activities. AEP's investing and capital requirements are primarily capital expenditures, repaying of long-term debt and paying dividends to shareholders. AEP uses short-term debt, including commercial paper, as a bridge to long-term debt financing. The levels of borrowing may vary significantly due to the timing of long-term debt financings and the impact of fluctuations in cash flows.

	Three Months Ended March 31, 2018 2017 (in millions)	
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	\$412.6	\$403.5
Net Cash Flows from Operating Activities	802.2	806.8
Net Cash Flows from (Used for) Investing Activities	(1,927.8)	776.2
Net Cash Flows from (Used for) Financing Activities	1,029.5	(1,687.1)
Net Decrease in Cash, Cash Equivalents and Restricted Cash	(96.1)	(104.1)
Cash, Cash Equivalents and Restricted Cash at End of Period	\$316.5	\$299.4

Operating Activities

	Three Months Ended March 31,	
	2018	2017
	(in millions)	
Net Income	\$456.7	\$594.2
Non-Cash Adjustments to Net Income (a)	623.7	405.5
Mark-to-Market of Risk Management Contracts	(0.7)	6.0
Property Taxes	(63.7)	(44.4)
Deferred Fuel Over/Under Recovery, Net	(61.2)	19.3
Recovery of Ohio Capacity Costs, Net	18.0	30.2
Provision for Refund - Global Settlement, Net	(5.4)	—
Change in Other Noncurrent Assets	(59.8)	(99.1)
Change in Other Noncurrent Liabilities	133.3	45.0
Change in Certain Components of Working Capital	(238.7)	(149.9)
Net Cash Flows from Operating Activities	\$802.2	\$806.8

Non-Cash Adjustments to Net Income includes Depreciation and Amortization, Deferred Income Taxes, (a) Allowance for Equity Funds Used During Construction, Amortization of Nuclear Fuel and Gain on Sale of Merchant Generation Assets.

Net Cash Flows from Operating Activities decreased by \$5 million primarily due to the following:

An \$89 million decrease in cash from Changes in Certain Components of Working Capital. This decrease is primarily due to changes in accrued federal taxes and timing of receivables and payables, partially offset by lower employee-related payments.

An \$81 million decrease in cash from Deferred Fuel Over/Under Recovery, Net, primarily due to fluctuations of fuel and purchase power costs at APCo.

These decreases in cash were partially offset by:

An \$88 million increase in Change in Other Noncurrent Liabilities primarily due to increased Accumulated Provisions for Rate Refunds as a result of Tax Reform.

An \$81 million increase in cash from Net Income, after non-cash adjustments. See Results of Operations for additional information.

Investing Activities

	Three Months Ended March 31,	
	2018	2017
	(in millions)	
Construction Expenditures	\$(1,905.8)	\$(1,365.8)
Acquisitions of Nuclear Fuel	(23.8)	(3.7)
Proceeds from Sale of Merchant Generation Assets	—	2,159.6
Other	1.8	(13.9)
Net Cash Flows from (Used for) Investing Activities	\$(1,927.8)	\$776.2

Net Cash Flows from (Used for) Investing Activities decreased by \$2.7 billion primarily due to the following:

A \$2.2 billion decrease in cash due to the sale of certain merchant generation assets in 2017. See Note 6 - Dispositions and Impairments for additional information.

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A \$540 million decrease in cash due to increased construction expenditures, primarily due to increases in Transmission and Distribution Utilities of \$343 million and AEP Transmission Holdco of \$168 million.

Financing Activities

	Three Months Ended	
	March 31,	
	2018	2017
	(in millions)	
Issuance of Common Stock, Net	\$32.2	\$—
Issuance/Retirement of Debt, Net	1,317.2	(1,336.4)
Dividends Paid on Common Stock	(306.1)	(291.4)
Other	(13.8)	(59.3)
Net Cash Flows from (Used for) Financing Activities	\$1,029.5	\$(1,687.1)

Net Cash Flows from (Used for) Financing Activities increased by \$2.7 billion primarily due to the following:

• A \$1.2 billion increase in cash from short-term debt primarily due to increased borrowings of commercial paper. See Note 12 - Financing Activities for additional information.

• A \$758 million increase in cash due to increased issuances of long-term debt. See Note 12 - Financing Activities for additional information.

• A \$698 million increase in cash due to decreased retirements of long-term debt. See Note 12 - Financing Activities for additional information.

• A \$32 million increase in cash due to increased proceeds from issuances of common stock.

These increases in cash were partially offset by:

• A \$15 million decrease due to increased common stock dividend payments primarily due to increased dividends per share from 2017 to 2018.

In April 2018, AEP Texas retired \$30 million of 5.89% Senior Unsecured Notes due in 2018.

In April 2018, I&M retired \$2 million of Notes Payable related to DCC Fuel.

OFF-BALANCE SHEET ARRANGEMENTS

AEP's current guidelines restrict the use of off-balance sheet financing entities or structures to traditional operating lease arrangements that AEP enters in the normal course of business. The following identifies significant off-balance sheet arrangements:

	March 31		December 31,	
	2018	2017	2018	2017
	(in millions)			
Rockport Plant, Unit 2 Future Minimum Lease Payments	\$738.4	\$ 738.4		
Railcars Maximum Potential Loss from Lease Agreement	15.4	17.9		

For complete information on each of these off-balance sheet arrangements, see the "Off-balance Sheet Arrangements" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2017 Annual Report.

CONTRACTUAL OBLIGATION INFORMATION

A summary of contractual obligations is included in the 2017 Annual Report and has not changed significantly from year-end other than the debt issuances and retirements discussed in the "Cash Flow" section above.

CYBER SECURITY

The electric utility industry is an identified critical infrastructure function with mandatory cyber security requirements under the authority of FERC. The North American Electric Reliability Corporation (NERC), which FERC certified as the nation's Electric Reliability Organization, developed mandatory critical infrastructure protection cyber security reliability standards. AEP began participating in the NERC grid security and emergency response exercises, GridEx,

in 2013 and continues to participate in the bi-yearly exercises. These efforts, led by NERC, test and further develop the coordination, threat sharing and interaction between utilities and various government agencies relative to potential cyber and physical threats against the nation's electric grid. In 2014, the U.S. Department of Energy published an Energy Sector Cyber Security Framework Implementation Guide for utilities to use in adopting and implementing the National Institute of Standards and Technology framework. AEP continues to be actively engaged in the framework process. In addition to these enterprise-wide initiatives, the operations of AEP's electric utility subsidiaries are subject to extensive and rigorous mandatory cyber security requirements that are developed and enforced by NERC to protect grid security and reliability.

Critical cyber assets, such as data centers, power plants, transmission operations centers and business networks are protected using multiple layers of cyber security and authentication. Cyber hackers have been successful in breaching a number of very secure facilities, including federal agencies, banks and retailers. As these events become known and develop, AEP continually assesses its cyber security tools and processes to determine where to strengthen its defenses.

AEP has undertaken a variety of actions to monitor and address cyber-related risks. Cyber security and the effectiveness of AEP's cyber security processes are discussed at Board and Audit Committee meetings. AEP's strategy for managing cyber-related risks is integrated within its enterprise risk management processes.

AEP's Chief Security Officer (CSO) leads the cyber security and physical security teams and is responsible for the design, implementation, and execution of AEP's security risk management strategy, including cyber security. AEP operates a Cyber Security Intelligence and Response Center (cyber security team) responsible for monitoring the AEP System for cyber threats. Among other things, the CSO and the cyber security team actively monitor best practices, perform penetration testing, lead response exercises and internal campaigns, and provide training and communication across the organization.

The cyber security team constantly scans the AEP System for risks and threats. It also continually reviews its business continuity plan to develop an effective recovery strategy that seeks to decrease response times, limit financial impacts and maintain customer confidence during any business interruption. The cyber security team works closely with a broad range of departments, including legal, regulatory, corporate communications and audit services and information technology.

The cyber security team collaborates with partners from both industry and government, and routinely participates in industry-wide programs that exchange knowledge of threats with utility peers, industry and federal agencies. AEP is a member of a number of industry specific threat and information sharing communities including the Department of Homeland Security and the Electricity Information Sharing and Analysis Center.

AEP has partnered in the past with a major defense contractor with significant cyber security experience and technical capabilities developed through their work with the U.S. Department of Defense. AEP continues to work with a nonaffiliated entity to conduct several discussions each year about recognizing and investigating cyber vulnerabilities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES AND ACCOUNTING PRONOUNCEMENTS

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

See the "Critical Accounting Policies and Estimates" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2017 Annual Report for a discussion of the estimates and judgments required for regulatory accounting, revenue recognition, derivative instruments, the valuation of long-lived assets, the accounting for pension and other postretirement benefits and the impact of new accounting pronouncements.

ACCOUNTING PRONOUNCEMENTS

See Note 2 - New Accounting Pronouncements for information related to accounting pronouncements adopted in 2018 and pronouncements effective in the future.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risks

The Vertically Integrated Utilities segment is exposed to certain market risks as a major power producer and through transactions in power, coal, natural gas and marketing contracts. These risks include commodity price risks which may be subject to capacity risk, credit risk as well as interest rate risk. In addition, this segment is exposed to foreign currency exchange risk from occasionally procuring various services and materials used in its energy business from foreign suppliers. These risks represent the risk of loss that may impact this segment due to changes in the underlying market prices or rates.

The Transmission and Distribution Utilities segment is exposed to energy procurement risk and interest rate risk.

The Generation & Marketing segment conducts marketing, risk management and retail activities in ERCOT, PJM, SPP and MISO. This segment is exposed to certain market risks as a marketer of wholesale and retail electricity. These risks include commodity price risks which may be subject to capacity risk, credit risk as well as interest rate risk. These risks represent the risk of loss that may impact this segment due to changes in the underlying market prices or rates. In addition, the Generation & Marketing segment is also exposed to certain market risks as a major power producer and through transactions in wholesale electricity, natural gas and marketing contracts.

Management employs risk management contracts including physical forward and financial forward purchase-and-sale contracts. Management engages in risk management of power, capacity, coal, natural gas and, to a lesser extent, heating oil, gasoline and other commodity contracts to manage the risk associated with the energy business. As a result, AEP is subject to price risk. The amount of risk taken is determined by the Commercial Operations, Energy Supply and Finance groups in accordance with established risk management policies as approved by the Finance Committee of the Board of Directors. AEPSC's market risk oversight staff independently monitors risk policies, procedures and risk levels and provides members of the Commercial Operations Risk Committee (Regulated Risk Committee) and the Energy Supply Risk Committee (Competitive Risk Committee) various reports regarding compliance with policies, limits and procedures. The Regulated Risk Committee consists of AEPSC's Chief Financial Officer, Executive Vice

President of Generation, Senior Vice President of Commercial Operations and Chief Risk Officer. The Competitive Risk Committee consists of AEPSC's Chief Financial Officer and Chief Risk Officer in addition to Energy Supply's President and Vice President. When commercial activities exceed predetermined limits, positions are modified to reduce the risk to be within the limits unless specifically approved by the respective committee.

The following table summarizes the reasons for changes in total MTM value as compared to December 31, 2017: MTM Risk Management Contract Net Assets (Liabilities) Three Months Ended March 31, 2018

	Vertically Integrated Utilities	Transmission and Distribution Utilities	Generation & Marketing	Total
	(in millions)			
Total MTM Risk Management Contract Net Assets (Liabilities) as of December 31, 2017	\$42.1	\$ (131.3)	\$ 163.9	\$74.7
Gain from Contracts Realized/Settled During the Period and Entered in a Prior Period	(30.5)	(1.1)	(9.2)	(40.8)
Fair Value of New Contracts at Inception When Entered During the Period (a)	—	—	6.1	6.1
Changes in Fair Value Due to Market Fluctuations During the Period (b)	—	—	(22.4)	(22.4)
Changes in Fair Value Allocated to Regulated Jurisdictions (c)	5.8	34.8	—	40.6
Total MTM Risk Management Contract Net Assets (Liabilities) as of March 31, 2018	\$17.4	\$ (97.6)	\$ 138.4	58.2
Commodity Cash Flow Hedge Contracts				(33.4)
Fair Value Hedge Contracts				(20.6)
Collateral Deposits				16.8
Total MTM Derivative Contract Net Assets as of March 31, 2018				\$21.0

(a) Reflects fair value on primarily long-term structured contracts which are typically with customers that seek fixed pricing to limit their risk against fluctuating energy prices. The contract prices are valued against market curves associated with the delivery location and delivery term. A significant portion of the total volumetric position has been economically hedged.

(b) Market fluctuations are attributable to various factors such as supply/demand, weather, etc.

(c) Relates to the net gains (losses) of those contracts that are not reflected on the statements of income. These net gains (losses) are recorded as regulatory liabilities/assets or accounts payable.

See Note 9 – Derivatives and Hedging and Note 10 – Fair Value Measurements for additional information related to risk management contracts. The following tables and discussion provide information on credit risk and market volatility risk.

Credit Risk

Credit risk is mitigated in wholesale marketing and trading activities by assessing the creditworthiness of potential counterparties before entering into transactions with them and continuing to evaluate their creditworthiness on an ongoing basis. Management uses Moody's Investors Service Inc., S&P Global Inc. and current market-based qualitative and quantitative data as well as financial statements to assess the financial health of counterparties on an ongoing basis.

AEP has risk management contracts with numerous counterparties. Since open risk management contracts are valued based on changes in market prices of the related commodities, exposures change daily. As of March 31, 2018, credit exposure net of collateral to sub investment grade counterparties was approximately 7%, expressed in terms of net MTM assets, net receivables and the net open positions for contracts not subject to MTM (representing economic risk even though there may not be risk of accounting loss). As of March 31, 2018, the following table approximates AEP's

counterparty credit quality and exposure based on netting across commodities, instruments and legal entities where applicable:

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Counterparty Credit Quality	Exposure			Number of Counterparties >10% of Net Exposure	Net Exposure of Counterparties >10%
	Before Credit Collateral	Credit Collateral	Net Exposure		
Investment Grade	\$502.5	\$ —	\$ 502.5	3	\$ 273.6
Split Rating	3.5	—	3.5	1	3.5
Noninvestment Grade	0.8	0.8	—	—	—
No External Ratings:					
Internal Investment Grade	114.7	—	114.7	3	72.3
Internal Noninvestment Grade	57.3	10.5	46.8	2	30.6
Total as of March 31, 2018	\$678.8	\$ 11.3	\$ 667.5		

In addition, AEP is exposed to credit risk related to participation in RTOs. For each of the RTOs in which AEP participates, this risk is generally determined based on the proportionate share of member gross activity over a specified period of time.

Value at Risk (VaR) Associated with Risk Management Contracts

Management uses a risk measurement model, which calculates VaR, to measure AEP's commodity price risk in the risk management portfolio. The VaR is based on the variance-covariance method using historical prices to estimate volatilities and correlations and assumes a 95% confidence level and a one-day holding period. Based on this VaR analysis, as of March 31, 2018, a near term typical change in commodity prices is not expected to materially impact net income, cash flows or financial condition.

Management calculates the VaR for both a trading and non-trading portfolio. The trading portfolio consists primarily of contracts related to energy trading and marketing activities. The non-trading portfolio consists primarily of economic hedges of generation and retail supply activities. The following tables show the end, high, average and low market risk as measured by VaR for the periods indicated:

VaR Model

Trading Portfolio

Three Months Ended March 31, 2018				Twelve Months Ended December 31, 2017			
End	High	Average	Low	End	High	Average	Low
(in millions)				(in millions)			
\$0.2	\$1.8	\$ 0.4	\$0.1	\$0.2	\$0.5	\$ 0.2	\$0.1

VaR Model

Non-Trading Portfolio

Three Months Ended March 31, 2018				Twelve Months Ended December 31, 2017			
End	High	Average	Low	End	High	Average	Low
(in millions)				(in millions)			
\$1.4	\$6.9	\$ 2.8	\$1.0	\$4.1	\$6.5	\$ 1.0	\$0.3

Management back-tests VaR results against performance due to actual price movements. Based on the assumed 95% confidence interval, the performance due to actual price movements would be expected to exceed the VaR at least once every 20 trading days.

As the VaR calculation captures recent price movements, management also performs regular stress testing of the trading portfolio to understand AEP's exposure to extreme price movements. A historical-based method is employed whereby

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the current trading portfolio is subjected to actual, observed price movements from the last several years in order to ascertain which historical price movements translated into the largest potential MTM loss. Management then researches the underlying positions, price movements and market events that created the most significant exposure and reports the findings to the Risk Executive Committee, Regulated Risk Committee or Competitive Risk Committee as appropriate.

Interest Rate Risk

AEP is exposed to interest rate market fluctuations in the normal course of business operations. AEP has outstanding short- and long-term debt which is subject to a variable rate. AEP manages interest rate risk by limiting variable-rate exposures to a percentage of total debt, by entering into interest rate derivative instruments and by monitoring the effects of market changes in interest rates. For the three months ended March 31, 2018 and 2017, a 100 basis point change in the benchmark rate on AEP's variable rate debt would impact pre-tax interest expense annually by \$25 million and \$35 million, respectively.

AMERICAN ELECTRIC POWER COMPANY, INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended March 31, 2018 and 2017

(in millions, except per-share and share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
REVENUES		
Vertically Integrated Utilities	\$2,381.5	\$ 2,269.8
Transmission and Distribution Utilities	1,141.2	1,066.4
Generation & Marketing	477.5	558.8
Other Revenues	48.1	38.3
TOTAL REVENUES	4,048.3	3,933.3
EXPENSES		
Fuel and Other Consumables Used for Electric Generation	501.8	635.6
Purchased Electricity for Resale	990.3	769.6
Other Operation	726.4	623.7
Maintenance	298.5	303.5
Gain on Sale of Merchant Generation Assets	—	(226.5)
Depreciation and Amortization	539.7	481.9
Taxes Other Than Income Taxes	285.6	259.8
TOTAL EXPENSES	3,342.3	2,847.6
OPERATING INCOME	706.0	1,085.7
Other Income (Expense):		
Interest and Investment Income	2.1	8.0
Carrying Costs Income	3.4	5.9
Allowance for Equity Funds Used During Construction	30.7	21.2
Non-Service Cost Components of Net Periodic Benefit Cost	32.0	11.4
Interest Expense	(234.0)	(221.8)
INCOME BEFORE INCOME TAX EXPENSE AND EQUITY EARNINGS	540.2	910.4
Income Tax Expense	102.0	343.2
Equity Earnings of Unconsolidated Subsidiaries	18.5	27.0
NET INCOME	456.7	594.2
Net Income Attributable to Noncontrolling Interests	2.3	2.0
EARNINGS ATTRIBUTABLE TO AEP COMMON SHAREHOLDERS	\$454.4	\$ 592.2
WEIGHTED AVERAGE NUMBER OF BASIC AEP COMMON SHARES OUTSTANDING	492,267,402	491,712,042

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TOTAL BASIC EARNINGS PER SHARE ATTRIBUTABLE TO AEP COMMON SHAREHOLDERS	\$0.92	\$ 1.20
WEIGHTED AVERAGE NUMBER OF DILUTED AEP COMMON SHARES OUTSTANDING	493,127,300	92,031,975
TOTAL DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO AEP COMMON SHAREHOLDERS	\$0.92	\$ 1.20
CASH DIVIDENDS DECLARED PER SHARE	\$0.62	\$ 0.59

See
Condensed
Notes to
Condensed
Financial
Statements
of
Registrants
beginning
on page
120.

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AMERICAN ELECTRIC POWER COMPANY, INC. AND SUBSIDIARY COMPANIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Net Income	\$456.7	\$594.2
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES		
Cash Flow Hedges, Net of Tax of \$0.7 and \$(8.7) in 2018 and 2017, Respectively	2.7	(16.1)
Securities Available for Sale, Net of Tax of \$0 and \$0.6 in 2018 and 2017, Respectively	—	1.2
Amortization of Pension and OPEB Deferred Costs, Net of Tax of \$(0.4) and \$0.1 in 2018 and 2017, Respectively	(1.4)	0.2
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	1.3	(14.7)
TOTAL COMPREHENSIVE INCOME	458.0	579.5
Total Comprehensive Income Attributable to Noncontrolling Interests	2.3	2.0
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO AEP COMMON SHAREHOLDERS	\$455.7	\$577.5
See Condensed Notes to Condensed Financial Statements of Registrants beginning on page <u>120</u> .		

AMERICAN ELECTRIC POWER COMPANY, INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	AEP Common Shareholders Common Stock			Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
	Shares	Amount	Paid-in Capital				
TOTAL EQUITY – DECEMBER 31, 2016	512.0	\$3,328.3	\$6,332.6	\$7,892.4	\$ (156.3)	\$ 23.1	\$17,420.1
Common Stock Dividends				(290.3)		(1.1)	(291.4)
Other Changes in Equity			2.9			0.6	3.5
Net Income				592.2		2.0	594.2
Other Comprehensive Loss					(14.7)		(14.7)
TOTAL EQUITY – MARCH 31, 2017	512.0	\$3,328.3	\$6,335.5	\$8,194.3	\$ (171.0)	\$ 24.6	\$17,711.7
TOTAL EQUITY – DECEMBER 31, 2017	512.2	\$3,329.4	\$6,398.7	\$8,626.7	\$ (67.8)	\$ 26.6	\$18,313.6
Issuance of Common Stock	0.5	3.3	28.9				32.2
Common Stock Dividends				(305.5)		(0.6)	(306.1)
Other Changes in Equity			16.9				16.9
ASU 2018-02 Adoption				14.0	(17.0)		(3.0)
ASU 2016-01 Adoption				11.9	(11.9)		—
Net Income				454.4		2.3	456.7
Other Comprehensive Income					1.3		1.3
TOTAL EQUITY – MARCH 31, 2018	512.7	\$3,332.7	\$6,444.5	\$8,801.5	\$ (95.4)	\$ 28.3	\$18,511.6

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AMERICAN ELECTRIC POWER COMPANY, INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

March 31, 2018 and December 31, 2017

(in millions)

(Unaudited)

	March 31, 2018	December 31, 2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 183.4	\$ 214.6
Restricted Cash		
(March 31, 2018 and December 31, 2017 Amounts Relate to Transition Funding, Ohio Phase-in-Recovery Funding and Appalachian Consumer Rate Relief Funding)	133.1	198.0
Other Temporary Investments		
(March 31, 2018 and December 31, 2017 Amounts Include \$155.8 and \$155.4, Respectively, Related to EIS, Transource Energy and Sabine)	167.9	161.7
Accounts Receivable:		
Customers	635.6	643.9
Accrued Unbilled Revenues	213.4	230.2
Pledged Accounts Receivable – AEP Credit	975.3	954.2
Miscellaneous	66.5	101.2
Allowance for Uncollectible Accounts	(39.3	) (38.5
Total Accounts Receivable	1,851.5	1,891.0
Fuel	359.6	387.7
Materials and Supplies	563.2	565.5
Risk Management Assets	89.6	126.2
Regulatory Asset for Under-Recovered Fuel Costs	352.3	292.5
Margin Deposits	154.2	105.5
Prepayments and Other Current Assets	280.2	310.4
TOTAL CURRENT ASSETS	4,135.0	4,253.1
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	20,824.0	20,760.5
Transmission	19,239.9	18,972.5
Distribution	20,160.5	19,868.5
Other Property, Plant and Equipment (Including Coal Mining and Nuclear Fuel)	3,812.5	3,706.3
Construction Work in Progress	4,759.4	4,120.7
Total Property, Plant and Equipment	68,796.3	67,428.5
Accumulated Depreciation and Amortization	17,431.2	17,167.0
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	51,365.1	50,261.5
OTHER NONCURRENT ASSETS		
Regulatory Assets	3,516.9	3,587.6
Securitized Assets	1,146.6	1,211.2
Spent Nuclear Fuel and Decommissioning Trusts	2,510.6	2,527.6
Goodwill	52.5	52.5
Long-term Risk Management Assets	271.2	282.1
Deferred Charges and Other Noncurrent Assets	2,611.6	2,553.5

TOTAL OTHER NONCURRENT ASSETS	10,109.4	10,214.5
TOTAL ASSETS	\$65,609.5	\$ 64,729.1

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AMERICAN ELECTRIC POWER COMPANY, INC. AND SUBSIDIARY COMPANIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 LIABILITIES AND EQUITY

March 31, 2018 and December 31, 2017

(dollars in millions)

(Unaudited)

	March 31, 2018	December 31, 2017
CURRENT LIABILITIES		
Accounts Payable	\$1,449.6	\$ 2,065.3
Short-term Debt:		
Securitized Debt for Receivables – AEP Credit	750.0	718.0
Other Short-term Debt	1,908.8	920.6
Total Short-term Debt	2,658.8	1,638.6
Long-term Debt Due Within One Year (March 31, 2018 and December 31, 2017 Amounts Include \$406.5 and \$406.9, Respectively, Related to Transition Funding, DCC Fuel, Ohio Phase-in-Recovery Funding, Appalachian Consumer Rate Relief Funding and Sabine)	2,616.1	1,753.7
Risk Management Liabilities	57.1	61.6
Customer Deposits	365.5	357.0
Accrued Taxes	1,081.4	1,115.5
Accrued Interest	273.1	234.5
Regulatory Liability for Over-Recovered Fuel Costs	9.8	11.9
Other Current Liabilities	960.0	1,033.2
TOTAL CURRENT LIABILITIES	9,471.4	8,271.3
NONCURRENT LIABILITIES		
Long-term Debt (March 31, 2018 and December 31, 2017 Amounts Include \$1,253 and \$1,410.5, Respectively, Related to Transition Funding, DCC Fuel, Ohio Phase-in-Recovery Funding, Appalachian Consumer Rate Relief Funding, Transource Energy and Sabine)	18,844.9	19,419.6
Long-term Risk Management Liabilities	282.7	322.0
Deferred Income Taxes	6,943.9	6,813.9
Regulatory Liabilities and Deferred Investment Tax Credits	8,394.5	8,422.3
Asset Retirement Obligations	1,933.7	1,925.5
Employee Benefits and Pension Obligations	330.9	398.1
Deferred Credits and Other Noncurrent Liabilities	808.2	830.9
TOTAL NONCURRENT LIABILITIES	37,538.8	38,132.3
TOTAL LIABILITIES	47,010.2	46,403.6
Rate Matters (Note 4)		
Commitments and Contingencies (Note 5)		
MEZZANINE EQUITY		
Redeemable Noncontrolling Interest	70.7	—
Contingently Redeemable Performance Share Awards	17.0	11.9
TOTAL MEZZANINE EQUITY	87.7	11.9

EQUITY

Common Stock – Par Value – \$6.50 Per Share:

	2018	2017
Shares Authorized	600,000,000	600,000,000
Shares Issued	512,716,170	512,210,644
(20,204,160 and 20,205,046 Shares were Held in Treasury as of March 31, 2018 and December 31, 2017, Respectively)	3,332.7	3,329.4
Paid-in Capital	6,444.5	6,398.7
Retained Earnings	8,801.5	8,626.7
Accumulated Other Comprehensive Income (Loss)	(95.4)	(67.8)
TOTAL AEP COMMON SHAREHOLDERS' EQUITY	18,483.3	18,287.0
Noncontrolling Interests	28.3	26.6
TOTAL EQUITY	18,511.6	18,313.6
TOTAL LIABILITIES, MEZZANINE EQUITY AND TOTAL EQUITY	\$65,609.5	\$ 64,729.1

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AMERICAN ELECTRIC POWER COMPANY, INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
OPERATING ACTIVITIES		
Net Income	\$ 456.7	\$ 594.2
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	539.7	481.9
Deferred Income Taxes	87.3	136.2
Allowance for Equity Funds Used During Construction	(30.7)	(21.2)
Mark-to-Market of Risk Management Contracts	(0.7)	6.0
Amortization of Nuclear Fuel	27.4	35.1
Property Taxes	(63.7)	(44.4)
Deferred Fuel	(61.2)	19.3
Over/Under-Recovery, Net Gain on Sale of Merchant Generation Assets	—	(226.5)
Recovery of Ohio Capacity Costs	18.0	30.2
Provision for Refund - Global Settlement, Net	(5.4)	—
Change in Other Noncurrent Assets	(59.8)	(99.1)
Change in Other Noncurrent Liabilities	133.3	45.0
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	39.7	235.8
Fuel, Materials and Supplies	28.5	13.4
Accounts Payable	(129.3)	(250.7)
Accrued Taxes, Net	(74.3)	186.8
Other Current Assets	(40.1)	(45.9)
Other Current Liabilities	(63.2)	(289.3)
Net Cash Flows from Operating Activities	802.2	806.8
INVESTING ACTIVITIES		
Construction Expenditures	(1,905.8)	(1,365.8)
Purchases of Investment Securities	(525.9)	(506.0)

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Sales of Investment Securities	508.6		487.9	
Acquisitions of Nuclear Fuel	(23.8)	(3.7)
Proceeds from Sale of Merchant Generation Assets	—		2,159.6	
Other Investing Activities	19.1		4.2	
Net Cash Flows from (Used for) Investing Activities	(1,927.8	)	776.2	
FINANCING ACTIVITIES				
Issuance of Common Stock, Net	32.2		—	
Issuance of Long-term Debt Commercial Paper and Credit Facility Borrowings	841.0		82.9	
Change in Short-term Debt, Net	205.6		—	
Retirement of Long-term Debt	814.6		(177.0)
Make Whole Payment on Extinguishment of Long-term Debt	(544.0	)	(1,242.3)
Principal Payments for Capital Lease Obligations	—		(44.9)
Dividends Paid on Common Stock	(16.8	)	(16.6)
Other Financing Activities	(306.1	)	(291.4)
Net Cash Flows from (Used for) Financing Activities	3.0		2.2	
	1,029.5		(1,687.1)
Net Decrease in Cash, Cash Equivalents and Restricted Cash	(96.1	)	(104.1)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	412.6		403.5	
Cash, Cash Equivalents and Restricted Cash at End of Period	\$ 316.5		\$ 299.4	
SUPPLEMENTARY INFORMATION				
Cash Paid for Interest, Net of Capitalized Amounts	\$ 188.0		\$ 205.9	
Net Cash Paid (Received) for Income Taxes	(0.9	)	(88.8)
Noncash Acquisitions Under Capital Leases	21.4		11.4	
Construction Expenditures Included in Current Liabilities as of March 31,	799.9		515.6	
Noncash Contribution of Assets by Noncontrolling	84.0		—	

Interest

Expected Reimbursement for
Capital Cost of Spent Nuclear
Fuel Dry Cask Storage

0.1

1.0

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AEP TEXAS INC.
AND SUBSIDIARIES

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AEP TEXAS INC. AND SUBSIDIARIES
 MANAGEMENT'S NARRATIVE DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

KWh Sales/Degree Days

Summary of KWh Energy Sales

Three
 Months
 Ended
 March 31,
 2018 2017
 (in millions
 of KWhs)

Retail:

Residential	2,664	2,201
Commercial	2,312	2,325
Industrial	1,960	1,907
Miscellaneous	122	128
Total Retail	7,058	6,561

Heating degree days and cooling degree days are metrics commonly used in the utility industry as a measure of the impact of weather on revenues.

Summary of Heating and Cooling Degree Days

Three
 Months
 Ended
 March
 31,
 20182017
 (in
 degree
 days)

Actual – Heating (a) 230 102

Normal – Heating (b)191 195

Actual – Cooling (c) 196 258

Normal – Cooling (b)119 113

- (a) Heating degree days are calculated on a 55 degree temperature base.
- (b) Normal Heating/Cooling represents the thirty-year average of degree days.
- (c) Cooling degree days are calculated on a 65 degree temperature base.

First Quarter of 2018 Compared to First Quarter of 2017
 Reconciliation of First Quarter of 2017 to First Quarter of 2018
 Net Income
 (in millions)

First Quarter of 2017	\$33.3
Changes in Gross Margin:	
Retail Margins	18.6
Off-system Sales	(1.6)
Transmission Revenues	2.4
Other Revenues	2.7
Total Change in Gross Margin	22.1
Changes in Expenses and Other:	
Other Operation and Maintenance	(11.3)
Depreciation and Amortization	(7.2)
Taxes Other Than Income Taxes	(4.1)
Interest Income	(0.5)
Allowance for Equity Funds Used During Construction	3.7
Non-Service Cost Components of Net Periodic Benefit Cost	2.2
Interest Expense	—
Total Change in Expenses and Other	(17.2)
Income Tax Expense	8.6
First Quarter of 2018	\$46.8

The major components of the increase in Gross Margin, defined as revenues less the related direct cost of fuel, including consumption of chemicals were as follows:

Retail Margins increased \$19 million primarily due to the following:

• A \$10 million increase in weather-related usage primarily driven by a 125% increase in heating degree days partially offset by a 24% decrease in cooling degree days.

• A \$9 million increase in revenues associated with the Transmission Cost Recovery Factor revenue rider. This increase was partially offset by an increase in Other Operation and Maintenance expenses below.

• A \$7 million increase in revenues associated with the Distribution Cost Recovery Factor revenue rider.

These increases were partially offset by:

• A \$5 million decrease due to the 2018 provisions for customer refunds primarily related to Tax Reform. This decrease is offset in Income Tax Expense below.

• Transmission Revenues increased by \$2 million primarily due to the following:

• A \$7 million increase due to recovery of increased transmission investment in ERCOT.

This increase was partially offset by:

• A \$5 million decrease due to the 2018 provisions for customer refunds primarily due to Tax Reform. This decrease is offset in Income Tax Expense below.

• Other Revenues increased \$3 million primarily due to securitization revenue related to Transition Funding. This increase was offset in Depreciation and Amortization and Interest Expense below.

Expenses and Other and Income Tax Expense changed between years as follows:

Other Operation and Maintenance expenses increased \$11 million primarily due to an increase in ERCOT transmission expenses. This increase was partially offset by an increase in Retail Margins above.

Depreciation and Amortization expenses increased \$7 million primarily due to securitization amortizations related to Transition Funding. This increase was offset in Other Revenues above and in Interest Expense below.

- Taxes Other Than Income Taxes increased \$4 million primarily due to increased property taxes as a result of additional capital investment and increased tax rates.

Interest Expense was unchanged primarily due to:

• A \$3 million decrease in securitization assets related to Transition Funding. This decrease was offset above in Other Revenues and in Depreciation and Amortization.

• A \$2 million decrease due to higher debt component of AFUDC from increased transmission projects.

These decreases were offset by:

• A \$5 million increase in interest due to the issuance of long-term debt in September 2017.

• Allowance for Equity Funds Used During Construction increased \$4 million due to increased transmission projects.

Income Tax Expense decreased \$9 million primarily due to the change in the corporate federal income tax rate from 35% in 2017 to 21% in 2018 as a result of Tax Reform and amortization of excess accumulated deferred income taxes associated with certain depreciable property, partially offset by an increase in pretax book income.

AEP TEXAS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
REVENUES		
Electric Transmission and Distribution	\$352.4	\$328.9
Sales to AEP Affiliates	18.2	14.1
Other Revenues	1.0	0.6
TOTAL REVENUES	371.6	343.6
EXPENSES		
Fuel and Other Consumables Used for Electric Generation	8.9	3.0
Other Operation	117.0	108.8
Maintenance	21.5	18.4
Depreciation and Amortization	110.0	102.8
Taxes Other Than Income Taxes	32.4	28.3
TOTAL EXPENSES	289.8	261.3
OPERATING INCOME	81.8	82.3
Other Income (Expense):		
Interest Income	0.5	1.0
Allowance for Equity Funds Used During Construction	5.5	1.8
Non-Service Cost Components of Net Periodic Benefit Cost	3.1	0.9
Interest Expense	(35.0)	(35.0)
INCOME BEFORE INCOME TAX EXPENSE	55.9	51.0
Income Tax Expense	9.1	17.7
NET INCOME	\$46.8	\$33.3

The common stock of AEP Texas Inc. is wholly-owned by Parent.

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page [120](#).

AEP TEXAS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Three Months Ended March 31, 2018 2017	
Net Income	\$46.8	\$33.3
OTHER COMPREHENSIVE INCOME, NET OF TAXES		
Cash Flow Hedges, Net of Tax of \$0.1 and \$0.1 in 2018 and 2017, Respectively	0.2	0.2
Amortization of Pension and OPEB Deferred Costs, Net of Tax of \$0 and \$0 in 2018 and 2017, Respectively	0.1	0.1
TOTAL OTHER COMPREHENSIVE INCOME	0.3	0.3
TOTAL COMPREHENSIVE INCOME	\$47.1	\$33.6
See Condensed Notes to Condensed Financial Statements of Registrants beginning on page <u>120</u> .		

AEP TEXAS INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
 COMMON SHAREHOLDER'S EQUITY

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2016	\$857.9	\$814.1	\$ (14.9)	\$1,657.1
Capital Contribution from Parent	200.0			200.0
Net Income		33.3		33.3
Other Comprehensive Income			0.3	0.3
TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2017	\$1,057.9	\$847.4	\$ (14.6)	\$1,890.7
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2017	\$1,057.9	\$1,124.6	\$ (12.6)	\$2,169.9
Capital Contribution from Parent	100.0			100.0
ASU 2018-02 Adoption		1.8	(2.7)	(0.9)
Net Income		46.8		46.8
Other Comprehensive Income			0.3	0.3
TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2018	\$1,157.9	\$1,173.2	\$ (15.0)	\$2,316.1

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 120.

AEP TEXAS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

March 31, 2018 and December 31, 2017

(in millions)

(Unaudited)

	March 31, 2018	December 31, 2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$0.1	\$2.0
Restricted Cash for Securitized Transition Funding	107.1	155.2
Advances to Affiliates	8.1	111.9
Accounts Receivable:		
Customers	117.7	105.3
Affiliated Companies	9.0	12.3
Accrued Unbilled Revenues	65.7	75.8
Miscellaneous	0.3	1.3
Allowance for Uncollectible Accounts	(0.5)	(0.7)
Total Accounts Receivable	192.2	194.0
Fuel	6.4	3.6
Materials and Supplies	49.4	52.0
Risk Management Assets	0.3	0.5
Accrued Tax Benefits	66.4	41.0
Prepayments and Other Current Assets	5.8	3.6
TOTAL CURRENT ASSETS	435.8	563.8
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	350.9	350.7
Transmission	3,097.6	3,053.6
Distribution	3,854.2	3,718.6
Other Property, Plant and Equipment	475.4	461.0
Construction Work in Progress	951.6	835.7
Total Property, Plant and Equipment	8,729.7	8,419.6
Accumulated Depreciation and Amortization	1,617.4	1,594.5
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	7,112.3	6,825.1
OTHER NONCURRENT ASSETS		
Regulatory Assets	379.4	378.7
Securitized Transition Assets (March 31, 2018 and December 31, 2017 Amounts Include \$819.2 and \$869.5, Respectively, Related to Transition Funding)	838.9	891.2
Deferred Charges and Other Noncurrent Assets	134.0	114.8
TOTAL OTHER NONCURRENT ASSETS	1,352.3	1,384.7
TOTAL ASSETS	\$8,900.4	\$8,773.6

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page [120](#).

AEP TEXAS INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 LIABILITIES AND COMMON SHAREHOLDER'S EQUITY

March 31, 2018 and December 31, 2017

(in millions)

(Unaudited)

	March 31, 2018	December 31, 2017
CURRENT LIABILITIES		
Advances from Affiliates	\$232.7	\$—
Accounts Payable:		
General	209.0	379.4
Affiliated Companies	22.7	30.2
Long-term Debt Due Within One Year – Nonaffiliated (March 31, 2018 and December 31, 2017 Amounts Include \$243.1 and \$236.1, Respectively, Related to Transition Funding)	273.1	266.1
Accrued Taxes	89.7	77.2
Accrued Interest (March 31, 2018 and December 31, 2017 Amounts Include \$10.2 and \$15.9, Respectively, Related to Transition Funding)	48.0	42.2
Other Current Liabilities	70.7	76.4
TOTAL CURRENT LIABILITIES	945.9	871.5
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated (March 31, 2018 and December 31, 2017 Amounts Include \$686.8 and \$790.1, Respectively, Related to Transition Funding)	3,280.2	3,383.2
Deferred Income Taxes	913.1	913.1
Regulatory Liabilities and Deferred Investment Tax Credits	1,320.2	1,320.5
Oklahoma Purchase Power Agreement	51.8	52.0
Deferred Credits and Other Noncurrent Liabilities	73.1	63.4
TOTAL NONCURRENT LIABILITIES	5,638.4	5,732.2
TOTAL LIABILITIES	6,584.3	6,603.7
Rate Matters (Note 4)		
Commitments and Contingencies (Note 5)		
COMMON SHAREHOLDER'S EQUITY		
Paid-in Capital	1,157.9	1,057.9
Retained Earnings	1,173.2	1,124.6
Accumulated Other Comprehensive Income (Loss)	(15.0)	(12.6)
TOTAL COMMON SHAREHOLDER'S EQUITY	2,316.1	2,169.9
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	\$8,900.4	\$8,773.6

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page [120](#).

AEP TEXAS INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 For the Three Months Ended March 31, 2018 and 2017
 (in millions)
 (Unaudited)

	Three Months Ended March 31,	
	2018	2017
OPERATING ACTIVITIES		
Net Income	\$46.8	\$33.3
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	110.0	102.8
Deferred Income Taxes	(4.4)	40.8
Allowance for Equity Funds Used During Construction	(5.5)	(1.8)
Mark-to-Market of Risk Management Contracts	0.2	0.1
Property Taxes	(56.1)	(46.2)
Change in Other Noncurrent Assets	(12.7)	(12.7)
Change in Other Noncurrent Liabilities	6.5	4.8
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	1.8	3.7
Fuel, Materials and Supplies	(0.2)	0.4
Accounts Payable	(25.9)	(13.4)
Accrued Taxes, Net	25.2	(3.5)
Other Current Assets	(1.6)	(0.3)
Other Current Liabilities	(5.1)	(25.9)
Net Cash Flows from Operating Activities	79.0	82.1
INVESTING ACTIVITIES		
Construction Expenditures	(481.6)	(200.2)
Change in Advances to Affiliates, Net	103.8	0.3
Other Investing Activities	13.4	4.6
Net Cash Flows Used for Investing Activities	(364.4)	(195.3)
FINANCING ACTIVITIES		
Capital Contribution from Parent	100.0	200.0
Change in Advances from Affiliates, Net	232.7	(43.0)
Retirement of Long-term Debt – Nonaffiliated	(96.5)	(89.9)
Principal Payments for Capital Lease Obligations	(1.1)	(0.9)
Other Financing Activities	0.3	0.6
Net Cash Flows from Financing Activities	235.4	66.8
Net Decrease in Cash, Cash Equivalents and Restricted Cash for Securitized Transition Funding	(50.0)	(46.4)
Cash, Cash Equivalents and Restricted Cash for Securitized Transition Funding at Beginning of Period	157.2	146.9
Cash, Cash Equivalents and Restricted Cash for Securitized Transition Funding at End of Period	\$107.2	\$100.5
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest, Net of Capitalized Amounts	\$27.8	\$33.7
Noncash Acquisitions Under Capital Leases	4.0	2.0

Construction Expenditures Included in Current Liabilities as of March 31, 169.3 65.5
See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 120.

AEP TRANSMISSION COMPANY, LLC
AND SUBSIDIARIES

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AEP TRANSMISSION COMPANY, LLC AND SUBSIDIARIES
MANAGEMENT'S NARRATIVE DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Summary of Investment in Transmission Assets for AEPTCo

	As of March 31,	
	2018	2017
	(in millions)	
Plant In Service	\$5,595.4	\$4,162.3
Construction Work in Progress	1,512.6	1,184.4
Accumulated Depreciation and Amortization	192.7	117.8
Total Transmission Property, Net	\$6,915.3	\$5,228.9

First Quarter of 2018 Compared to First Quarter of 2017
Reconciliation of First Quarter of 2017 to First Quarter of 2018

Net Income
(in millions)

First Quarter of 2017 \$57.0

Changes in Transmission Revenues:

Transmission Revenues 40.8
Total Change in Transmission Revenues 40.8

Changes in Expenses and Other:

Other Operation and Maintenance (7.0)
Depreciation and Amortization (7.3)
Taxes Other Than Income Taxes (4.3)
Interest Income 0.2
Allowance for Equity Funds Used During Construction 4.4
Interest Expense (3.9)
Total Change in Expenses and Other (17.9)

Income Tax Expense 6.0

First Quarter of 2018 \$85.9

The major components of the increase in transmission revenues, which consists of wholesale sales to affiliates and nonaffiliates were as follows:

• Transmission Revenues increased \$41 million primarily due to the following:

• Formula rate increases of \$60 million driven by continued investment in transmission assets.

This increase was partially offset by:

• A \$19 million decrease due to the 2018 provisions for customer refunds primarily related to Tax Reform.

This decrease is offset in Income Tax Expense below.

Expenses and Other and Income Tax Expense changed between years as follows:

Other Operation and Maintenance expenses increased \$7 million primarily due to increased transmission investment. Depreciation and Amortization expenses increased \$7 million primarily due to a higher depreciable base.

Taxes Other Than Income Taxes increased \$4 million primarily due to higher property taxes as a result of increased transmission investment.

Allowance for Equity Funds Used During Construction increased \$4 million primarily due to increased transmission investment resulting in a higher CWIP balance.

Interest Expense increased \$4 million primarily due to higher outstanding long-term debt balances.

Income Tax Expense decreased \$6 million primarily due to the change in the corporate federal income tax rate from 35% in 2017 to 21% in 2018 as a result of Tax Reform, partially offset by an increase in pretax book income.

AEP TRANSMISSION COMPANY, LLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
REVENUES		
Transmission Revenues	\$31.3	\$19.2
Sales to AEP Affiliates	162.1	133.4
Other Revenues	0.1	0.1
TOTAL REVENUES	193.5	152.7
EXPENSES		
Other Operation	16.6	9.1
Maintenance	2.6	3.1
Depreciation and Amortization	30.6	23.3
Taxes Other Than Income Taxes	31.1	26.8
TOTAL EXPENSES	80.9	62.3
OPERATING INCOME	112.6	90.4
Other Income (Expense):		
Interest Income	0.4	0.2
Allowance for Equity Funds Used During Construction	15.3	10.9
Interest Expense	(19.9)	(16.0)
INCOME BEFORE INCOME TAX EXPENSE	108.4	85.5
Income Tax Expense	22.5	28.5
NET INCOME	\$85.9	\$57.0

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page [120](#).

AEP TRANSMISSION COMPANY, LLC AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
 MEMBER'S EQUITY

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Paid-in Capital	Retained Earnings	Total Member's Equity
TOTAL MEMBER'S EQUITY – DECEMBER 31, 2016	\$ 1,455.0	\$ 502.6	\$ 1,957.6
Capital Contributions from Member	125.5		125.5
Net Income		57.0	57.0
TOTAL MEMBER'S EQUITY – MARCH 31, 2017	\$ 1,580.5	\$ 559.6	\$ 2,140.1
TOTAL MEMBER'S EQUITY – DECEMBER 31, 2017	\$ 1,816.6	\$ 788.7	\$ 2,605.3
Capital Contributions from Member	65.0		65.0
Net Income		85.9	85.9
TOTAL MEMBER'S EQUITY – MARCH 31, 2018	\$ 1,881.6	\$ 874.6	\$ 2,756.2

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 120.

AEP TRANSMISSION COMPANY, LLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

March 31, 2018 and December 31, 2017

(in millions)

(Unaudited)

	March 31, 2018	December 31, 2017
CURRENT ASSETS		
Advances to Affiliates	\$32.1	\$ 146.3
Accounts Receivable:		
Customers	20.5	19.1
Affiliated Companies	102.0	93.2
Miscellaneous	1.2	1.3
Total Accounts Receivable	123.7	113.6
Materials and Supplies	15.5	13.6
Accrued Tax Benefits	40.1	46.6
Prepayments and Other Current Assets	2.8	7.6
TOTAL CURRENT ASSETS	214.2	327.7

TRANSMISSION PROPERTY

Transmission Property	5,458.3	5,336.1
Other Property, Plant and Equipment	137.1	131.4
Construction Work in Progress	1,512.6	1,312.7
Total Transmission Property	7,108.0	6,780.2
Accumulated Depreciation and Amortization	192.7	170.4
TOTAL TRANSMISSION PROPERTY – NET	6,915.3	6,609.8

OTHER NONCURRENT ASSETS

Regulatory Assets	8.9	11.7
Deferred Property Taxes	100.5	117.8
Deferred Charges and Other Noncurrent Assets	1.0	1.1
TOTAL OTHER NONCURRENT ASSETS	110.4	130.6

TOTAL ASSETS \$7,239.9 \$ 7,068.1

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 120.

AEP TRANSMISSION COMPANY, LLC AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 LIABILITIES AND MEMBER'S EQUITY

March 31, 2018 and December 31, 2017

(in millions)

(Unaudited)

	March 31, 2018	December 31, 2017
CURRENT LIABILITIES		
Advances from Affiliates	\$282.1	\$ 15.7
Accounts Payable:		
General	210.5	473.2
Affiliated Companies	41.3	52.9
Long-term Debt Due Within One Year – Nonaffiliated	50.0	50.0
Accrued Taxes	185.3	225.4
Accrued Interest	38.3	15.0
Provision for Refund	47.6	—
Other Current Liabilities	2.6	4.1
TOTAL CURRENT LIABILITIES	857.7	836.3
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	2,500.7	2,500.4
Deferred Income Taxes	621.3	601.7
Regulatory Liabilities	497.2	493.7
Deferred Credits and Other Noncurrent Liabilities	6.8	30.7
TOTAL NONCURRENT LIABILITIES	3,626.0	3,626.5
TOTAL LIABILITIES	4,483.7	4,462.8
Rate Matters (Note 4)		
Commitments and Contingencies (Note 5)		
MEMBER'S EQUITY		
Paid-in Capital	1,881.6	1,816.6
Retained Earnings	874.6	788.7
TOTAL MEMBER'S EQUITY	2,756.2	2,605.3
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$7,239.9	\$7,068.1

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page [120](#).

AEP TRANSMISSION COMPANY, LLC AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
OPERATING ACTIVITIES		
Net Income	\$ 85.9	\$ 57.0
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	30.6	23.3
Deferred Income Taxes	15.7	74.1
Allowance for Equity Funds Used During Construction	(15.3)	(10.9)
Property Taxes	17.3	16.8
Change in Other Noncurrent Assets	2.7	2.2
Change in Other Noncurrent Liabilities	23.9	8.3
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	(10.1)	(39.0)
Materials and Supplies	(1.9)	(3.8)
Accounts Payable	(12.3)	(8.2)
Accrued Taxes, Net	(33.6)	(79.1)
Accrued Interest	23.3	17.6
Other Current Assets	0.3	0.2
Other Current Liabilities	0.6	—
Net Cash Flows from Operating Activities	127.1	58.5
INVESTING ACTIVITIES		
Construction Expenditures	(571.8)	(390.4)
Change in Advances to Affiliates, Net	114.2	56.9
Acquisitions of Assets	(1.8)	(0.6)
Other Investing Activities	1.0	—
Net Cash Flows Used for Investing Activities	(458.4)	(334.1)
FINANCING ACTIVITIES		
Capital Contributions from Member	65.0	125.5
	266.4	150.9

Change in Advances from Affiliates, Net		
Other Financing Activities	(0.1)	(0.8)
Net Cash Flows from Financing Activities	331.3	275.6
Net Change in Cash and Cash Equivalents	—	—
Cash and Cash Equivalents at Beginning of Period	—	—
Cash and Cash Equivalents at End of Period	\$ —	\$ —

SUPPLEMENTARY
INFORMATION

Net Cash Paid (Received) for Income Taxes	\$ —	\$ (0.6)
Construction Expenditures Included in Current Liabilities as of March 31,	210.6	189.2

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 120.

APPALACHIAN POWER COMPANY
AND SUBSIDIARIES

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APPALACHIAN POWER COMPANY AND SUBSIDIARIES
MANAGEMENT'S NARRATIVE DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

KWh Sales/Degree Days

Summary of KWh Energy Sales

Three
Months
Ended
March 31,
2018 2017
(in millions
of KWhs)

Retail:

Residential	3,845	3,250
Commercial	1,694	1,591
Industrial	2,377	2,299
Miscellaneous	224	210
Total Retail	8,140	7,350

Wholesale	495	806
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Total KWhs	8,635	8,156
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Heating degree days and cooling degree days are metrics commonly used in the utility industry as a measure of the impact of weather on revenues.

Summary of Heating and Cooling Degree Days

Three
Months
Ended
March 31,
2018 2017
(in degree
days)

Actual – Heating (a)	1,389	955
Normal – Heating (b)	1,317	1,328

Actual – Cooling (c)	8	2
Normal – Cooling (b)	7	7

- (a) Heating degree days are calculated on a 55 degree temperature base.
- (b) Normal Heating/Cooling represents the thirty-year average of degree days.
- (c) Cooling degree days are calculated on a 65 degree temperature base.

First Quarter of 2018 Compared to First Quarter of 2017
 Reconciliation of First Quarter of 2017 to First Quarter of 2018
 Net Income
 (in millions)

First Quarter of 2017	\$ 110.6
Changes in Gross Margin:	
Retail Margins	15.0
Off-system Sales	(0.2)
Transmission Revenues	(1.9)
Other Revenues	(2.2)
Total Change in Gross Margin	10.7
Changes in Expenses and Other:	
Other Operation and Maintenance	(25.1)
Depreciation and Amortization	(7.9)
Taxes Other Than Income Taxes	(3.6)
Carrying Costs Income	0.2
Allowance for Equity Funds Used During Construction	1.1
Non-Service Cost Components of Net Periodic Benefit Cost	3.2
Interest Expense	0.7
Total Change in Expenses and Other	(31.4)
Income Tax Expense	35.6
First Quarter of 2018	\$ 125.5

The major components of the increase in Gross Margin, defined as revenues less the related direct cost of fuel, including consumption of chemicals and emissions allowances, and purchased electricity were as follows:

Retail Margins increased \$15 million primarily due to the following:

▲ \$50 million increase in weather-related usage primarily due to a 45% increase in heating degree days.

● An \$11 million increase primarily due to increases from rate riders in Virginia. This increase is partially offset by a corresponding increase in Other Operation and Maintenance expenses.

These increases were partially offset by:

▲ A \$32 million decrease due to the 2018 provisions for customer refunds primarily related to Tax Reform. This decrease is offset in Income Tax Expense below.

▲ \$5 million decrease in weather-normalized margins occurring primarily in the residential and industrial classes.

● A \$4 million decrease due to increased fuel and other variable production costs not recovered through fuel or other trackers.

Expenses and Other and Income Tax Expense changed between years as follows:

Other Operation and Maintenance expenses increased \$25 million primarily due to the following:

• A \$12 million increase in recoverable PJM transmission expenses. This increase is offset within Retail Margins above.

• A \$5 million increase in estimated expense for claims related to asbestos exposure.

• A \$4 million increase in employee-related expenses.

• Depreciation and Amortization expenses increased \$8 million primarily due to a higher depreciable base.

• Taxes Other Than Income Taxes increased \$4 million primarily due to the following:

• A \$2 million increase in property taxes driven by an increase in utility plant.

• A \$2 million increase in state gross receipts tax due to a prior period refund.

• Non-Service Cost Components of Net Periodic Cost decreased \$3 million primarily due to favorable asset returns for the funded Pension and OPEB plans and by moving to a Medicare Advantage arrangement for post-65 retirees in the Non-UMWA OPEB plan. Additionally, the decrease was partially due to the implementation of ASU 2017-07 in 2018, which eliminated APCo's ability to capitalize a portion of its non-service cost components.

• Income Tax Expense decreased \$36 million primarily due to the change in the corporate federal income tax rate from 35% in 2017 to 21% in 2018 as a result of Tax Reform and a decrease in pretax book income.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
REVENUES		
Electric Generation, Transmission and Distribution	\$767.5	\$745.0
Sales to AEP Affiliates	49.4	42.4
Other Revenues	3.5	5.4
TOTAL REVENUES	820.4	792.8
EXPENSES		
Fuel and Other Consumables Used for Electric Generation	69.0	167.2
Purchased Electricity for Resale	205.9	90.8
Other Operation	138.2	113.9
Maintenance	72.0	71.2
Depreciation and Amortization	108.5	100.6
Taxes Other Than Income Taxes	33.8	30.2
TOTAL EXPENSES	627.4	573.9
OPERATING INCOME	193.0	218.9
Other Income (Expense):		
Interest Income	0.3	0.3
Carrying Costs Income	0.5	0.3
Allowance for Equity Funds Used During Construction	2.6	1.5
Non-Service Cost Components of Net Periodic Benefit Cost	4.5	1.3
Interest Expense	(47.4)	(48.1)
INCOME BEFORE INCOME TAX EXPENSE	153.5	174.2
Income Tax Expense	28.0	63.6
NET INCOME	\$125.5	\$110.6

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

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APPALACHIAN POWER COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 For the Three Months Ended March 31, 2018 and 2017
 (in millions)
 (Unaudited)

	Three Months Ended March 31,	
	2018	2017
Net Income	\$125.5	\$110.6
OTHER COMPREHENSIVE LOSS, NET OF TAXES		
Cash Flow Hedges, Net of Tax of \$(0.1) and \$(0.1) in 2018 and 2017, Respectively	(0.2)	(0.2)
Amortization of Pension and OPEB Deferred Costs, Net of Tax of \$(0.2) and \$(0.2) in 2018 and 2017, Respectively	(0.8)	(0.3)
TOTAL OTHER COMPREHENSIVE LOSS	(1.0)	(0.5)
TOTAL COMPREHENSIVE INCOME	\$124.5	\$110.1

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APPALACHIAN POWER COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
 COMMON SHAREHOLDER'S EQUITY

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2016	\$ 260.4	\$ 1,828.7	\$ 1,502.8	\$ (8.4)	\$ 3,583.5
Common Stock Dividends			(30.0)		(30.0)
Net Income			110.6		110.6
Other Comprehensive Loss				(0.5)	(0.5)
TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2017	\$ 260.4	\$ 1,828.7	\$ 1,583.4	\$ (8.9)	\$ 3,663.6
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2017	\$ 260.4	\$ 1,828.7	\$ 1,714.1	\$ 1.3	\$ 3,804.5
Common Stock Dividends			(40.0)		(40.0)
ASU 2018-02 Adoption			0.1	0.3	0.4
Net Income			125.5		125.5
Other Comprehensive Loss				(1.0)	(1.0)
TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2018	\$ 260.4	\$ 1,828.7	\$ 1,799.7	\$ 0.6	\$ 3,889.4

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APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

March 31, 2018 and December 31, 2017

(in millions)

(Unaudited)

	March 31, 2018	December 31, 2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$1.2	\$ 2.9
Restricted Cash for Securitized Funding	10.1	16.3
Advances to Affiliates	23.5	23.5
Accounts Receivable:		
Customers	137.9	123.1
Affiliated Companies	67.6	69.3
Accrued Unbilled Revenues	75.1	74.1
Miscellaneous	1.0	1.1
Allowance for Uncollectible Accounts	(3.5	) (3.7
Total Accounts Receivable	278.1	263.9
Fuel	72.1	89.3
Materials and Supplies	97.4	99.5
Risk Management Assets	8.0	24.9
Regulatory Asset for Under-Recovered Fuel Costs	179.5	88.8
Margin Deposits	32.1	14.4
Prepayments and Other Current Assets	11.2	12.7
TOTAL CURRENT ASSETS	713.2	636.2
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	6,466.9	6,446.9
Transmission	3,032.5	3,019.9
Distribution	3,795.8	3,763.8
Other Property, Plant and Equipment	440.2	427.9
Construction Work in Progress	558.8	483.0
Total Property, Plant and Equipment	14,294.2	14,141.5
Accumulated Depreciation and Amortization	3,956.8	3,896.4
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	10,337.4	10,245.1
OTHER NONCURRENT ASSETS		
Regulatory Assets	552.3	573.9
Securitized Assets	276.4	282.3
Long-term Risk Management Assets	2.6	1.1
Deferred Charges and Other Noncurrent Assets	195.1	190.0
TOTAL OTHER NONCURRENT ASSETS	1,026.4	1,047.3
TOTAL ASSETS	\$12,077.0	\$ 11,928.6
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APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY
March 31, 2018 and December 31, 2017
(Unaudited)

	March 31, December 31, 2018 2017 (in millions)	
CURRENT LIABILITIES		
Advances from Affiliates	\$245.9	\$ 186.0
Accounts Payable:		
General	218.1	264.9
Affiliated Companies	88.1	92.7
Long-term Debt Due Within One Year – Nonaffiliated	249.5	249.2
Risk Management Liabilities	0.6	1.3
Customer Deposits	86.5	86.1
Accrued Taxes	119.0	94.5
Accrued Interest	62.9	40.5
Other Current Liabilities	111.3	109.0
TOTAL CURRENT LIABILITIES	1,181.9	1,124.2
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	3,719.8	3,730.9
Long-term Risk Management Liabilities	0.4	0.2
Deferred Income Taxes	1,586.0	1,565.7
Regulatory Liabilities and Deferred Investment Tax Credits	1,444.3	1,454.9
Asset Retirement Obligations	98.4	100.2
Employee Benefits and Pension Obligations	68.6	73.3
Deferred Credits and Other Noncurrent Liabilities	88.2	74.7
TOTAL NONCURRENT LIABILITIES	7,005.7	6,999.9
TOTAL LIABILITIES	8,187.6	8,124.1
Rate Matters (Note 4)		
Commitments and Contingencies (Note 5)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – No Par Value:		
Authorized – 30,000,000 Shares		
Outstanding – 13,499,500 Shares	260.4	260.4
Paid-in Capital	1,828.7	1,828.7
Retained Earnings	1,799.7	1,714.1
Accumulated Other Comprehensive Income (Loss)	0.6	1.3
TOTAL COMMON SHAREHOLDER'S EQUITY	3,889.4	3,804.5
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	\$12,077.0	\$ 11,928.6

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APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
OPERATING ACTIVITIES		
Net Income	\$125.5	\$110.6
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	108.5	100.6
Deferred Income Taxes	11.0	52.2
Allowance for Equity Funds Used During Construction	(2.6)	(1.5)
Mark-to-Market of Risk Management Contracts	14.9	6.8
Deferred Fuel Over/Under-Recovery, Net	(90.7)	1.1
Change in Other Noncurrent Assets	3.9	1.0
Change in Other Noncurrent Liabilities	37.9	(3.7)
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	(14.2)	(2.2)
Fuel, Materials and Supplies	19.3	(6.9)
Accounts Payable	(21.6)	(12.7)
Accrued Taxes, Net	17.8	9.4
Other Current Assets	(15.8)	7.8
Other Current Liabilities	5.6	(3.5)
Net Cash Flows from Operating Activities	199.5	259.0
INVESTING ACTIVITIES		
Construction Expenditures	(218.5)	(223.7)
Change in Advances to Affiliates, Net	—	0.4
Other Investing Activities	4.4	1.4
Net Cash Flows Used for Investing Activities	(214.1)	(221.9)
FINANCING ACTIVITIES		
Change in Advances from Affiliates, Net	59.9	102.8
Retirement of Long-term Debt – Nonaffiliated	(11.7)	(115.9)
Principal Payments for Capital Lease Obligations	(1.7)	(1.8)
Dividends Paid on Common Stock	(40.0)	(30.0)
Other Financing Activities	0.2	0.3
Net Cash Flows from (Used for) Financing Activities	6.7	(44.6)
Net Decrease in Cash, Cash Equivalents and Restricted Cash for Securitized Funding	(7.9)	(7.5)
Cash, Cash Equivalents and Restricted Cash for Securitized Funding at Beginning of Period	19.2	18.5
Cash, Cash Equivalents and Restricted Cash for Securitized Funding at End of Period	\$11.3	\$11.0
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest, Net of Capitalized Amounts	\$23.4	\$23.8
Noncash Acquisitions Under Capital Leases	1.8	0.5
Construction Expenditures Included in Current Liabilities as of March 31,	94.5	63.7

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INDIANA MICHIGAN POWER COMPANY
AND SUBSIDIARIES

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INDIANA MICHIGAN POWER COMPANY AND SUBSIDIARIES
MANAGEMENT'S NARRATIVE DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

KWh Sales/Degree Days

Summary of KWh Energy Sales

	Three Months Ended March 31, 2018 2017 (in millions of KWhs)	
Retail:		
Residential	1,623	1,492
Commercial	1,176	1,157
Industrial	1,904	1,896
Miscellaneous	20	20
Total Retail	4,723	4,565

Wholesale 2,926 2,954

Total KWhs 7,649 7,519

Heating degree days and cooling degree days are metrics commonly used in the utility industry as a measure of the impact of weather on revenues.

Summary of Heating and Cooling Degree Days

	Three Months Ended March 31, 2018 2017 (in degree days)	
Actual – Heating (a)	2,157	1,648
Normal – Heating (b)	2,168	2,185

Actual – Cooling (c) — —

Normal – Cooling (b) 2 2

- (a) Heating degree days are calculated on a 55 degree temperature base.
- (b) Normal Heating/Cooling represents the thirty-year average of degree days.
- (c) Cooling degree days are calculated on a 65 degree temperature base.

First Quarter of 2018 Compared to First Quarter of 2017
 Reconciliation of First Quarter of 2017 to First Quarter of 2018
 Net Income
 (in millions)

First Quarter of 2017	\$68.4
Changes in Gross Margin:	
Retail Margins	3.2
Off-system Sales	0.4
Transmission Revenues	2.8
Other Revenues	(2.7)
Total Change in Gross Margin	3.7
Changes in Expenses and Other:	
Other Operation and Maintenance	(12.1)
Depreciation and Amortization	(9.3)
Taxes Other Than Income Taxes	(2.1)
Interest Income	(0.9)
Carrying Cost Income	(1.0)
Allowance for Equity Funds Used During Construction	(0.3)
Non-Service Cost Components of Net Periodic Benefit Cost	3.0
Interest Expense	(2.0)
Total Change in Expenses and Other	(24.7)
Income Tax Expense	16.8
First Quarter of 2018	\$64.2

The major components of the increase in Gross Margin, defined as revenues less the related direct cost of fuel, including consumption of chemicals and emissions allowances, and purchased electricity were as follows:

Retail Margins increased \$3 million primarily due to the following:

- A \$25 million increase from rate proceedings in the I&M service territory. The increase in Retail Margins relating to riders has corresponding increases in other items below.

- A \$14 million increase in weather-related usage primarily due to a 31% increase in heating degree days.

These increases were partially offset by:

- A \$16 million decrease related to the 2018 provisions for customer refunds primarily related to Tax Reform. This decrease is offset in Income Tax Expense below.

- An \$8 million decrease related to over/under recovery of riders.

- A \$4 million decrease due to lower weather-normalized margins primarily due to wholesale customer load loss from contracts that expired at the end of 2017.

- A \$4 million decrease in FERC generation wholesale municipal and cooperative revenues primarily due to changes to the annual formula rate.

- A \$3 million decrease due to increased fuel and other variable production costs not recovered through fuel clauses or other trackers.

Expenses and Other and Income Tax Expense changed between years as follows:

Other Operation and Maintenance expenses increased \$12 million primarily due to the following:

A \$12 million increase in transmission expenses primarily due to an increase in recoverable PJM expenses. This increase was partially offset within Retail Margins above.

A \$4 million increase in Cook Plant refueling outage amortization expense, primarily due to increased costs of outages.

These increases were partially offset by:

A \$7 million decrease due to an increased Nuclear Electric Insurance Limited distribution in 2018.

Depreciation and Amortization expenses increased \$9 million primarily due to a higher depreciable base. Non-Service Cost Components of Net Periodic Benefit Cost decreased \$3 million primarily due to favorable asset returns for the funded Pension and OPEB plans and by moving to a Medicare Advantage arrangement for post-65 retirees in the Non-UMWA OPEB plan. Additionally, the decrease was partially due to the implementation of ASU 2017-07 in 2018, which eliminated I&M's ability to capitalize a portion of its non-service cost components. Income Tax Expense decreased \$17 million primarily due to the change in the corporate federal income tax rate from 35% in 2017 to 21% in 2018 as a result of Tax Reform and a decrease in pretax book income.

INDIANA MICHIGAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
REVENUES		
Electric Generation, Transmission and Distribution	\$553.9	\$538.5
Sales to AEP Affiliates	4.7	0.6
Other Revenues – Affiliated	13.2	18.1
Other Revenues – Nonaffiliated	5.0	3.3
TOTAL REVENUES	576.8	560.5
EXPENSES		
Fuel and Other Consumables Used for Electric Generation	77.5	90.7
Purchased Electricity for Resale	55.6	37.3
Purchased Electricity from AEP Affiliates	61.4	53.9
Other Operation	146.1	137.1
Maintenance	54.5	51.4
Depreciation and Amortization	59.3	50.0
Taxes Other Than Income Taxes	25.0	22.9
TOTAL EXPENSES	479.4	443.3
OPERATING INCOME	97.4	117.2
Other Income (Expense):		
Interest Income	0.2	1.1
Carrying Costs Income	2.4	3.4
Allowance for Equity Funds Used During Construction	1.8	2.1
Non-Service Cost Components of Net Periodic Benefit Cost	4.5	1.5
Interest Expense	(29.7)	(27.7)
INCOME BEFORE INCOME TAX EXPENSE	76.6	97.6
Income Tax Expense	12.4	29.2
NET INCOME	\$64.2	\$68.4
The common stock of I&M is wholly-owned by Parent.		

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 120.

INDIANA MICHIGAN POWER COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Net Income	\$64.2	\$68.4
OTHER COMPREHENSIVE INCOME, NET OF TAXES		
Cash Flow Hedges, Net of Tax of \$0.1 and \$0.2 in 2018 and 2017, Respectively	0.4	0.3
TOTAL COMPREHENSIVE INCOME	\$64.6	\$68.7
See Condensed Notes to Condensed Financial Statements of Registrants beginning on page <u>120</u> .		

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INDIANA MICHIGAN POWER COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
 COMMON SHAREHOLDER'S EQUITY

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2016	\$ 56.6	\$ 980.9	\$ 1,130.5	\$ (16.2)	\$ 2,151.8
Common Stock Dividends			(31.3)		(31.3)
Net Income			68.4		68.4
Other Comprehensive Income				0.3	0.3
TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2017	\$ 56.6	\$ 980.9	\$ 1,167.6	\$ (15.9)	\$ 2,189.2
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2017	\$ 56.6	\$ 980.9	\$ 1,192.2	\$ (12.1)	\$ 2,217.6
Common Stock Dividends			(33.5)		(33.5)
ASU 2018-02 Adoption			0.3	(2.7)	(2.4)
Net Income			64.2		64.2
Other Comprehensive Income				0.4	0.4
TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2018	\$ 56.6	\$ 980.9	\$ 1,223.2	\$ (14.4)	\$ 2,246.3

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page [120](#).

INDIANA MICHIGAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

March 31, 2018 and December 31, 2017

(in millions)

(Unaudited)

	March 31, 2018	December 31, 2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$0.6	\$ 1.3
Advances to Affiliates	12.5	12.4
Accounts Receivable:		
Customers	48.7	56.4
Affiliated Companies	49.9	50.0
Accrued Unbilled Revenues	8.1	7.3
Miscellaneous	5.4	2.0
Allowance for Uncollectible Accounts	—	(0.1)
Total Accounts Receivable	112.1	115.6
Fuel	35.2	31.4
Materials and Supplies	161.6	160.6
Risk Management Assets	3.3	7.6
Accrued Tax Benefits	65.0	58.4
Regulatory Asset for Under-Recovered Fuel Costs	12.4	15.0
Accrued Reimbursement of Spent Nuclear Fuel Costs	6.2	10.8
Margin Deposits	25.6	11.5
Prepayments and Other Current Assets	13.6	9.4
TOTAL CURRENT ASSETS	448.1	434.0
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	4,464.5	4,445.9
Transmission	1,523.5	1,504.0
Distribution	2,097.3	2,069.3
Other Property, Plant and Equipment (Including Coal Mining and Nuclear Fuel)	610.9	595.2
Construction Work in Progress	503.5	460.2
Total Property, Plant and Equipment	9,199.7	9,074.6
Accumulated Depreciation, Depletion and Amortization	3,073.1	3,024.2
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	6,126.6	6,050.4
OTHER NONCURRENT ASSETS		
Regulatory Assets	589.2	579.4
Spent Nuclear Fuel and Decommissioning Trusts	2,510.6	2,527.6
Long-term Risk Management Assets	2.0	0.7
Deferred Charges and Other Noncurrent Assets	168.4	179.9
TOTAL OTHER NONCURRENT ASSETS	3,270.2	3,287.6
TOTAL ASSETS	\$9,844.9	\$ 9,772.0

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 120.

INDIANA MICHIGAN POWER COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 LIABILITIES AND COMMON SHAREHOLDER'S EQUITY

March 31, 2018 and December 31, 2017

(dollars in millions)

(Unaudited)

	March 31, 2018	December 31, 2017
CURRENT LIABILITIES		
Advances from Affiliates	\$314.1	\$ 211.6
Accounts Payable:		
General	164.8	154.5
Affiliated Companies	81.4	98.3
Long-term Debt Due Within One Year – Nonaffiliated (March 31, 2018 and December 31, 2017 Amounts Include \$88.1 and \$96.3, Respectively, Related to DCC Fuel)	941.5	474.7
Risk Management Liabilities	3.8	3.5
Customer Deposits	38.0	37.7
Accrued Taxes	89.6	81.3
Accrued Interest	14.8	37.5
Obligations Under Capital Leases	5.8	5.8
Other Current Liabilities	102.7	106.4
TOTAL CURRENT LIABILITIES	1,756.5	1,211.3
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	1,775.7	2,270.4
Long-term Risk Management Liabilities	0.2	0.1
Deferred Income Taxes	978.3	953.8
Regulatory Liabilities and Deferred Investment Tax Credits	1,660.2	1,708.7
Asset Retirement Obligations	1,336.0	1,321.6
Deferred Credits and Other Noncurrent Liabilities	91.7	88.5
TOTAL NONCURRENT LIABILITIES	5,842.1	6,343.1
TOTAL LIABILITIES	7,598.6	7,554.4
Rate Matters (Note 4)		
Commitments and Contingencies (Note 5)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – No Par Value:		
Authorized – 2,500,000 Shares		
Outstanding – 1,400,000 Shares	56.6	56.6
Paid-in Capital	980.9	980.9
Retained Earnings	1,223.2	1,192.2
Accumulated Other Comprehensive Income (Loss)	(14.4)	(12.1)
TOTAL COMMON SHAREHOLDER'S EQUITY	2,246.3	2,217.6
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	\$9,844.9	\$ 9,772.0

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 120.

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INDIANA MICHIGAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
OPERATING ACTIVITIES		
Net Income	\$ 64.2	\$ 68.4
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	59.3	50.0
Deferred Income Taxes Amortization (Deferral) of Incremental Nuclear Refueling Outage Expenses, Net	(12.3)	16.6
Allowance for Equity Funds Used During Construction	(1.8)	(2.1)
Mark-to-Market of Risk Management Contracts	3.4	2.3
Amortization of Nuclear Fuel Deferred Fuel	27.4	35.1
Over/Under-Recovery, Net	3.4	19.6
Change in Other Noncurrent Assets	(13.4)	(17.6)
Change in Other Noncurrent Liabilities	33.7	13.5
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	3.5	3.0
Fuel, Materials and Supplies	(4.5)	(8.5)
Accounts Payable	1.3	(22.5)
Accrued Taxes, Net	8.2	(6.9)
Other Current Assets	(11.1)	15.8
Other Current Liabilities	(27.8)	(41.2)
Net Cash Flows from Operating Activities	147.2	174.3
INVESTING ACTIVITIES		
Construction Expenditures	(148.9)	(159.7)
Change in Advances to Affiliates, Net	(0.1)	—
Purchases of Investment Securities	(525.3)	(505.5)
Sales of Investment Securities	508.6	487.9

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Acquisitions of Nuclear Fuel	(23.8)	(3.7)
Other Investing Activities	4.2		2.0	
Net Cash Flows Used for Investing Activities	(185.3)	(179.0)

FINANCING ACTIVITIES

Issuance of Long-term Debt – Nonaffiliated	—		76.7	
Change in Advances from Affiliates, Net	102.5		71.6	
Retirement of Long-term Debt – Nonaffiliated	(29.4	)	(109.5)
Principal Payments for Capital Lease Obligations	(2.7	)	(2.9)
Dividends Paid on Common Stock	(33.5	)	(31.3)
Other Financing Activities	0.5		0.1	
Net Cash Flows from Financing Activities	37.4		4.7	
Net Decrease in Cash and Cash Equivalents	(0.7)	—	
Cash and Cash Equivalents at Beginning of Period	1.3		1.2	
Cash and Cash Equivalents at End of Period	\$ 0.6		\$ 1.2	

SUPPLEMENTARY INFORMATION

Cash Paid for Interest, Net of Capitalized Amounts	\$ 50.6		\$ 44.3	
Net Cash Paid for Income Taxes	—		0.6	
Noncash Acquisitions Under Capital Leases	1.7		1.5	
Construction Expenditures Included in Current Liabilities as of March 31,	77.2		75.9	
Acquisition of Nuclear Fuel Included in Current Liabilities as of March 31,	0.1		—	
Expected Reimbursement for Capital Cost of Spent Nuclear Fuel Dry Cask Storage	0.1		1.0	

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 120.

OHIO POWER COMPANY AND SUBSIDIARIES

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OHIO POWER COMPANY AND SUBSIDIARIES
MANAGEMENT'S NARRATIVE DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

KWh Sales/Degree Days

Summary of KWh Energy Sales

Three Months
Ended March
31,
2018 2017
(in millions of
KWhs)

Retail:

Residential	4,133	3,693
Commercial	3,552	3,428
Industrial	3,554	3,569
Miscellaneous	31	32
Total Retail (a)	11,270	10,722

Wholesale (b) 667 674

Total KWhs 11,937 11,396

(a) Represents energy delivered to distribution customers.

(b) Primarily Ohio's contractually obligated purchases of OVEC power sold into PJM.

Heating degree days and cooling degree days are metrics commonly used in the utility industry as a measure of the impact of weather on revenues.

Summary of Heating and Cooling Degree Days

Three
Months
Ended
March 31,
2018 2017
(in degree
days)

Actual – Heating (a) 1,884 1,403

Normal – Heating (b) 1,884 1,899

Actual – Cooling (c) 4 3

Normal – Cooling (b) 3 3

(a) Heating degree days are calculated on a 55 degree temperature base.

(b) Normal Heating/Cooling represents the thirty-year average of degree days.

(c) Cooling degree days are calculated on a 65 degree temperature base.

First Quarter of 2018 Compared to First Quarter of 2017
 Reconciliation of First Quarter of 2017 to First Quarter of 2018
 Net Income
 (in millions)

First Quarter of 2017	\$86.2
Changes in Gross Margin:	
Retail Margins	31.8
Off-system Sales	7.2
Transmission Revenues	(6.4)
Other Revenues	(0.9)
Total Change in Gross Margin	31.7
Changes in Expenses and Other:	
Other Operation and Maintenance	(49.9)
Depreciation and Amortization	(7.5)
Taxes Other Than Income Taxes	(6.6)
Interest Income	(1.6)
Carrying Costs Income	(1.2)
Allowance for Equity Funds Used During Construction	0.1
Non-Service Cost Components of Net Periodic Benefit Cost	2.8
Interest Expense	(0.2)
Total Change in Expenses and Other	(64.1)
Income Tax Expense	25.8
First Quarter of 2018	\$79.6

The major components of the increase in Gross Margin, defined as revenues less the related direct cost of purchased electricity and amortization of generation deferrals were as follows:

• Retail Margins increased \$32 million primarily due to the following:

• A \$39 million net increase in Basic Transmission Cost Rider revenues and recoverable PJM expenses. This increase was partially offset by a corresponding increase in Other Operation and Maintenance below.

• A \$21 million increase in revenues associated with the Universal Service Fund (USF). This increase was offset by a corresponding increase in Other Operation and Maintenance expenses below.

• A \$9 million increase in usage primarily in the residential class.

• A \$6 million increase in rider revenues associated with the DIR. This increase was partially offset in various expenses below.

• A \$4 million net increase in RSR revenues less associated amortizations.

These increases were partially offset by:

• A \$16 million decrease due to the 2018 provisions for customer refunds primarily related to Tax Reform. This decrease is offset in Income Tax Expense below.

• An \$11 million decrease in Energy Efficiency/Peak Demand Reduction rider revenues. This decrease was partially offset by a corresponding decrease in Other Operation and Maintenance expenses below.

• A \$10 million decrease in margin for the Phase-In-Recovery Rider including associated amortizations.

• A \$7 million decrease due to the recovery of lower current year losses from a power contract with OVEC. This decrease was offset by a corresponding increase in Margins from Off-system Sales below.

A \$7 million decrease in revenues associated with smart grid riders. This decrease was partially offset by a corresponding decrease in various expenses below.

• Margins from Off-system Sales increased \$7 million primarily due to lower current year losses from a power contract with OVEC which was offset in Retail Margins above as a result of the OVEC PPA rider beginning in January 2017.
• Transmission Revenues decreased \$6 million mainly due to the 2018 provisions for customer refunds primarily due to Tax Reform. This decrease is offset in Income Tax Expense below.

Expenses and Other and Income Tax Expense changed between years as follows:

• Other Operation and Maintenance expenses increased \$50 million primarily due to the following:

• A \$35 million increase in recoverable PJM expenses. This increase was offset by a corresponding increase in Retail Margins above.

• A \$21 million increase in remitted USF surcharge payments to the Ohio Department of Development to fund an energy assistance program for qualified Ohio customers. This increase was offset by a corresponding increase in Retail Margins above.

These increases were partially offset by:

• A \$10 million decrease in Energy Efficiency/Peak Demand Reduction rider costs and associated deferrals. This decrease was offset by a decrease in Retail Margins above.

• Depreciation and Amortization expenses increased \$8 million primarily due to the following:

• A \$6 million increase in recoverable DIR depreciation expense. This increase was offset in Retail Margins above.

• A \$3 million increase in depreciation expense due to an increase in depreciable base of transmission and distribution assets.

• A \$2 million increase primarily due to amortization of capitalized software costs.

These increases were partially offset by:

• A \$3 million decrease in recoverable smart grid depreciation expenses. This decrease was offset in Retail Margins above.

• Taxes Other Than Income Taxes increased by \$7 million primarily due to the following:

• A \$4 million increase in property taxes due to additional investments in transmission and distribution assets and higher tax rates.

• A \$3 million increase in state excise taxes due to an increase in metered KWh. This increase was offset by a corresponding increase in Retail Margins above.

• Income Tax Expense decreased \$26 million primarily due to the change in the corporate federal income tax rate from 35% in 2017 to 21% in 2018 as a result of Tax Reform and a decrease in pretax book income.

OHIO POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
REVENUES		
Electricity, Transmission and Distribution	\$786.3	\$738.4
Sales to AEP Affiliates	3.1	5.7
Other Revenues	1.5	2.0
TOTAL REVENUES	790.9	746.1
EXPENSES		
Purchased Electricity for Resale	205.5	188.3
Purchased Electricity from AEP Affiliates	30.2	32.0
Amortization of Generation Deferrals	58.6	60.9
Other Operation	172.2	122.3
Maintenance	37.2	37.2
Depreciation and Amortization	64.8	57.3
Taxes Other Than Income Taxes	105.1	98.5
TOTAL EXPENSES	673.6	596.5
OPERATING INCOME	117.3	149.6
Other Income (Expense):		
Interest Income	0.9	2.5
Carrying Costs Income	0.7	1.9
Allowance for Equity Funds Used During Construction	2.5	2.4
Non-Service Cost Components of Net Periodic Benefit Cost	3.9	1.1
Interest Expense	(25.2)	(25.0)
INCOME BEFORE INCOME TAX EXPENSE	100.1	132.5
Income Tax Expense	20.5	46.3
NET INCOME	\$79.6	\$86.2

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

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 120.

OHIO POWER COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Net Income	\$79.6	\$86.2
OTHER COMPREHENSIVE LOSS, NET OF TAXES		
Cash Flow Hedges, Net of Tax of \$(0.1) and \$(0.1) in 2018 and 2017, Respectively	(0.3)	(0.2)
TOTAL COMPREHENSIVE INCOME	\$79.3	\$86.0
See Condensed Notes to Condensed Financial Statements of Registrants beginning on page <u>120</u> .		

OHIO POWER COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
 COMMON SHAREHOLDER'S EQUITY

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2016	\$ 321.2	\$ 838.8	\$ 954.5	\$ 3.0	\$ 2,117.5
Common Stock Dividends			(65.0)		(65.0)
Net Income			86.2		86.2
Other Comprehensive Loss				(0.2)	(0.2)
TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2017	\$ 321.2	\$ 838.8	\$ 975.7	\$ 2.8	\$ 2,138.5
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2017	\$ 321.2	\$ 838.8	\$ 1,148.4	\$ 1.9	\$ 2,310.3
Common Stock Dividends			(112.5)		(112.5)
ASU 2018-02 Adoption				0.4	0.4
Net Income			79.6		79.6
Other Comprehensive Loss				(0.3)	(0.3)
TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2018	\$ 321.2	\$ 838.8	\$ 1,115.5	\$ 2.0	\$ 2,277.5

See
 Condensed
 Notes to
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 Financial
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OHIO POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

March 31, 2018 and December 31, 2017

(in millions)

(Unaudited)

	March 31, 2018	December 31, 2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$1.4	\$ 3.1
Restricted Cash for Securitized Funding	15.9	26.6
Advances to Affiliates	200.4	—
Accounts Receivable:		
Customers	42.0	67.8
Affiliated Companies	60.4	70.2
Accrued Unbilled Revenues	27.2	29.7
Miscellaneous	1.2	1.9
Allowance for Uncollectible Accounts	(0.6	) (0.6
Total Accounts Receivable	130.2	169.0
Materials and Supplies	41.2	41.9
Renewable Energy Credits	24.8	25.0
Risk Management Assets	0.4	0.6
Regulatory Asset for Under-Recovered Fuel Costs	89.3	115.9
Prepayments and Other Current Assets	27.1	15.8
TOTAL CURRENT ASSETS	530.7	397.9
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Transmission	2,440.5	2,419.2
Distribution	4,669.3	4,626.4
Other Property, Plant and Equipment	518.9	495.9
Construction Work in Progress	432.0	410.1
Total Property, Plant and Equipment	8,060.7	7,951.6
Accumulated Depreciation and Amortization	2,205.7	2,184.8
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	5,855.0	5,766.8
OTHER NONCURRENT ASSETS		
Regulatory Assets	597.6	652.8
Securitized Assets	31.4	37.7
Deferred Charges and Other Noncurrent Assets	342.0	406.5
TOTAL OTHER NONCURRENT ASSETS	971.0	1,097.0
TOTAL ASSETS	\$7,356.7	\$ 7,261.7
See		
Condensed		
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OHIO POWER COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 LIABILITIES AND COMMON SHAREHOLDER'S EQUITY

March 31, 2018 and December 31, 2017

(dollars in millions)

(Unaudited)

	March 31, 2018	December 31, 2017
CURRENT LIABILITIES		
Advances from Affiliates	\$—	\$ 87.8
Accounts Payable:		
General	159.9	205.8
Affiliated Companies	105.5	118.2
Long-term Debt Due Within One Year – Nonaffiliated (March 31, 2018 and December 31, 2017 Amounts Include \$47.5 and \$47, Respectively, Related to Ohio Phase-in-Recovery Funding)	397.5	397.0
Risk Management Liabilities	5.3	6.4
Customer Deposits	76.5	69.2
Accrued Taxes	418.5	512.5
Accrued Interest	38.7	31.0
Other Current Liabilities	161.2	165.9
TOTAL CURRENT LIABILITIES	1,363.1	1,593.8
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated (March 31, 2018 and December 31, 2017 Amounts Include \$24.3 and \$47.5, Respectively, Related to Ohio Phase-in-Recovery Funding)	1,692.2	1,322.3
Long-term Risk Management Liabilities	93.2	126.0
Deferred Income Taxes	759.0	762.9
Regulatory Liabilities and Deferred Investment Tax Credits	1,120.8	1,100.2
Deferred Credits and Other Noncurrent Liabilities	50.9	46.2
TOTAL NONCURRENT LIABILITIES	3,716.1	3,357.6
TOTAL LIABILITIES	5,079.2	4,951.4
Rate Matters (Note 4)		
Commitments and Contingencies (Note 5)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – No Par Value:		
Authorized – 40,000,000 Shares		
Outstanding – 27,952,473 Shares	321.2	321.2
Paid-in Capital	838.8	838.8
Retained Earnings	1,115.5	1,148.4
Accumulated Other Comprehensive Income (Loss)	2.0	1.9
TOTAL COMMON SHAREHOLDER'S EQUITY	2,277.5	2,310.3
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	\$7,356.7	\$ 7,261.7

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OHIO POWER COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 For the Three Months Ended March 31, 2018 and 2017
 (in millions)
 (Unaudited)

	Three Months Ended March 31,	
	2018	2017
OPERATING ACTIVITIES		
Net Income	\$79.6	\$86.2
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	64.8	57.3
Amortization of Generation Deferrals	58.6	60.9
Deferred Income Taxes	(4.9)	36.7
Carrying Costs Income	(0.7)	(1.9)
Allowance for Equity Funds Used During Construction	(2.5)	(2.4)
Mark-to-Market of Risk Management Contracts	(33.7)	5.7
Property Taxes	62.9	58.4
Provision for Refund – Global Settlement	(5.4)	—
Change in Other Noncurrent Assets	14.3	(45.8)
Change in Other Noncurrent Liabilities	40.6	30.6
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	38.8	30.2
Materials and Supplies	(1.9)	(1.8)
Accounts Payable	(22.5)	(34.9)
Accrued Taxes, Net	(92.8)	(107.2)
Other Current Assets	(7.5)	(0.3)
Other Current Liabilities	(2.9)	(31.2)
Net Cash Flows from Operating Activities	184.8	140.5
INVESTING ACTIVITIES		
Construction Expenditures	(168.2)	(108.4)
Change in Advances to Affiliates, Net	(200.4)	24.2
Other Investing Activities	1.7	2.0
Net Cash Flows Used for Investing Activities	(366.9)	(82.2)
FINANCING ACTIVITIES		
Issuance of Long-term Debt – Nonaffiliated	393.3	—
Change in Advances from Affiliates, Net	(87.8)	18.3
Retirement of Long-term Debt – Nonaffiliated	(22.9)	(22.5)
Principal Payments for Capital Lease Obligations	(0.9)	(1.0)
Dividends Paid on Common Stock	(112.5)	(65.0)
Other Financing Activities	0.5	0.6
Net Cash Flows from (Used for) Financing Activities	169.7	(69.6)
Net Decrease in Cash, Cash Equivalents and Restricted Cash for Securitized Funding	(12.4)	(11.3)
Cash, Cash Equivalents and Restricted Cash for Securitized Funding at Beginning of Period	29.7	30.3
Cash, Cash Equivalents and Restricted Cash for Securitized Funding at End of Period	\$17.3	\$19.0

SUPPLEMENTARY INFORMATION

Cash Paid for Interest, Net of Capitalized Amounts	\$17.0	\$17.2
Net Cash Paid for Income Taxes	—	1.7
Noncash Acquisitions Under Capital Leases	1.4	1.3
Construction Expenditures Included in Current Liabilities as of March 31,	52.3	28.3

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PUBLIC SERVICE COMPANY OF OKLAHOMA

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PUBLIC SERVICE COMPANY OF OKLAHOMA
MANAGEMENT'S NARRATIVE DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

KWh Sales/Degree Days

Summary of KWh Energy Sales

Three
Months
Ended
March 31,
2018 2017
(in millions
of KWhs)

Retail:

Residential	1,493	1,312
Commercial	1,162	1,130
Industrial	1,340	1,306
Miscellaneous	276	273
Total Retail	4,271	4,021

Wholesale	157	81
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Total KWhs	4,428	4,102
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Heating degree days and cooling degree days are metrics commonly used in the utility industry as a measure of the impact of weather on revenues.

Summary of Heating and Cooling Degree Days

Three
Months
Ended
March 31,
2018 2017
(in degree
days)

Actual – Heating (a)	1,032	670
Normal – Heating (b)	1,041	1,062

Actual – Cooling (c)	12	59
Normal – Cooling (b)	17	14

- (a) Heating degree days are calculated on a 55 degree temperature base.
- (b) Normal Heating/Cooling represents the thirty-year average of degree days.
- (c) Cooling degree days are calculated on a 65 degree temperature base.

First Quarter of 2018 Compared to First Quarter of 2017
 Reconciliation of First Quarter of 2017 to First Quarter of 2018
 Net Income (Loss)
 (in millions)

First Quarter of 2017	\$4.8
Changes in Gross Margin:	
Retail Margins (a)	(0.2)
Off-system Sales	0.1
Other Revenues	(0.4)
Total Change in Gross Margin	(0.5)
Changes in Expenses and Other:	
Other Operation and Maintenance	(11.2)
Depreciation and Amortization	(3.3)
Taxes Other Than Income Taxes	(1.0)
Non-Service Cost Components of Net Periodic Benefit Cost	1.3
Other Income	(0.5)
Interest Expense	(1.1)
Total Change in Expenses and Other	(15.8)
Income Tax Expense	4.3
First Quarter of 2018	\$(7.2)

(a) Includes firm wholesale sales to municipals and cooperatives.

The major components of the decrease in Gross Margin, defined as revenues less the related direct cost of fuel, including consumption of chemicals and emissions allowances and purchased electricity were as follows:

Retail Margins were consistent with the prior year due to the following:

- A \$5 million increase in revenue from rate riders. This increase in Retail Margins is partially offset by a corresponding increase to riders/trackers recognized in other expense items below.

- A \$4 million increase due to new rates implemented in March 2018, inclusive of a \$2 million decrease due to the change in the corporate federal tax rate.

- A \$3 million increase in weather-related usage due to a 54% increase in heating degree days.

These increases were partially offset by:

- A \$6 million decrease due to 2018 provisions for customer refunds primarily related to Tax Reform. This decrease is offset in Income Tax Expense below.

- A \$5 million decrease related to the System Reliability Rider (SRR) that ended in August 2017. This decrease is partially offset by a corresponding decrease recognized in other expense items below.

- A \$1 million decrease due to lower weather-normalized margins.

Expenses and Other and Income Tax Expense changed between years as follows:

- Other Operation and Maintenance expenses increased \$11 million primarily due to the following:

- A \$9 million increase in transmission expenses primarily due to increased SPP transmission services.

- A \$4 million increase due to the Wind Catcher Project.

A \$3 million increase in Energy Efficiency program costs. This increase was offset by an increase from rate riders in Retail Margins above.

These increases were partially offset by:

• A \$6 million decrease in the amortization of previously deferred vegetation management costs collected through the SRR. This decrease was partially offset by a corresponding decrease in Retail Margins above.

• Depreciation and Amortization expenses increased \$3 million primarily due to the following:

• A \$2 million increase due to a higher depreciable base.

• A \$1 million increase due to amortization of capitalized software costs.

Income Tax Expense decreased \$4 million primarily due to the change in the corporate federal income tax rate from 35% in 2017 to 21% in 2018 as a result of Tax Reform, amortization of excess accumulated deferred income taxes associated with certain depreciable property and a decrease in pretax book income.

PUBLIC SERVICE COMPANY OF OKLAHOMA
CONDENSED STATEMENTS OF OPERATIONS
For the Three Months Ended March 31, 2018 and 2017
(in millions)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
REVENUES		
Electric Generation, Transmission and Distribution	\$335.1	\$301.9
Sales to AEP Affiliates	1.1	1.1
Other Revenues	0.6	1.1
TOTAL REVENUES	336.8	304.1
EXPENSES		
Fuel and Other Consumables Used for Electric Generation	48.4	12.3
Purchased Electricity for Resale	122.4	125.3
Other Operation	86.8	68.3
Maintenance	26.9	34.2
Depreciation and Amortization	36.8	33.5
Taxes Other Than Income Taxes	11.6	10.6
TOTAL EXPENSES	332.9	284.2
OPERATING INCOME	3.9	19.9
Other Income (Expense):		
Other Income	—	0.5
Non-Service Cost Components of Net Periodic Benefit Cost	2.2	0.9
Interest Expense	(14.7)	(13.6)
INCOME (LOSS) BEFORE INCOME TAX EXPENSE (CREDIT)	(8.6)	7.7
Income Tax Expense (Credit)	(1.4)	2.9
NET INCOME (LOSS)	\$(7.2)	\$4.8
The common stock of PSO is wholly-owned by Parent.		
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PUBLIC SERVICE COMPANY OF OKLAHOMA
 CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 For the Three Months Ended March 31, 2018 and 2017
 (in millions)
 (Unaudited)

	Three Months Ended March 31,	
	2018	2017
Net Income (Loss)	\$(7.2)	\$4.8
OTHER COMPREHENSIVE LOSS, NET OF TAXES		
Cash Flow Hedges, Net of Tax of \$(0.1) and \$(0.1) in 2018 and 2017, Respectively	(0.2)	(0.2)
TOTAL COMPREHENSIVE INCOME (LOSS)	\$(7.4)	\$4.6

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PUBLIC SERVICE COMPANY OF OKLAHOMA
 CONDENSED STATEMENTS OF CHANGES IN
 COMMON SHAREHOLDER'S EQUITY
 For the Three Months Ended March 31, 2018 and 2017
 (in millions)
 (Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2016	\$ 157.2	\$ 364.0	\$ 689.5	\$ 3.4	\$ 1,214.1
Common Stock Dividends			(17.5)		(17.5)
Net Income			4.8		4.8
Other Comprehensive Loss				(0.2)	(0.2)
TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2017	\$ 157.2	\$ 364.0	\$ 676.8	\$ 3.2	\$ 1,201.2
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2017	\$ 157.2	\$ 364.0	\$ 691.5	\$ 2.6	\$ 1,215.3
Common Stock Dividends			(12.5)		(12.5)
ASU 2018-02 Adoption				0.5	0.5
Net Loss			(7.2)		(7.2)
Other Comprehensive Loss				(0.2)	(0.2)
TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2018	\$ 157.2	\$ 364.0	\$ 671.8	\$ 2.9	\$ 1,195.9
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PUBLIC SERVICE COMPANY OF OKLAHOMA
CONDENSED BALANCE SHEETS

ASSETS

March 31, 2018 and December 31, 2017

(in millions)

(Unaudited)

	March 31, 2018	December 31, 2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$0.6	\$ 1.6
Accounts Receivable:		
Customers	30.9	32.5
Affiliated Companies	27.7	32.9
Miscellaneous	3.9	4.1
Allowance for Uncollectible Accounts	—	(0.1)
Total Accounts Receivable	62.5	69.4
Fuel	13.0	12.5
Materials and Supplies	43.2	42.0
Risk Management Assets	2.9	6.4
Accrued Tax Benefits	30.2	28.1
Regulatory Asset for Under-Recovered Fuel Costs	22.7	36.7
Prepayments and Other Current Assets	7.5	8.6
TOTAL CURRENT ASSETS	182.6	205.3
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	1,572.4	1,577.2
Transmission	862.0	858.8
Distribution	2,475.5	2,445.1
Other Property, Plant and Equipment	297.0	287.4
Construction Work in Progress	110.3	111.3
Total Property, Plant and Equipment	5,317.2	5,279.8
Accumulated Depreciation and Amortization	1,415.5	1,393.6
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	3,901.7	3,886.2
OTHER NONCURRENT ASSETS		
Regulatory Assets	366.8	368.1
Employee Benefits and Pension Assets	40.4	40.0
Deferred Charges and Other Noncurrent Assets	34.2	8.7
TOTAL OTHER NONCURRENT ASSETS	441.4	416.8
TOTAL ASSETS	\$4,525.7	\$ 4,508.3
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PUBLIC SERVICE COMPANY OF OKLAHOMA
CONDENSED BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY

March 31, 2018 and December 31, 2017

(Unaudited)

	March 31, 2018	December 31, 2017
	(in millions)	
CURRENT LIABILITIES		
Advances from Affiliates	\$ 179.1	\$ 149.6
Accounts Payable:		
General	88.7	102.4
Affiliated Companies	51.5	48.0
Long-term Debt Due Within One Year – Nonaffiliated	0.5	0.5
Customer Deposits	54.5	54.1
Accrued Taxes	42.1	22.6
Accrued Interest	19.3	14.1
Other Current Liabilities	34.8	44.7
TOTAL CURRENT LIABILITIES	470.5	436.0
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	1,286.2	1,286.0
Deferred Income Taxes	639.6	642.0
Regulatory Liabilities and Deferred Investment Tax Credits	851.5	853.5
Asset Retirement Obligations	53.7	53.0
Deferred Credits and Other Noncurrent Liabilities	28.3	22.5
TOTAL NONCURRENT LIABILITIES	2,859.3	2,857.0
TOTAL LIABILITIES	3,329.8	3,293.0
Rate Matters (Note 4)		
Commitments and Contingencies (Note 5)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – Par Value – \$15 Per Share:		
Authorized – 11,000,000 Shares		
Issued – 10,482,000 Shares		
Outstanding – 9,013,000 Shares	157.2	157.2
Paid-in Capital	364.0	364.0
Retained Earnings	671.8	691.5
Accumulated Other Comprehensive Income (Loss)	2.9	2.6
TOTAL COMMON SHAREHOLDER'S EQUITY	1,195.9	1,215.3
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	\$4,525.7	\$ 4,508.3

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PUBLIC SERVICE COMPANY OF OKLAHOMA
CONDENSED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2018 and 2017
(in millions)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
OPERATING ACTIVITIES		
Net Income (Loss)	\$(7.2)	\$4.8
Adjustments to Reconcile Net Income (Loss) to Net Cash Flows from (Used for) Operating Activities:		
Depreciation and Amortization	36.8	33.5
Deferred Income Taxes	(4.5)	) 27.4
Allowance for Equity Funds Used During Construction	0.1	(0.4)
Mark-to-Market of Risk Management Contracts	3.5	0.3
Property Taxes	(30.1)	) (29.8)
Deferred Fuel Over/Under-Recovery, Net	14.6	(13.1)
Change in Other Noncurrent Assets	—	(9.3)
Change in Other Noncurrent Liabilities	5.7	(1.9)
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	6.9	16.6
Fuel, Materials and Supplies	(1.7)	) 3.4
Accounts Payable	(10.9)	) (27.7)
Accrued Taxes, Net	22.4	(0.3)
Other Current Assets	0.9	0.3
Other Current Liabilities	(1.3)	) (22.3)
Net Cash Flows from (Used for) Operating Activities	35.2	(18.5)
INVESTING ACTIVITIES		
Construction Expenditures	(54.4)	) (75.7)
Other Investing Activities	2.0	0.9
Net Cash Flows Used for Investing Activities	(52.4)	) (74.8)
FINANCING ACTIVITIES		
Change in Advances from Affiliates, Net	29.5	111.7
Retirement of Long-term Debt – Nonaffiliated	(0.1)	) (0.1)
Principal Payments for Capital Lease Obligations	(1.0)	) (1.1)
Dividends Paid on Common Stock	(12.5)	) (17.5)
Other Financing Activities	0.3	0.1
Net Cash Flows from Financing Activities	16.2	93.1
Net Decrease in Cash and Cash Equivalents	(1.0)	) (0.2)
Cash and Cash Equivalents at Beginning of Period	1.6	1.5
Cash and Cash Equivalents at End of Period	\$0.6	\$1.3
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest, Net of Capitalized Amounts	\$10.3	\$15.9
Net Cash Paid (Received) for Income Taxes	—	(2.6)

Noncash Acquisitions Under Capital Leases	0.9	0.7
Construction Expenditures Included in Current Liabilities as of March 31,	25.4	22.3

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SOUTHWESTERN ELECTRIC POWER COMPANY CONSOLIDATED

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SOUTHWESTERN ELECTRIC POWER COMPANY CONSOLIDATED
MANAGEMENT'S NARRATIVE DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

KWh Sales/Degree Days

Summary of KWh Energy Sales

Three
Months
Ended
March 31,
2018 2017
(in millions
of KWhs)

Retail:

Residential	1,558	1,310
Commercial	1,288	1,305
Industrial	1,199	1,222
Miscellaneous	19	20
Total Retail	4,064	3,857

Wholesale	1,908	2,439
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Total KWhs	5,972	6,296
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Heating degree days and cooling degree days are metrics commonly used in the utility industry as a measure of the impact of weather on revenues.

Summary of Heating and Cooling Degree Days

Three
Months
Ended
March
31,
20182017
(in
degree
days)

Actual – Heating (a)	729	388
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Normal – Heating (b)	707	720
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Actual – Cooling (c)	60	106
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Normal – Cooling (b)	38	34
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- (a) Heating degree days are calculated on a 55 degree temperature base.
- (b) Normal Heating/Cooling represents the thirty-year average of degree days.
- (c) Cooling degree days are calculated on a 65 degree temperature base.

First Quarter of 2018 Compared to First Quarter of 2017
 Reconciliation of First Quarter of 2017 to First Quarter of 2018
 Earnings Attributable to SWEPCo Common Shareholder
 (in millions)

First Quarter of 2017	\$ 16.3
Changes in Gross Margin:	
Retail Margins (a)	10.2
Off-system Sales	(1.1)
Transmission Revenues	2.7
Other Revenues	0.1
Total Change in Gross Margin	11.9
Changes in Expenses and Other:	
Other Operation and Maintenance	(14.8)
Depreciation and Amortization	(6.6)
Taxes Other Than Income Taxes	(1.7)
Interest Income	0.9
Allowance for Equity Funds Used During Construction	1.5
Non-Service Cost Components of Net Periodic Benefit Cost	1.4
Interest Expense	(2.3)
Total Change in Expenses and Other	(21.6)
Income Tax Expense	6.6
Equity Earnings of Unconsolidated Subsidiary	(0.8)
Net Income Attributable to Noncontrolling Interest	(0.6)
First Quarter of 2018	\$ 11.8

(a) Includes firm wholesale sales to municipals and cooperatives.

The major components of the increase in Gross Margin, defined as revenues less the related direct cost of fuel, including consumption of chemicals and emissions allowances, and purchased electricity were as follows:

Retail Margins increased \$10 million primarily due to the following:

▲ \$22 million increase primarily due to rider and base rate revenue increases in Texas and Louisiana.

▲ \$14 million increase in weather-related usage primarily due to an 88% increase in heating degree days.

These increases were partially offset by:

● A \$15 million decrease due to lower weather-normalized margins, primarily due to wholesale customer load loss from contracts that expired at the end of 2017.

● A \$12 million decrease due to the 2018 provisions for customer refunds primarily related to Tax Reform. This decrease is offset in Income Tax Expense below.

▣ Transmission Revenues increased \$3 million primarily due to an increase in transmission investments in SPP.

Expenses and Other and Income Tax Expense changed between years as follows:

○ Other Operation and Maintenance expenses increased \$15 million primarily due to the following:

▲ \$10 million increase due to the Wind Catcher Project.

▲ \$5 million increase in SPP transmission services.

▲ \$3 million increase in employee-related expenses.

These increases were partially offset by:

- A \$4 million decrease in distribution expenses primarily due to distribution system improvements in 2017.

◆ Depreciation and Amortization expenses increased \$7 million primarily due to a higher depreciable base.

Income Tax Expense decreased \$7 million primarily due to the change in the corporate federal income tax rate from 35% in 2017 to 21% in 2018 as a result of Tax Reform, amortization of excess accumulated deferred income taxes associated with certain depreciable property and a decrease in pretax book income.

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SOUTHWESTERN ELECTRIC POWER COMPANY CONSOLIDATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
REVENUES		
Electric Generation, Transmission and Distribution	\$413.0	\$396.3
Sales to AEP Affiliates	6.1	4.6
Other Revenues	0.3	0.4
TOTAL REVENUES	419.4	401.3
EXPENSES		
Fuel and Other Consumables Used for Electric Generation	126.8	130.9
Purchased Electricity for Resale	42.7	32.4
Other Operation	94.9	78.9
Maintenance	31.0	32.2
Depreciation and Amortization	57.4	50.8
Taxes Other Than Income Taxes	25.0	23.3
TOTAL EXPENSES	377.8	348.5
OPERATING INCOME	41.6	52.8
Other Income (Expense):		
Interest Income	1.8	0.9
Allowance for Equity Funds Used During Construction	2.3	0.8
Non-Service Cost Components of Net Periodic Benefit Cost	2.3	0.9
Interest Expense	(32.2)	(29.9)
INCOME BEFORE INCOME TAX EXPENSE AND EQUITY EARNINGS	15.8	25.5
Income Tax Expense	2.9	9.5
Equity Earnings of Unconsolidated Subsidiary	0.5	1.3
NET INCOME	13.4	17.3
Net Income Attributable to Noncontrolling Interest	1.6	1.0
EARNINGS ATTRIBUTABLE TO SWEPCo COMMON SHAREHOLDER	\$11.8	\$16.3
The common stock of SWEPCo is wholly-owned by Parent.		

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SOUTHWESTERN ELECTRIC POWER COMPANY CONSOLIDATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Net Income	\$13.4	\$17.3
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES		
Cash Flow Hedges, Net of Tax of \$0.1 and \$0.2 in 2018 and 2017, Respectively	0.4	0.5
Amortization of Pension and OPEB Deferred Costs, Net of Tax of \$(0.1) and \$(0.1) in 2018 and 2017, Respectively	(0.3)	(0.2)
TOTAL OTHER COMPREHENSIVE INCOME	0.1	0.3
TOTAL COMPREHENSIVE INCOME	13.5	17.6
Total Comprehensive Income Attributable to Noncontrolling Interest	1.6	1.0
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SWEPCo COMMON SHAREHOLDER	\$11.9	\$16.6

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SOUTHWESTERN ELECTRIC POWER COMPANY CONSOLIDATED
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	SWEPCo Common Shareholder					Noncontrolling Interest	Total
	Common Stock	Paid-in Capital	Retained Earnings	Other Comprehensive Income (Loss)	Accumulated		
TOTAL EQUITY – DECEMBER 31, 2016	\$135.7	\$676.6	\$1,411.9	\$ (9.4)		\$ 0.4	\$2,215.2
Common Stock Dividends			(27.5)				(27.5)
Common Stock Dividends – Nonaffiliated						(1.1)	(1.1)
Net Income			16.3			1.0	17.3
Other Comprehensive Income				0.3			0.3
TOTAL EQUITY – MARCH 31, 2017	\$135.7	\$676.6	\$1,400.7	\$ (9.1)		\$ 0.3	\$2,204.2
TOTAL EQUITY – DECEMBER 31, 2017	\$135.7	\$676.6	\$1,426.6	\$ (4.0)		\$ (0.4)	\$2,234.5
Common Stock Dividends			(20.0)				(20.0)
Common Stock Dividends – Nonaffiliated						(0.8)	(0.8)
ASU 2018-02 Adoption			(0.4)	(0.9)			(1.3)
Net Income			11.8			1.6	13.4
Other Comprehensive Income				0.1			0.1
TOTAL EQUITY – MARCH 31, 2018	\$135.7	\$676.6	\$1,418.0	\$ (4.8)		\$ 0.4	\$2,225.9

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SOUTHWESTERN ELECTRIC POWER COMPANY CONSOLIDATED
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

March 31, 2018 and December 31, 2017

(in millions)

(Unaudited)

	March 31, 2018	December 31, 2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$0.7	\$ 1.6
Advances to Affiliates	2.0	2.0
Accounts Receivable:		
Customers	67.0	70.9
Affiliated Companies	18.0	30.2
Miscellaneous	13.2	25.8
Allowance for Uncollectible Accounts	(0.5	) (1.3
Total Accounts Receivable	97.7	125.6
Fuel (March 31, 2018 and December 31, 2017 Amounts Include \$37.7 and \$41.5, Respectively, Related to Sabine)	120.5	123.6
Materials and Supplies	68.8	67.9
Risk Management Assets	1.7	6.4
Regulatory Asset for Under-Recovered Fuel Costs	16.5	14.1
Prepayments and Other Current Assets	40.2	39.2
TOTAL CURRENT ASSETS	348.1	380.4
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	4,622.6	4,624.9
Transmission	1,715.0	1,679.8
Distribution	2,108.1	2,095.8
Other Property, Plant and Equipment (March 31, 2018 and December 31, 2017 Amounts Include \$264.9 and \$266.7, Respectively, Related to Sabine)	704.4	684.1
Construction Work in Progress	266.9	233.2
Total Property, Plant and Equipment	9,417.0	9,317.8
Accumulated Depreciation and Amortization (March 31, 2018 and December 31, 2017 Amounts Include \$167.4 and \$165.9, Respectively, Related to Sabine)	2,724.7	2,685.8
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	6,692.3	6,632.0
OTHER NONCURRENT ASSETS		
Regulatory Assets	217.9	220.6
Deferred Charges and Other Noncurrent Assets	165.5	109.9
TOTAL OTHER NONCURRENT ASSETS	383.4	330.5
TOTAL ASSETS	\$7,423.8	\$ 7,342.9

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SOUTHWESTERN ELECTRIC POWER COMPANY CONSOLIDATED
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND EQUITY

March 31, 2018 and December 31, 2017

(Unaudited)

	March 31, 2018 (in millions)	December 31, 2017
CURRENT LIABILITIES		
Advances from Affiliates	\$148.6	\$ 118.7
Accounts Payable:		
General	118.5	160.4
Affiliated Companies	60.7	63.7
Short-term Debt – Nonaffiliated	22.6	22.0
Long-term Debt Due Within One Year – Nonaffiliated	457.2	3.7
Risk Management Liabilities	0.1	0.2
Customer Deposits	62.9	62.1
Accrued Taxes	91.1	39.0
Accrued Interest	25.9	38.9
Obligations Under Capital Leases	11.3	11.2
Other Current Liabilities	60.4	78.7
TOTAL CURRENT LIABILITIES	1,059.3	598.6
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	2,046.5	2,438.2
Long-term Risk Management Liabilities	0.5	—
Deferred Income Taxes	924.2	917.7
Regulatory Liabilities and Deferred Investment Tax Credits	895.2	896.4
Asset Retirement Obligations	160.8	160.3
Employee Benefits and Pension Obligations	18.1	19.5
Obligations Under Capital Leases	56.9	57.8
Deferred Credits and Other Noncurrent Liabilities	36.4	19.9
TOTAL NONCURRENT LIABILITIES	4,138.6	4,509.8
TOTAL LIABILITIES	5,197.9	5,108.4
Rate Matters (Note 4)		
Commitments and Contingencies (Note 5)		
EQUITY		
Common Stock – Par Value – \$18 Per Share:		
Authorized – 7,600,000 Shares		
Outstanding – 7,536,640 Shares	135.7	135.7
Paid-in Capital	676.6	676.6
Retained Earnings	1,418.0	1,426.6
Accumulated Other Comprehensive Income (Loss)	(4.8	) (4.0
TOTAL COMMON SHAREHOLDER’S EQUITY	2,225.5	2,234.9

Noncontrolling Interest	0.4	(0.4)
TOTAL EQUITY	2,225.9	2,234.5	

TOTAL LIABILITIES AND EQUITY	\$7,423.8	\$ 7,342.9	
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SOUTHWESTERN ELECTRIC POWER COMPANY CONSOLIDATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2018 and 2017

(in millions)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
OPERATING ACTIVITIES		
Net Income	\$ 13.4	\$ 17.3
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	57.4	50.8
Deferred Income Taxes	1.0	43.1
Allowance for Equity Funds Used During Construction	(2.3)	(0.8)
Mark-to-Market of Risk Management Contracts	5.1	0.4
Property Taxes	(48.8)	(45.3)
Deferred Fuel	(4.6)	(3.4)
Over/Under-Recovery, Net		
Change in Other Noncurrent Assets	1.3	(0.6)
Change in Other Noncurrent Liabilities	18.8	(12.1)
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	27.9	23.1
Fuel, Materials and Supplies	2.2	12.5
Accounts Payable	(24.6)	(33.5)
Accrued Taxes, Net	55.2	11.8
Accrued Interest	(13.0)	(20.3)
Other Current Assets	(0.8)	3.2
Other Current Liabilities	(12.5)	(19.1)
Net Cash Flows from Operating Activities	75.7	27.1
INVESTING ACTIVITIES		
Construction Expenditures	(139.7)	(75.6)
Change in Advances to Affiliates, Net	—	167.8
Other Investing Activities	(5.4)	(4.4)
Net Cash Flows from (Used for) Investing Activities	(145.1)	87.8
FINANCING ACTIVITIES		
	444.6	—

Issuance of Long-term Debt – Nonaffiliated			
Change in Short-term Debt, Net – Nonaffiliated	0.6		—
Change in Advances from Affiliates, Net	29.9		167.9
Retirement of Long-term Debt – Nonaffiliated	(383.4	)	(251.7
Principal Payments for Capital Lease Obligations	(2.8	)	(2.8
Dividends Paid on Common Stock			