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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For The Quarterly Period Ended June 30, 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 File Number	Registrants; States of Incorporation; 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)	72-0323455
	1 Riverside Plaza, Columbus, Ohio 43215-2373	
	Telephone (614) 716-1000	

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 x No ¨

Indicate by check mark whether the registrants have submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x 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 x Accelerated filer ¨ Non-accelerated filer ¨

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 x

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 July 26, 2018
American Electric Power Company, Inc.	492,934,058 ($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 COMPANIES
INDEX OF QUARTERLY REPORTS ON FORM 10-Q
June 30, 2018

Part II. OTHER INFORMATION

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 ADIT 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 VII, DCC Fuel VIII, DCC Fuel IX, DCC Fuel X, DCC Fuel XI and DCC Fuel XII 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.

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.
Excess ADIT	Excess accumulated deferred income taxes.
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.

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.
ROE	Return on Equity.
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's 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.
	Legislation enacted in 1999 to restructure the electric utility industry in Texas.

Texas Restructuring Legislation	
TNC	Formerly Texas North Company, now a division of AEP Texas.
TRA	Tennessee Regulatory Authority.

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Term	Meaning
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.
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 ADIT.

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 second quarter of 2018 increased by 2.0% compared to the second quarter of 2017. AEP's second quarter 2018 industrial sales increased by 3.0% compared to the second quarter of 2017. The growth in industrial sales was spread across many industries and most operating companies. Weather-normalized residential sales increased 2.1% in the second quarter of 2018 compared to the second quarter of 2017. Weather-normalized commercial sales increased by 0.7% in the second quarter of 2018 compared to the second quarter of 2017.

AEP's weather-normalized retail sales volumes for the six months ended June 30, 2018 increased by 1.7% compared to the six months ended June 30, 2017. AEP's industrial sales volumes for the six months ended June 30, 2018 increased 2.8% compared to the six months ended June 30, 2017. The growth in industrial sales was spread across many industries and most operating companies. Weather-normalized residential and commercial sales increased 1.7% and 0.6%, respectively, for the six months ended June 30, 2018 compared to the six months ended June 30, 2017.

Wind Catcher Project

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 350 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 30% and 70% ownership shares, respectively, in these assets. The wind generation facility is located in Oklahoma and, if approved by all state commissions, is anticipated to be in-service by the end of 2020. 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.

In February 2018, an 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 settlement discussions. A non-unanimous settlement agreement was filed in Arkansas in February 2018, a unanimous settlement was filed in April 2018 in Louisiana and a non-unanimous settlement was filed in April 2018 in Oklahoma. An amendment to the Joint Stipulation in Oklahoma was filed in May 2018 to include additional parties to the non-unanimous settlement. A separate Joint Stipulation and settlement agreement was reached between PSO and two other parties. 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. In May 2018, the APSC approved SWEPCo's petition to proceed with the Wind Catcher Project. In June

2018, the LPSC approved SWEPCo's petition to proceed with the Wind Catcher Project. In July 2018, a hearing on the settlement agreements presented in the PSO case was held before the three OCC Commissioners. Also in July 2018, representatives from SWEPCo and AEPSC presented oral arguments before the three PUCT Commissioners. Rulings by the PUCT and OCC are expected in the third quarter of 2018.

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Other Renewable Generation

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.

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 June 30, 2018, subsidiaries within AEP's Generation & Marketing segment have approximately 400 MWs of contracted renewable generation projects in operation. In addition, as of June 30, 2018, these subsidiaries have approximately 7 MWs of new renewable generation projects under construction with total estimated capital costs of $16 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. 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 $185 million has been incurred and placed into service as property, plant and equipment as of June 30, 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. 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 May 2018, the WVPSC also denied APCo's application to acquire the two wind generation facilities.

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 second 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 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. As of June 30, 2018, AEP has recorded estimated provisions for revenue refunds totaling $144 million as a result of the reduction in the corporate federal tax rate.

Excess ADIT - Pending Rate Reductions

As of June 30, 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 pretax 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 June 30, 2018, approximately $3.4 billion of the Excess ADIT relates to temporary differences associated with certain 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. The amortization resulted in a $33 million reduction in Income Tax Expense for the six months ended June 30, 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 $33 million as of June 30, 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. As a result of certain state utility commission orders or instructions received and a filed FERC settlement agreement, AEP, AEPTCo, APCo, I&M, and OPCo began amortizing Excess ADIT not subject to rate normalization requirements.

Merchant Coal Generation Assets

Management continues to evaluate potential alternatives for its remaining merchant coal 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.

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 of storm costs annually through base rates. As of June 30, 2018, the total balance of AEP Texas' catastrophe reserve deferral is approximately $145 million, inclusive of approximately $121 million of incremental storm expenses recorded as a regulatory asset related to Hurricane Harvey. As of June 30, 2018, AEP Texas has recorded approximately $199 million of capital expenditures related to Hurricane Harvey. Also, as of June 30, 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 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 will request securitization of the regulatory asset. The standard process for securitization of storm cost recovery in Texas requires two filings with the PUCT. Management expects that AEP Texas will make the first filing by the end of the 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 April 2018, the PUCO issued an order approving the ESP extension through May 2024 which includes: (a) an extension of the OVEC PPA rider, (b) a 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, effective June 1, 2018, based on a depreciation study using data through December 2015 and (g) amortization of approximately $24 million annually beginning June 2018 of OPCo’s excess distribution accumulated depreciation reserve, which was $239 million as of December 31, 2015. Upon the issuance of the PUCO order, OPCo stopped recording $39 million in annual amortization in June 2018, which was previously approved to end in December 2018 in accordance with PUCO’s December 2011 OPCo distribution base rate case order. OPCo and intervenors agreed 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 May 2018, OPCo and various intervenors filed requests for rehearing with the PUCO. In June 2018, these requests for rehearing were approved to allow further consideration of the requests. See “Ohio Electric Security Plan Filings” section of Note 4 for additional information.

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. 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 of 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 an I&M Indiana rider.

In April 2018, a group of intervenors filed a Petition for Reconsideration and Rehearing of the March 2018 IURC order. In June 2018, the IURC denied the Petition for Reconsideration and Rehearing.

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 February 2018, I&M 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 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 ADIT, (c) a 9.95% return on equity, (d) longer recovery periods of regulatory assets, (e) lower depreciation expense primarily for meters, (f) an increase in the sharing of off-system sales margins with customers from 50% to 95% and (g) a refund of $4 million from July through December 2018 for the impact of Tax Reform for the period January through June 2018.

In May 2018, the IURC issued an order approving the Stipulation and Settlement Agreement in its entirety.

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 included $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.

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In February 2018, an MPSC ALJ issued a Proposal for Decision and recommended an annual revenue increase of $49 million, including an intervenors' proposal for up to 10% of I&M's Michigan retail customers to choose an alternate supplier for generation and a proposed capacity rate based on PJM's net cost of new entry value of $289/MW-day, as well as the 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 $50 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.

In May 2018, I&M filed a Petition for Rehearing on the capacity rate issue. In June 2018, the MPSC denied I&M's request.

Merchant Portion of Turk Plant

SWEPCo 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. SWEPCo owns 73% (440 MWs) of the Turk Plant and operates the facility.

The APSC granted approval for SWEPCo to build the Turk Plant by issuing a Certificate of Environmental Compatibility and Public Need (CECPN) for the SWEPCo 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 SWEPCo's wholesale customers under FERC-based rates. As of June 30, 2018, the net book value of Turk Plant was $1.5 billion, before cost of removal, including materials and supplies inventory and CWIP. If SWEPCo 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.

2012 Texas Base Rate Case

In July 2018, the Texas Third Court of Appeals reversed the PUCT's judgment affirming the prudence of the Turk Plant and remanded the issue back to the PUCT. SWEPCo intends to file a request for rehearing with the court of appeals in the third quarter of 2018. If SWEPCo 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. See "2012 Texas Base Rate Case" section of Note 4.

2017 Louisiana Formula Rate Filing

In April 2017, the LPSC approved an uncontested stipulation agreement that SWEPCo 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 SWEPCo'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, SWEPCo 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 by the LPSC. In May 2018, LPSC staff filed testimony that the environmental control investment for Welsh Plant, Units 1 and 3 and Flint Creek power plants is prudent. In July 2018, an ALJ recommended the LPSC approve a settlement agreement for the environmental control investment. An order is expected in the third quarter of 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, SWEPCo 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 increase included SWEPCo's jurisdictional share of Welsh Plant and Flint Creek Plant environmental controls. The filing also included a reduction in the federal income tax rate due to Tax Reform.

In July 2018, SWEPCo made a supplemental filing to its formula rate plan with the LPSC to reduce the requested annual increase to $18 million. The difference between SWEPCo's requested $28 million annual increase and the $18 million annual increase in the supplemental filing is primarily the result of the return of Excess ADIT benefits to customers.

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 KPCo'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) KPCo'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 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 April 2018, KPCo and the intervenor filed a settlement agreement with the KPSC in which KPCo withdrew its requested increase related to the recovery of purchased power costs associated with forced outages and the intervenor withdrew its claim regarding the impact of the reduced corporate federal income tax rates on purchased power costs related to the Rockport UPA.

In June 2018, the KPSC issued an order approving the settlement agreement including KPCo's requested additional revenue increase of $765 thousand related to the calculation of federal income tax expense. This rate increase was effective June 28, 2018.

Also in June 2018, the KPSC issued an order approving a settlement agreement between KPCo and an intervenor that stipulates that KPCo will refund Excess ADIT associated with certain depreciable property using ARAM and Excess ADIT that is not subject to rate normalization requirements over 18 years. The refund was effective July 1, 2018.

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 in

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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 included $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 expense. 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. The order has been appealed by various intervenors.

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 ADIT benefits to customers. In June 2018, an order approving interim rates that provided for a reduction of residential rates of $8 million was issued.

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 incurred fuel expenses from the July 2018 over/under recovery calculation, (b) reduce APCo's base rates by $50 million annually commencing 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 seek 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 ending July 1, 2028 and (f) require APCo to construct and/or acquire solar generation facilities in Virginia, as approved by the Virginia SCC, of at least 200 MW of aggregate capacity by July 1, 2028. Triennial reviews are subject to an earnings test which provides that 70% of any over earnings would be refunded or may be reinvested in approved energy distribution grid transformation projects and/or new utility-owned solar and wind generation facilities. The Virginia SCC's triennial review of 2017-2019 APCo earnings could reduce future net income and cash flows and impact financial condition.

2018 West Virginia Base Rate Case

In May 2018, APCo and WPCo filed a joint request with the WVPSC to increase their combined West Virginia base rates by $115 million ($98 million related to APCo) annually based on a 10.22% return on common equity. The proposed annual increase includes $32 million ($28 million related to APCo) due to increased annual depreciation rates and also reflects the impact of the reduction in the federal income tax rate due to Tax Reform. A hearing at the WVPSC is scheduled for November 2018. If any of these costs are not recoverable, it 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, which was 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 ADIT that is 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, which included the $50 million one-time refund that occurred in the second quarter of 2018. These interim 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. The FERC trial staff filed comments recommending a base ROE of 8.41% and one-time refund of $175 million. Another intervenor recommended the refund be calculated in accordance with the base ROE that will ultimately be approved by the FERC. In May 2018, management filed reply comments providing further support for the 9.85% base ROE agreed to in the settlement agreement.

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 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.

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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 $550 million, excluding AFUDC. As of June 30, 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 June 30, 2018, the total net book value of Welsh Plant, Units 1 and 3 was $624 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 June 30, 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. See "2017 Louisiana Formula Rate Filing" and "2018 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 (Brookfield), 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 by the IURC and the MPSC 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 would be unlawfully burdened by the terms of the modified NSR consent decree after the Rockport Plant, Unit 2 lease expiration in December 2022. The terms of the consent decree allow the installation of environmental emission control equipment, repowering or retirement of the unit. The plaintiffs seek a judgment declaring that the defendants breached the lease, must satisfy obligations related to installation of emission control equipment and indemnify the plaintiffs. The New York court granted a motion to transfer this case to the U.S. District Court for the Southern District of Ohio.

AEGCo and I&M sought and were granted dismissal of certain of the plaintiffs' claims, including claims for compensatory damages, breach of contract, breach of the implied covenant of good faith and fair dealing and indemnification of costs. 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. Plaintiffs voluntarily dismissed the surviving claims with prejudice, and the court issued a final judgment. The plaintiffs subsequently filed an appeal in the U.S. Court of Appeals for the Sixth Circuit on whether the trial court erred in dismissing plaintiffs' claims for breach of contract and breach of the implied 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 in part. In June 2017, on rehearing, the court of appeals issued an amended opinion reversing the district court's dismissal of certain of plaintiffs' claims for breach of contract, vacating the denial of the plaintiffs' motion for partial summary judgment and remanding the case to the district court for further proceedings. The amended opinion and judgment affirmed 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 removed 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. Responsive and supplemental filings have been made by all parties. The motion is fully briefed and remains pending before the court. 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.

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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 June 30, 2018, the AEP System had a total generating capacity of approximately 25,600 MWs, of which approximately 13,500 MWs were 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 $650 million to $1.5 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, (g) the outcome of the pending motion to modify the NSR consent decree and (h) 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 previously retired that have a remaining net book value. As of June 30, 2018, the net book value before cost of removal, including related materials and supplies inventory, of the plants/units listed below was $190 million. Management is seeking or will seek recovery of the remaining net book value of $190 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
SWEPCo	Welsh Plant, Unit 2	528	50.6
Total		2,268	$ 190.4

(a) 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.

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 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 SO_2 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 other parties to the consent decree opposed AEP's motion. The district court granted AEP's request to delay the deadline to install SCR technology at Rockport Plant, Unit 2 until June 2020.

In January 2018, AEP filed a supplemental motion proposing to install the SCR at Rockport Plant, Unit 2 and achieve the final SO_2 emission cap applicable to the plant under the consent decree by the end of 2020, before the expiration of the initial lease term. Since all required emission reductions would be achieved, no unit retirements or other compensating measures were offered to maintain the benefits of the current consent decree. 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 Plant, Unit 2, 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 SO_2 in 2010, PM in 2012 and ozone in 2015; the existing standards for NO_2 were retained after review by the Federal EPA in 2018. Implementation of these standards is underway. In December 2017, the Federal EPA published final designations for certain areas' compliance with the 2010 SO_2 NAAQS. Additional designations will be made in 2020. States may develop additional requirements for AEP's facilities as a result of these designations. In June 2018, the Federal EPA proposed to retain the current primary standard for SO_2 of 75 parts per billion, without change.

In December 2016, the Federal EPA completed an integrated review plan for the 2012 PM standard. Work is currently underway on scientific, risk and policy assessments necessary to develop a proposed rule, which is anticipated in 2021.

Most areas of the country were designated attainment or unclassifiable for the 2015 ozone standard in November 2017. The Federal EPA finalized nonattainment designations for the remaining areas in April and July 2018. 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 for the 2008 and 2015 ozone standards. The Federal EPA has confirmed that for states included in the CSAPR program, there are no additional interstate transport obligations, as all areas of the country are expected to attain the 2008 ozone standard before 2023. State implementation plans for the 2015 ozone standard are due in October 2018. The Federal EPA had 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. In June 2018, the court lifted the stay, allowing those challenges to proceed. 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) would 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.

In March 2012, the Federal EPA proposed disapproval of a portion of the regional haze SIP in Arkansas. 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 planned environmental controls to address other CAA requirements. In September 2016, the Federal EPA published a final FIP, retaining its BART determinations, but accelerating the schedule for implementation of certain required controls. The final rule is being challenged in the U.S. Court of Appeals for the Eighth Circuit, but has been held in abeyance 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 approved the revision. Arkansas issued a second proposal to revise the SO_2 BART determinations, and the public comment period on that action has closed. 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.

The Federal EPA also disapproved portions of the Texas regional haze SIP and promulgated a final FIP that did not include any BART determinations in January 2016. That rule was challenged in the U.S. Court of Appeals for the Fifth Circuit and in March 2017, the court granted partial remand of the final rule. In January 2017, the Federal EPA proposed source-specific BART requirements for SO_2 from sources in Texas, including Welsh Plant, Unit 1. In October 2017, the Federal EPA finalized a FIP that allows participation in the CSAPR ozone season program to satisfy the NO_x regional haze obligations for electric generating units in Texas. Additionally, the Federal EPA finalized an intrastate SO_2 emissions trading program based on CSAPR allowance allocations as an alternative to source-specific SO_2 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 SO_2 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 SO_2 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. The Federal EPA confirmed in 2017 that changes to the CSAPR program, including the removal of Texas sources, did not alter that conclusion. In March 2018, the U.S. Court of Appeals for the District of Columbia Circuit affirmed the Federal EPA rule that found that CSAPR provides greater visibility improvements than BART. Challenges to the changes made to the scope of the program in 2016 are being held in abeyance while the Federal EPA reconsiders the Texas SO_2 BART FIP.

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 SO_2 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 rule was vacated, but that decision was reversed on appeal to the U.S. Supreme Court. On remand, the U.S. Court of Appeals for the District of Columbia Circuit allowed 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 court found that the Federal EPA over-controlled the SO_2 and/or NO_x budgets of 14 states. The court remanded the rule to the Federal EPA for revision consistent with the court's opinion while CSAPR remained in place.

In October 2016, the Federal EPA issued a final rule to address the remand and to incorporate additional changes necessary to address the 2008 ozone standard. The final rule significantly reduced ozone season budgets in many states and discounted 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.

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 established 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 proposed 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.

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 court remanded the MATS rule to the Federal EPA to consider costs in determining whether to regulate emissions of HAPs from power plants. The Federal EPA issued a supplemental finding concluding that, after considering the costs of compliance, it was appropriate and necessary to regulate HAP emissions from coal-fired and oil-fired units. Petitions for review of the Federal EPA's 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, which remains in effect.

Climate Change, CO_2 Regulation and Energy Policy

In October 2015, the Federal EPA published the final CO_2 emissions 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 CO_2 emissions from existing sources, known as the Clean Power Plan (CPP).

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 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 U.S. Court of Appeals for 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. 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 revised 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 CO_2 emissions from its generating fleet and expects CO_2 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. 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, power purchases and broadening AEP System's portfolio of energy efficiency programs.

In February 2018, AEP announced new intermediate and long-term CO_2 emission reduction goals, based on the output of the company's integrated resource plans, which take into account economics, customer demand, grid reliability and resiliency, regulations and the company's current business strategy. The intermediate goal is a 60% reduction from 2000 CO_2 emission levels from AEP generating facilities by 2030; the long-term goal is an 80% reduction of CO_2 emissions from AEP generating facilities from 2000 levels by 2050. AEP's total projected CO_2 emissions in 2018 are approximately 90 million metric tons, a 46% reduction from AEP's 2000 CO_2 emissions of approximately 167 million metric tons.

Federal and state legislation or regulations that mandate limits on the emission of CO_2 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, which could possibly lead to 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 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. Initial groundwater monitoring reports were posted in the first quarter of 2018, and some of AEP's existing facilities were required to begin assessment monitoring programs to determine if unacceptable groundwater impacts will trigger future remedial actions.

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. Oklahoma has received approval to operate its state program in lieu of the federal rules.

The final 2015 rule has been challenged in the courts. 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. A final rule was signed in July 2018 that modifies certain compliance deadlines and other requirements in the rule, including postponing the closure obligation for unlined surface impoundments that exceed a groundwater protection standard or fail to meet the minimum separation distance from the upper-most aquifer until October 2020, establishing numeric groundwater protection standards for four compounds that do not have primary drinking water standards, authorizing state and federal regulators to suspend groundwater monitoring requirements under limited circumstances and issue technical certifications. Additional changes to the minimum performance standards that were contained in the March proposed rule will be addressed in future rulemakings. 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. Management is unable to predict the outcome of these cases or the Federal EPA’s rulemaking, which 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 and conduct any required remedial actions. Management recorded a $95 million increase in asset retirement obligations in 2015 based on the closure and post-closure care requirements in the final rule. This estimate does not include costs of groundwater remediation, if required. 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. Compliance timeframes are established by the permit agency through each facility’s National Pollutant Discharge Elimination System permit as those permits are renewed, and have been incorporated into permits at several AEP facilities. Petitions for review were filed by industry and environmental groups in the U.S. Court of Appeals for the Second Circuit. The court denied the petitions and upheld the final rule. AEP’s facilities are reviewing these requirements as their waste water discharge permits are renewed, and making appropriate adjustments to their intake structures.

In November 2015, the Federal EPA issued a final rule revising effluent limitation guidelines for electricity generating facilities. The 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 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. 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 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 final rule was challenged in both courts of appeal and district courts. In January 2018, the U.S. Supreme Court ruled that challenges to the definition of “waters of the United States” must be filed in federal district courts. Challenges to the rule will proceed.

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. A supplemental proposal was signed by the Administrator in June 2018 to provide further clarification of the impact of and support for repeal of the 2015 rule. The Federal EPA and U.S. Army Corps of Engineers also finalized a new rule to extend the applicability date of the 2015 rule to 2020. 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 are 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)			
Vertically Integrated Utilities	$276.8	$120.8	$508.0	$340.3
Transmission and Distribution Utilities	114.0	111.2	239.4	230.3
AEP Transmission Holdco	101.1	128.4	205.1	200.2
Generation & Marketing	38.8	26.4	57.0	212.6
Corporate and Other	(2.3)	(11.8)	(26.7)	(16.2)
Earnings Attributable to AEP Common Shareholders	$528.4	$375.0	$982.8	$967.2

AEP CONSOLIDATED

Second Quarter of 2018 Compared to Second Quarter of 2017

Earnings Attributable to AEP Common Shareholders increased from $375 million in 2017 to $528 million in 2018 primarily due to:

- An increase in weather-related usage.
- Favorable rate proceedings in AEP’s various jurisdictions.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Earnings Attributable to AEP Common Shareholders increased from $967 million in 2017 to $983 million in 2018 primarily due to:

- An increase in weather-related usage.
- Favorable rate proceedings in AEP’s various jurisdictions.

These increases were partially offset by:

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

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

VERTICALLY INTEGRATED UTILITIES

Vertically Integrated Utilities	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
	(in millions)			
Revenues	$2,349.0	$2,120.5	$4,757.0	$4,410.9
Fuel and Purchased Electricity	808.0	711.9	1,665.8	1,500.3
Gross Margin	1,541.0	1,408.6	3,091.2	2,910.6
Other Operation and Maintenance	703.8	717.1	1,443.8	1,377.2
Depreciation and Amortization	312.7	278.0	626.0	556.3
Taxes Other Than Income Taxes	107.7	99.4	217.6	200.5
Operating Income	416.8	314.1	803.8	776.6
Interest and Investment Income	2.4	1.0	5.0	4.1
Carrying Costs Income	2.3	5.1	5.1	9.2
Allowance for Equity Funds Used During Construction	7.3	6.3	14.7	12.5
Non-Service Cost Components of Net Periodic Benefit Cost	17.6	5.9	35.7	11.8
Interest Expense	(140.9)	(136.7)	(278.8)	(271.6)
Income Before Income Tax Expense and Equity Earnings (Loss)	305.5	195.7	585.5	542.6
Income Tax Expense	28.3	68.1	76.0	195.8
Equity Earnings (Loss) of Unconsolidated Subsidiaries	0.7	(6.2)	1.2	(4.9)
Net Income	277.9	121.4	510.7	341.9
Net Income Attributable to Noncontrolling Interests	1.1	0.6	2.7	1.6
Earnings Attributable to AEP Common Shareholders	$276.8	$120.8	$508.0	$340.3

Summary of KWh Energy Sales for Vertically Integrated Utilities

	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
	(in millions of KWhs)			
Retail:				
Residential	7,545	6,499	17,117	14,738
Commercial	6,321	5,996	12,189	11,685
Industrial	8,942	8,689	17,439	16,953
Miscellaneous	586	562	1,139	1,098
Total Retail	23,394	21,746	47,884	44,474
Wholesale (a)	4,986	5,918	10,724	12,425
Total KWhs	28,380	27,664	58,608	56,899

(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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in degree days)			
Eastern Region				
Actual – Heating (a)	207	85	1,844	1,266
Normal – Heating (b)	138	138	1,740	1,753
Actual – Cooling (c)	480	335	486	336
Normal – Cooling (b)	328	324	333	329
Western Region				
Actual – Heating (a)	93	9	974	539
Normal – Heating (b)	32	33	907	925
Actual – Cooling (c)	901	637	937	719
Normal – Cooling (b)	692	696	719	720

(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.

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

Second Quarter of 2017	$120.8
Changes in Gross Margin:	
Retail Margins	112.8
Off-system Sales	(4.0)
Transmission Revenues	28.6
Other Revenues	(5.0)
Total Change in Gross Margin	132.4
Changes in Expenses and Other:	
Other Operation and Maintenance	13.3
Depreciation and Amortization	(34.7)
Taxes Other Than Income Taxes	(8.3)
Interest and Investment Income	1.4
Carrying Costs Income	(2.8)
Allowance for Equity Funds Used During Construction	1.0
Non-Service Cost Components of Net Periodic Pension Cost	11.7
Interest Expense	(4.2)
Total Change in Expenses and Other	(22.6)
Income Tax Expense	39.8
Equity Earnings (Loss) of Unconsolidated Subsidiaries	6.9
Net Income Attributable to Noncontrolling Interest	(0.5)
Second Quarter of 2018	$276.8

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 $113 million primarily due to the following:
- A $90 million increase in weather-related usage across all regions.
- The effect of rate proceedings in AEP’s service territories which included:
- A $23 million increase from rate proceedings for I&M.
- An $18 million increase for SWEPCo primarily due to rider and base rate revenue increases in Texas, Louisiana and Arkansas.
- A $13 million increase for PSO due to new rates implemented in March 2018, inclusive of an $8 million decrease due to the change in the corporate federal tax rate.

For the rate increases described above, $4 million relate to riders/trackers, which have corresponding increases in expense items below.

- A $35 million increase for I&M in FERC generation wholesale municipal and cooperative revenues primarily due to changes to the annual formula rate.
- An $11 million increase in weather-normalized retail margins primarily in the residential and industrial classes.

These increases were partially offset by:

- A $47 million decrease due to the 2018 provisions for customer refunds related to Tax Reform. This decrease was offset in Income Tax Expense below.
- A $10 million decrease due to lower weather-normalized wholesale margins, primarily due to SWEPCo and I&M wholesale customer load loss from contracts that expired at the end of 2017.

- A $9 million decrease primarily due to increased fuel and other variable production costs not recovered through fuel clauses or other trackers.
- Margins from Off-system Sales decreased $4 million primarily due to lower sales volumes.
- Transmission Revenues increased $29 million primarily due to the following:
- A $19 million increase primarily due to the annual formula rate true-up and decreased RTO provisions at I&M.
- A $10 million increase 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 was partially offset in Other Operation and Maintenance expense below.

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

- Other Operation and Maintenance expenses decreased $13 million primarily due to the following:
- A $63 million decrease in PJM transmission services.

This decrease was partially offset by:

- A $28 million increase in SPP transmission services.
- An $18 million increase due to the Wind Catcher Project for SWEPCo and PSO.
- Depreciation and Amortization expenses increased $35 million primarily due to a higher depreciable base.
- Taxes Other Than Income Taxes increased $8 million primarily due to:
- A $5 million increase in property taxes driven by an increase in utility plant.
- A $2 million increase in state and local taxes due to higher reported taxable KWh and taxable revenues.
- 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.
- Interest Expense increased $4 million primarily due to higher long-term debt balances at I&M.
- Income Tax Expense decreased $40 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 ADIT associated with certain depreciable property and by other book/tax differences which are accounted for on a flow-through basis, partially offset by an increase in pretax book income.
- Equity Earnings (Loss) of Unconsolidated Subsidiaries increased $7 million primarily due to a prior period income tax adjustment recognized in 2017 for DHLC.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Reconciliation of Six Months Ended June 30, 2017 to Six Months Ended June 30, 2018
Earnings Attributable to AEP Common Shareholders from Vertically Integrated Utilities
(in millions)

Six Months Ended June 30, 2017	$340.3
Changes in Gross Margin:	
Retail Margins	162.4
Off-system Sales	(3.1)
Transmission Revenues	31.3
Other Revenues	(10.0)
Total Change in Gross Margin	180.6
Changes in Expenses and Other:	
Other Operation and Maintenance	(66.6)
Depreciation and Amortization	(69.7)
Taxes Other Than Income Taxes	(17.1)
Interest and Investment Income	0.9
Carrying Costs Income	(4.1)
Allowance for Equity Funds Used During Construction	2.2
Non-Service Cost Components of Net Periodic Pension Cost	23.9
Interest Expense	(7.2)
Total Change in Expenses and Other	(137.7)
Income Tax Expense	119.8
Equity Earnings (Loss) of Unconsolidated Subsidiaries	6.1
Net Income Attributable to Noncontrolling Interest	(1.1)
Six Months Ended June 30, 2018	$508.0

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 $162 million primarily due to the following:
- A $179 million increase in weather-related usage across all regions.
- The effect of rate proceedings in AEP's service territories which included:
- A $46 million increase from rate proceedings for I&M.
- A $39 million increase for SWEPCo due to rider and base rate revenue increases in Texas, Louisiana and Arkansas.
- A $17 million increase for PSO due to new rates implemented in March 2018, inclusive of a $10 million decrease due to the change in the corporate federal tax rate.

For the rate increases described above, $13 million relate to riders/trackers, which have corresponding increases in expense items below.

- A $31 million increase for I&M in FERC generation wholesale municipal and cooperative revenues primarily due to changes to the annual formula rate.
- A $28 million increase in weather-normalized retail margins primarily in the residential and industrial classes.

These increases were partially offset by:

- A $118 million decrease due to the 2018 provisions for customer refunds related to Tax Reform. This decrease was offset in Income Tax Expense below.
- A $26 million decrease due to lower weather-normalized wholesale margins, primarily due to SWEPCo and I&M wholesale customer load loss from contracts that expired at the end of 2017.
- A $13 million decrease primarily due to increased fuel and other variable production costs not recovered through fuel clauses or other trackers.

- Margins from Off-system Sales decreased $3 million primarily due to lower sales volumes.
- Transmission Revenues increased $31 million primarily due to the following:
- An $18 million increase primarily due to the annual formula rate true-up and decreased RTO provisions at I&M.
- A $13 million increase primarily due to an increase in transmission investments in SPP.
- Other Revenues decreased $10 million primarily due to reduced rates for KPCo Demand Side Management programs beginning in 2018. This decrease was partially offset in Other Operation and Maintenance expense below.

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

- Other Operation and Maintenance expenses increased $67 million primarily due to the following:
- A $42 million increase in SPP transmission services.
- A $32 million increase due to the Wind Catcher Project for SWEPCo and PSO.
- A $16 million increase in plant maintenance primarily for KPCo and I&M.
- A $9 million increase due to an increase in estimated expense for claims related to asbestos exposure.

These increases were partially offset by:
- A $39 million decrease in PJM transmission services.
- A $7 million decrease due to an increased Nuclear Electric Insurance Limited distribution in 2018.
- Depreciation and Amortization expenses increased $70 million primarily due to a higher depreciable base.
- Taxes Other Than Income Taxes increased $17 million primarily due to:
- An $8 million increase in property taxes driven by an increase in utility plant.
- A $6 million increase in state and local taxes due to higher reported taxable KWh and taxable revenues and a prior period refund.
- Non-Service Cost Components of Net Periodic Benefit Cost decreased $24 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.
- Interest Expense increased $7 million primarily due to increased long-term debt balances at I&M.
- Income Tax Expense decreased $120 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 ADIT associated with certain depreciable property and by other book/tax differences which are accounted for on a flow-through basis, partially offset by an increase in pretax book income.
- Equity Earnings (Loss) of Unconsolidated Subsidiaries increased $6 million primarily due to a prior period income tax adjustment recognized in 2017 for DHLC.

TRANSMISSION AND DISTRIBUTION UTILITIES

Transmission and Distribution Utilities	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
	(in millions)			
Revenues	$1,137.0	$1,053.5	$2,299.4	$2,139.9
Purchased Electricity	196.7	186.9	441.3	410.3
Amortization of Generation Deferrals	56.4	53.3	115.0	114.2
Gross Margin	883.9	813.3	1,743.1	1,615.4
Other Operation and Maintenance	379.0	295.9	731.7	583.8
Depreciation and Amortization	184.4	163.9	357.0	320.1
Taxes Other Than Income Taxes	132.6	126.6	270.0	253.5
Operating Income	187.9	226.9	384.4	458.0
Interest and Investment Income (Loss)	(0.1)	0.9	1.3	4.4
Carrying Costs Income	0.6	0.6	1.3	2.5
Allowance for Equity Funds Used During Construction	7.2	1.2	15.2	5.4
Non-Service Cost Components of Net Periodic Benefit Cost	8.1	2.3	16.3	4.5
Interest Expense	(62.0)	(61.5)	(122.1)	(121.5)
Income Before Income Tax Expense	141.7	170.4	296.4	353.3
Income Tax Expense	27.7	59.2	57.0	123.0
Net Income	114.0	111.2	239.4	230.3
Net Income Attributable to Noncontrolling Interests	—	—	—	—
Earnings Attributable to AEP Common Shareholders	$114.0	$111.2	$239.4	$230.3

Summary of KWh Energy Sales for Transmission and Distribution Utilities

	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
	(in millions of KWhs)			
Retail:				
Residential	6,409	5,956	13,206	11,850
Commercial	6,605	6,490	12,469	12,243
Industrial	6,025	5,941	11,539	11,417
Miscellaneous	175	171	328	331
Total Retail (a)	19,214	18,558	37,542	35,841
Wholesale (b)	534	761	1,201	1,559
Total KWhs	19,748	19,319	38,743	37,400

(a) Represents energy delivered to distribution customers.
(b) Primarily OPCo’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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in degree days)			
Eastern Region				
Actual – Heating (a)	274	97	2,158	1,500
Normal – Heating (b)	186	186	2,070	2,085
Actual – Cooling (c)	454	312	458	315
Normal – Cooling (b)	291	287	294	290
Western Region				
Actual – Heating (a)	4	1	234	103
Normal – Heating (b)	3	4	194	199
Actual – Cooling (d)	992	989	1,188	1,247
Normal – Cooling (b)	927	919	1,046	1,032

(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.

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

Second Quarter of 2017	$111.2
Changes in Gross Margin:	
Retail Margins	65.4
Off-system Sales	11.1
Transmission Revenues	(2.8)
Other Revenues	(3.1)
Total Change in Gross Margin	70.6
Changes in Expenses and Other:	
Other Operation and Maintenance	(83.1)
Depreciation and Amortization	(20.5)
Taxes Other Than Income Taxes	(6.0)
Interest and Investment Income (Loss)	(1.0)
Allowance for Equity Funds Used During Construction	6.0
Non-Service Cost Components of Net Periodic Benefit Cost	5.8
Interest Expense	(0.5)
Total Change in Expenses and Other	(99.3)
Income Tax Expense	31.5
Second Quarter of 2018	$114.0

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 $65 million primarily due to the following:
  - A $70 million net increase in Ohio Basic Transmission Cost Rider revenues and recoverable PJM expenses. This increase was partially offset by an increase in Other Operation and Maintenance below.
  - A $19 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.
  - An $8 million increase in Ohio rider revenues associated with the DIR. This increase was partially offset in various expenses below.
  - A $6 million increase in Texas revenues associated with the Distribution Cost Recovery Factor revenue rider.
  - A $4 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.

  These increases were partially offset by:
  - A $21 million decrease due to the 2018 provisions for customer refunds related to Tax Reform. This decrease was offset in Income Tax Expense below.
  - An $11 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 $6 million decrease in weather-normalized margins, primarily in the commercial and residential classes.

Margins from Off-system Sales increased $11 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 $3 million primarily due to the following:
  - A $9 million decrease due to the 2018 provisions for customer refunds due to Tax Reform. This decrease was offset in Income Tax Expense below.

This decrease was partially offset by:

- A $6 million increase due to recovery of increased transmission investment in ERCOT.
- Other Revenues decreased $3 million primarily due to securitization revenue in Texas related to Transition Funding. This decrease 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 $83 million primarily due to the following:
- A $105 million increase in recoverable transmission expenses that were fully recovered in rate recovery riders/trackers within Gross Margins above.
- A $19 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 $48 million decrease in Ohio PJM expenses related to the annual formula rate true-up that will be refunded in future periods.
- Depreciation and Amortization expenses increased $21 million primarily due to the following:
- An $11 million increase in depreciation expense due to an increase in the 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.
- Taxes Other Than Income Taxes increased $6 million primarily due to the following:
- A $3 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 KWhs. This increase was offset in Retail Margins above.
- Allowance for Equity Funds Used During Construction increased $6 million primarily due to the following:
- A $3 million increase due to increased transmission projects in Texas.
- A $1 million increase due to increased projects in Ohio.
- 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 $32 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 2017 Tax Reform legislation and a decrease in pretax book income.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Reconciliation of Six Months Ended June 30, 2017 to Six Months
Ended June 30, 2018
Earnings Attributable to AEP Common Shareholders from
Transmission and Distribution Utilities
(in millions)

Six Months Ended June 30, 2017	$230.3
Changes in Gross Margin:	
Retail Margins	119.2
Off-system Sales	16.6
Transmission Revenues	(6.8)
Other Revenues	(1.3)
Total Change in Gross Margin	127.7
Changes in Expenses and Other:	
Other Operation and Maintenance	(147.9)
Depreciation and Amortization	(36.9)
Taxes Other Than Income Taxes	(16.5)
Interest and Investment Income (Loss)	(3.1)
Carrying Costs Income	(1.2)
Allowance for Equity Funds Used During Construction	9.8
Non-Service Cost Components of Net Periodic Benefit Cost	11.8
Interest Expense	(0.6)
Total Change in Expenses and Other	(184.6)
Income Tax Expense	66.0
Six Months Ended June 30, 2018	$239.4

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 $119 million primarily due to the following:
  - A $109 million net increase in Ohio Basic Transmission Cost Rider revenues and recoverable PJM expenses. This increase was partially offset by an increase in Other Operation and Maintenance below.
  - A $40 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 $14 million increase in Ohio rider revenues associated with the DIR. This increase was partially offset in various expenses below.
  - A $12 million increase in Texas revenues associated with the Distribution Cost Recovery Factor revenue rider.
  - An $11 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.
  - An $11 million increase in Texas weather-related usage primarily driven by a 127% increase in heating degree days partially offset by a 5% decrease in cooling degree days.

  These increases were partially offset by:
  - A $42 million decrease due to the 2018 provisions for customer refunds related to Tax Reform. This decrease was offset in Income Tax Expense below.

- An $18 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.
- An $11 million decrease in Energy Efficiency/Peak Demand Reduction rider revenues in Ohio. This decrease was partially offset by a decrease in Other Operation and Maintenance expenses below.
- A $9 million decrease in margin for the Ohio Phase-In-Recovery Rider including associated amortizations.

- A $9 million decrease in Ohio revenues associated with smart grid riders. This decrease was partially offset by a decrease in various expenses below.
- Margins from Off-system Sales increased $17 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 $7 million primarily due to the following:
- A $20 million decrease due to the 2018 provisions for customer refunds due to Tax Reform. This decrease was offset in Income Tax Expense below.

This decrease was partially offset by:

- A $13 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 $148 million primarily due to the following:
- A $149 million increase in recoverable transmission expenses that were fully recovered in rate recovery riders/trackers within Gross Margins above.
- A $40 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 $50 million decrease in Ohio PJM expenses related to the annual formula rate true-up that will be refunded in future periods.
- 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 $37 million primarily due to the following:
- An $18 million increase in depreciation expense due to an increase in the depreciable base of transmission and distribution assets.
- A $12 million increase in recoverable DIR depreciation expense in Ohio. This increase was offset in Retail Margins above.
- A $4 million increase due to securitization amortizations related to Texas securitized transition funding. This increase was offset in Other Revenues and in Interest Expense.
- Taxes Other Than Income Taxes increased $17 million primarily due to the following:
- A $9 million increase in property taxes due to additional investments in transmission and distribution assets and higher tax rates.
- A $7 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 $10 million primarily due to the following:
- A $7 million increase due to increased transmission projects in Texas.
- A $1 million increase due to increased projects in Ohio.
- 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 $66 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 2017 Tax Reform legislation and a decrease in pretax book income.

AEP TRANSMISSION HOLDCO

AEP Transmission Holdco	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
	(in millions)			
Transmission Revenues	$212.5	$247.3	$418.0	$403.4
Other Operation and Maintenance	23.4	17.4	45.3	31.5
Depreciation and Amortization	33.8	24.0	65.6	48.6
Taxes Other Than Income Taxes	37.5	28.4	70.2	56.4
Operating Income	117.8	177.5	236.9	266.9
Interest and Investment Income	0.4	0.1	0.7	0.3
Allowance for Equity Funds Used During Construction	16.3	13.5	31.6	24.3
Non-Service Cost Components of Net Periodic Benefit Cost	0.7	—	1.4	0.1
Interest Expense	(21.5)	(17.1)	(42.6)	(34.4)
Income Before Income Tax Expense and Equity Earnings	113.7	174.0	228.0	257.2
Income Tax Expense	28.3	67.1	55.8	103.5
Equity Earnings of Unconsolidated Subsidiaries	16.5	22.1	34.5	48.1
Net Income	101.9	129.0	206.7	201.8
Net Income Attributable to Noncontrolling Interests	0.8	0.6	1.6	1.6
Earnings Attributable to AEP Common Shareholders	$101.1	$128.4	$205.1	$200.2

Summary of Investment in Transmission Assets for AEP Transmission Holdco

	June 30, 2018	June 30, 2017
	(in millions)	
Plant in Service	$6,158.5	$4,809.2
Construction Work in Progress	1,626.0	1,202.9
Accumulated Depreciation and Amortization	219.0	137.0
Total Transmission Property, Net	$7,565.5	$5,875.1

Second Quarter of 2018 Compared to Second Quarter of 2017

Reconciliation of Second Quarter of 2017 to Second Quarter of 2018
Earnings Attributable to AEP Common Shareholders from AEP Transmission Holdco
(in millions)

Second Quarter of 2017	$128.4
Changes in Transmission Revenues:	
Transmission Revenues	(34.8)
Total Change in Transmission Revenues	(34.8)
Changes in Expenses and Other:	
Other Operation and Maintenance	(6.0)
Depreciation and Amortization	(9.8)
Taxes Other Than Income Taxes	(9.1)
Interest and Investment Income	0.3
Allowance for Equity Funds Used During Construction	2.8
Non-Service Cost Components of Net Periodic Pension Cost	0.7
Interest Expense	(4.4)
Total Change in Expenses and Other	(25.5)
Income Tax Expense	38.8
Equity Earnings of Unconsolidated Subsidiaries	(5.6)
Net Income Attributable to Noncontrolling Interests	(0.2)
Second Quarter of 2018	$101.1

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

- Transmission Revenues decreased $35 million primarily due to the following:
- A $64 million decrease in revenues due to a lower annual formula rate true-up in 2018 driven by implementing forward looking formula rates.

This decrease was partially offset by:

- A $29 million increase in revenues due to an increase in the formula rate revenue requirement primarily driven by continued investment in transmission assets. This increase includes the impact of the reduction in revenue related to Tax Reform. The decrease in Transmission Revenues related to Tax Reform is offset by a decrease 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 $6 million primarily due to increased transmission investment.
- Depreciation and Amortization expenses increased $10 million primarily due to a higher depreciable base.
- Taxes Other Than Income Taxes increased $9 million primarily due to higher property taxes as a result of increased transmission investment.
- Interest Expense increased $4 million primarily due to higher outstanding long-term debt balances.
- Income Tax Expense decreased $39 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.

- Equity Earnings of Unconsolidated Subsidiaries decreased $6 million due to lower pretax equity earnings at ETT primarily due to decreased revenues driven by Tax Reform.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Reconciliation of Six Months Ended June 30, 2017 to Six Months Ended June 30, 2018
Earnings Attributable to AEP Common Shareholders from AEP Transmission Holdco
(in millions)

Six Months Ended June 30, 2017	$200.2
Changes in Transmission Revenues:	
Transmission Revenues	14.6
Total Change in Transmission Revenues	14.6
Changes in Expenses and Other:	
Other Operation and Maintenance	(13.8)
Depreciation and Amortization	(17.0)
Taxes Other Than Income Taxes	(13.8)
Interest and Investment Income	0.4
Allowance for Equity Funds Used During Construction	7.3
Non-Service Cost Components of Net Periodic Pension Cost	1.3
Interest Expense	(8.2)
Total Change in Expenses and Other	(43.8)
Income Tax Expense	47.7
Equity Earnings of Unconsolidated Subsidiaries	(13.6)
Six Months Ended June 30, 2018	$205.1

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

- Transmission Revenues increased $15 million primarily due to the following:
- A $79 million increase in revenues due to an increase in the formula rate revenue requirement primarily driven by continued investment in transmission assets. This increase includes the impact of the reduction in revenue related to Tax Reform. The decrease in Transmission Revenues related to Tax Reform is offset by a decrease in Income Tax Expense below.

This increase was partially offset by:

- A $64 million decrease in revenues due to a lower annual formula rate true-up in 2018 driven by implementing forward looking formula rates.

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

- Other Operation and Maintenance expenses increased $14 million primarily due to increased transmission investment.
- Depreciation and Amortization expenses increased $17 million primarily due to a higher depreciable base.
- Taxes Other Than Income Taxes increased $14 million primarily due to higher property taxes as a result of increased transmission investment.
- Allowance for Equity Funds Used During Construction increased $7 million primarily due to increased transmission investment resulting in a higher CWIP balance.
- Interest Expense increased $8 million primarily due to higher outstanding long-term debt balances.
-

Income Tax Expense decreased $48 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.

- Equity Earnings of Unconsolidated Subsidiaries decreased $14 million primarily due to lower pretax equity earnings at ETT due to decreased revenues driven by Tax Reform and an ETT rate reduction implemented in March 2017.

GENERATION & MARKETING

Generation & Marketing	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
	(in millions)			
Revenues	$460.7	$410.6	$965.8	$1,002.0
Fuel, Purchased Electricity and Other	354.0	302.9	762.8	708.1
Gross Margin	106.7	107.7	203.0	293.9
Other Operation and Maintenance	56.8	72.7	124.4	172.5
Gain on Sale of Merchant Generation Assets	—	0.1	—	(226.4)
Depreciation and Amortization	7.5	5.6	14.4	11.3
Taxes Other Than Income Taxes	3.4	3.7	6.6	5.7
Operating Income	39.0	25.6	57.6	330.8
Interest and Investment Income	3.8	3.0	6.3	5.2
Non-Service Cost Components of Net Periodic Benefit Cost	3.8	2.2	7.7	4.5
Interest Expense	(4.0)	(4.2)	(7.9)	(10.7)
Income Before Income Tax Expense and Equity Earnings	42.6	26.6	63.7	329.8
Income Tax Expense	4.3	0.2	7.3	117.2
Equity Earnings of Unconsolidated Subsidiaries	0.3	—	0.3	—
Net Income	38.6	26.4	56.7	212.6
Net Loss Attributable to Noncontrolling Interests	(0.2)	—	(0.3)	—
Earnings Attributable to AEP Common Shareholders	$38.8	$26.4	$57.0	$212.6

Summary of MWhs Generated for Generation & Marketing

	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
	(in millions of MWhs)			
Fuel Type:				
Coal	4	2	6	8
Natural Gas	—	—	—	2
Total MWhs	4	2	6	10

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

Second Quarter of 2017	$26.4
Changes in Gross Margin:	
Generation	(14.0)
Retail, Trading and Marketing	11.0
Other Revenues	2.0
Total Change in Gross Margin	(1.0)
Changes in Expenses and Other:	
Other Operation and Maintenance	15.9
Gain on Sale of Merchant Generation Assets	0.1
Depreciation and Amortization	(1.9)
Taxes Other Than Income Taxes	0.3
Interest and Investment Income	0.8
Non-Service Cost Components of Net Periodic Benefit Cost	1.6
Interest Expense	0.2
Total Change in Expenses and Other	17.0
Income Tax Expense	(4.1)
Equity Earnings of Unconsolidated Subsidiaries	0.3
Net Loss Attributable to Noncontrolling Interests	0.2
Second Quarter of 2018	$38.8

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 $14 million primarily due to decreased hedge gains in 2018.
- Retail, Trading and Marketing increased $11 million due to higher mark-to-market hedge gains.

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

- Other Operation and Maintenance expenses decreased $16 million due to the retirement of the Stuart plant in 2018.
- Income Tax Expense increased $4 million primarily due to an increase in pretax book income, which is offset by the change in the corporate federal income tax rate from 35% in 2017 to 21% in 2018 as a result of Tax Reform.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017
Reconciliation of Six Months Ended June 30, 2017 to Six Months Ended June 30, 2018
Earnings Attributable to AEP Common Shareholders from Generation & Marketing
(in millions)

Six Months Ended June 30, 2017	$212.6
Changes in Gross Margin:	
Generation	(67.1)
Retail, Trading and Marketing	(26.8)
Other Revenues	3.0
Total Change in Gross Margin	(90.9)
Changes in Expenses and Other:	
Other Operation and Maintenance	48.1
Gain on Sale of Merchant Generation Assets	(226.4)
Depreciation and Amortization	(3.1)
Taxes Other Than Income Taxes	(0.9)
Interest and Investment Income	1.1
Non-Service Cost Components of Net Periodic Benefit Cost	3.2
Interest Expense	2.8
Total Change in Expenses and Other	(175.2)
Income Tax Expense	109.9
Equity Earnings of Unconsolidated Subsidiaries	0.3
Net Loss Attributable to Noncontrolling Interests	0.3
Six Months Ended June 30, 2018	$57.0

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 $67 million primarily due to the reduction of revenues associated with the sale of certain merchant generation assets in 2017.
- Retail, Trading and Marketing decreased $27 million primarily due to lower margins in 2018 combined with the impact of favorable wholesale trading and marketing performance in 2017.
- Other Revenues increased $3 million primarily due to renewable projects placed in service.

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

- Other Operation and Maintenance expenses decreased $48 million primarily due to the sale of certain merchant generation assets in 2017.
- Gain on Sale of Merchant Generation Assets decreased $226 million due to the sale of certain merchant generation assets in 2017.
- Income Tax Expense decreased $110 million primarily due to a decrease in pretax book income driven by the gain on the sale of certain merchant generation assets in 2017 and the change in the corporate federal income tax rate from

35% in 2017 to 21% in 2018 as a result of Tax Reform.

CORPORATE AND OTHER

Second Quarter of 2018 Compared to Second Quarter of 2017

Earnings Attributable to AEP Common Shareholders from Corporate and Other increased from a loss of $12 million in 2017 to a loss of $2 million in 2018 primarily due to an $18 million decrease in income tax expense related to the enactment of the Kentucky state tax legislation in the second quarter of 2018 and an $11 million decrease in general corporate expenses, partially offset by a $16 million increase in interest expense as a result of increased debt outstanding.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Earnings Attributable to AEP Common Shareholders from Corporate and Other decreased from a loss of $16 million in 2017 to a loss of $26 million in 2018 primarily due to a $28 million increase in interest expense as a result of increased debt outstanding and a $20 million impairment of an equity investment and related assets, partially offset by a $12 million decrease in general corporate expenses and an $18 million decrease in income tax expense related to the enactment of the Kentucky state tax legislation in the second quarter of 2018.

AEP SYSTEM INCOME TAXES

Second Quarter of 2018 Compared to Second Quarter of 2017

Income Tax Expense decreased $118 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 2017 Tax Reform legislation and amortization of Excess ADIT.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Income Tax Expense decreased $360 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 2017 Tax Reform legislation, amortization of Excess ADIT 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

	June 30, 2018		December 31, 2017	
	(dollars in millions)			
Long-term Debt, including amounts due within one year	$22,032.0	50.8 %	$21,173.3	51.5 %
Short-term Debt	2,589.2	6.0	1,638.6	4.0
Total Debt	24,621.2	56.8	22,811.9	55.5
AEP Common Equity	18,722.3	43.1	18,287.0	44.4
Noncontrolling Interests	29.1	0.1	26.6	0.1
Total Debt and Equity Capitalization	$43,372.6	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 56.8% as of June 30, 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 June 30, 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 June 30, 2018, available liquidity was approximately $1.4 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	211.2	
Total Liquidity Sources	3,211.2	
Less: AEP Commercial Paper Outstanding	1,814.0	
Net Available Liquidity	$1,397.2	

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 six months of 2018 was $2.3 billion. The weighted-average interest rate for AEP's commercial paper during 2018 was 2.22%.

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. The Registrants' maximum future payments for letters of credit issued under the uncommitted facilities as of June 30, 2018 was $80 million with maturities ranging from August 2018 to June 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 June 30, 2018, this contractually-defined percentage was 55%. 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 facility does not permit the lenders to refuse a draw 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.

Dividend Policy and Restrictions

The Board of Directors declared a quarterly dividend of $0.62 per share in July 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.

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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.

	Six Months Ended June 30,	
	2018	2017
	(in millions)	
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	$412.6	$403.5
Net Cash Flows from Operating Activities	2,006.8	1,717.0
Net Cash Flows Used for Investing Activities	(3,238.9)	(396.8)
Net Cash Flows from (Used for) Financing Activities	1,206.8	(1,379.4)
Net Decrease in Cash, Cash Equivalents and Restricted Cash	(25.3)	(59.2)
Cash, Cash Equivalents and Restricted Cash at End of Period	$387.3	$344.3

Operating Activities

	Six Months Ended June 30,	
	2018	2017
	(in millions)	
Net Income	$986.8	$970.4
Non-Cash Adjustments to Net Income (a)	1,232.5	1,194.5
Mark-to-Market of Risk Management Contracts	(112.9)	(84.7)
Pension Contributions to Qualified Plant Trust	—	(93.3)
Property Taxes	119.9	122.9
Deferred Fuel Over/Under Recovery, Net	12.3	20.7
Recovery of Ohio Capacity Costs, Net	35.8	47.1
Provision for Refund - Global Settlement, Net	(5.5)	(88.1)
Change in Other Noncurrent Assets	10.4	(188.0)
Change in Other Noncurrent Liabilities	185.1	132.0
Change in Certain Components of Working Capital	(457.6)	(316.5)
Net Cash Flows from Operating Activities	$2,006.8	$1,717.0

(a) Non-Cash Adjustments to Net Income includes Depreciation and Amortization, Deferred Income Taxes, 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 increased by $290 million primarily due to the following:

- A $198 million increase in cash from Change in Other Noncurrent Assets primarily due to changes in regulatory assets as a result of the impact of the FERC settlement on regulated AEP subsidiaries with rider recovery mechanisms.
- A $93 million increase in cash due to a pension contribution made in the second quarter of 2017.
- An $83 million increase in cash due to Provision for Refund - Global Settlement, Net. Refunds were primarily issued in 2017.
-

- A $54 million increase in cash from Net Income, after non-cash adjustments. See Results of Operations for additional information.
- A $53 million increase in Change in Other Noncurrent Liabilities primarily due to increased Accumulated Provisions for Rate Refunds as a result of Tax Reform.

These increases in cash were partially offset by:

- A $141 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 and increased usage of fuel, materials and supplies.

Investing Activities

	Six Months Ended June 30,	
	2018	2017
	(in millions)	
Construction Expenditures	$(3,223.4)	$(2,510.4)
Acquisitions of Nuclear Fuel	(24.2)	(38.9)
Proceeds from Sale of Merchant Generation Assets	—	2,159.6
Other	8.7	(7.1)
Net Cash Flows Used for Investing Activities	$(3,238.9)	$(396.8)

Net Cash Flows Used for Investing Activities increased by $2.8 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.
- A $713 million decrease in cash due to increased construction expenditures, primarily due to increases in Transmission and Distribution Utilities of $505 million and AEP Transmission Holdco of $124 million.

Financing Activities

	Six Months Ended June 30,	
	2018	2017
	(in millions)	
Issuance of Common Stock, Net	$50.9	$—
Issuance/Retirement of Debt, Net	1,820.0	(710.6)
Dividends Paid on Common Stock	(614.2)	(584.9)
Other	(49.9)	(83.9)
Net Cash Flows from (Used for) Financing Activities	$1,206.8	$(1,379.4)

Net Cash Flows from (Used for) Financing Activities increased by $2.6 billion primarily due to the following:

- A $1.2 billion increase in cash due to increased issuances of long-term debt. See Note 12 - Financing Activities for additional information.
- An $812 million increase in cash from short-term debt primarily due to increased borrowings of commercial paper. See Note 12 - Financing Activities for additional information.
- A $560 million increase in cash due to decreased retirements of long-term debt. See Note 12 - Financing Activities for additional information.
- A $51 million increase in cash due to increased proceeds from issuances of common stock.

These increases in cash were partially offset by:

- A $29 million decrease due to increased common stock dividend payments primarily due to increased dividends per share from 2017 to 2018.

In July 2018, AEP Texas retired $78 million of Securitization Bonds.

In July 2018, I&M retired $4 million of Notes Payable related to DCC Fuel.

In July 2018, OPCo retired $24 million of Securitization Bonds.

BUDGETED CONSTRUCTION EXPENDITURES

Management forecasts approximately $24 billion of construction expenditures for 2018 to 2021. Capital expenditures related to the Wind Catcher Project are excluded from these budgeted amounts. Estimated construction expenditures are subject to periodic review and modification and may vary based on the ongoing effects of regulatory constraints, environmental regulations, business opportunities, market volatility, economic trends, weather, legal reviews and the ability to access capital. Management expects to fund these construction expenditures through cash flows from operations and financing activities. Generally, the Registrant Subsidiaries use cash or short-term borrowings under the money pool to fund these expenditures until long-term funding is arranged. For complete information of forecasted construction expenditures, see the “Budgeted Construction Expenditures” section of “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the 2017 Annual Report.

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:

	June 30, 2018	December 31, 2017
	(in millions)	
Rockport Plant, Unit 2 Future Minimum Lease Payments	$ 664.7	$ 738.4
Railcars Maximum Potential Loss from Lease Agreement	13.9	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.

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 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)
Six Months Ended June 30, 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	(30.0)	(2.7)	(12.9)	(45.6)
Fair Value of New Contracts at Inception When Entered During the Period (a)	—	—	11.3	11.3
Changes in Fair Value Due to Market Fluctuations During the Period (b)	—	—	(0.5)	(0.5)
Changes in Fair Value Allocated to Regulated Jurisdictions (c)	102.2	48.4	—	150.6
Total MTM Risk Management Contract Net Assets (Liabilities) as of June 30, 2018	$114.3	$ (85.6)	$ 161.8	190.5
Commodity Cash Flow Hedge Contracts				(33.8)
Fair Value Hedge Contracts				(27.9)
Collateral Deposits				(3.3)
Total MTM Derivative Contract Net Assets as of June 30, 2018				$125.5

(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 June 30, 2018, credit exposure net of collateral to sub investment grade counterparties was approximately 6.4%, 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 June 30, 2018, the following table approximates AEP's counterparty credit quality and exposure based on netting across commodities, instruments and legal entities where applicable:

Counterparty Credit Quality	Exposure Before Credit Collateral	Credit Collateral	Net Exposure	Number of Counterparties >10% of Net Exposure	Net Exposure of Counterparties >10%
	(in millions, except number of counterparties)				
Investment Grade	$516.5	$ 1.5	$ 515.0	3	$ 279.5
Noninvestment Grade	0.5	0.5	—	—	—
No External Ratings:					
Internal Investment Grade	126.5	—	126.5	3	76.2
Internal Noninvestment Grade	54.2	10.5	43.7	2	29.3
Total as of June 30, 2018	$697.7	$ 12.5	$ 685.2		

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 June 30, 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

Six Months Ended June 30, 2018				Twelve Months Ended December 31, 2017			
End	High	Average	Low	End	High	Average	Low
(in millions)				(in millions)			
$0.1	$1.8	$ 0.3	$0.1	$0.2	$0.5	$ 0.2	$0.1

VaR Model
Non-Trading Portfolio

Six Months Ended June 30, 2018				Twelve Months Ended December 31, 2017			
End	High	Average	Low	End	High	Average	Low
(in millions)				(in millions)			
$2.6	$7.3	$ 3.1	$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 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 six months ended June 30, 2018 and 2017, a 100 basis point change in the benchmark rate on AEP’s variable rate debt would impact pretax interest expense annually by $25 million and $27 million, respectively.

AMERICAN ELECTRIC POWER COMPANY, INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three and Six Months Ended June 30, 2018 and 2017
(in millions, except per-share and share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUES				
Vertically Integrated Utilities	$2,340.7	$ 2,095.7	$4,722.2	$ 4,365.5
Transmission and Distribution Utilities	1,127.9	1,026.6	2,269.1	2,093.0
Generation & Marketing	435.3	386.5	912.8	945.3
Other Revenues	109.3	67.7	157.4	106.0
TOTAL REVENUES	4,013.2	3,576.5	8,061.5	7,509.8
EXPENSES				
Fuel and Other Consumables Used for Electric Generation	566.9	522.3	1,068.7	1,157.9
Purchased Electricity for Resale	776.7	669.2	1,767.0	1,438.8
Other Operation	780.3	616.4	1,506.7	1,240.1
Maintenance	295.9	290.1	594.4	593.6
Gain on Sale of Merchant Generation Assets	—	0.1	—	(226.4)
Depreciation and Amortization	553.2	485.5	1,092.9	967.4
Taxes Other Than Income Taxes	283.2	259.6	568.8	519.4
TOTAL EXPENSES	3,256.2	2,843.2	6,598.5	5,690.8
OPERATING INCOME	757.0	733.3	1,463.0	1,819.0
Other Income (Expense):				
Interest and Investment Income	3.8	2.3	5.9	10.3
Carrying Costs Income	2.9	5.7	6.3	11.6
Allowance for Equity Funds Used During Construction	30.8	21.0	61.5	42.2
Non-Service Cost Components of Net Periodic Benefit Cost	31.4	11.4	63.4	22.8
Interest Expense	(242.3)	(222.9)	(476.3)	(444.7)
INCOME BEFORE INCOME TAX EXPENSE AND EQUITY EARNINGS	583.6	550.8	1,123.8	1,461.2
Income Tax Expense	72.2	190.6	174.2	533.8
Equity Earnings of Unconsolidated Subsidiaries	18.7	16.0	37.2	43.0
NET INCOME	530.1	376.2	986.8	970.4
Net Income Attributable to Noncontrolling Interests	1.7	1.2	4.0	3.2
EARNINGS ATTRIBUTABLE TO AEP COMMON SHAREHOLDERS	$528.4	$ 375.0	$982.8	$ 967.2
	492,688,344	491,790,752	492,479,035	491,751,614

WEIGHTED AVERAGE NUMBER OF BASIC AEP COMMON SHARES OUTSTANDING				
TOTAL BASIC EARNINGS PER SHARE ATTRIBUTABLE TO AEP COMMON SHAREHOLDERS	$1.07	$ 0.76	$2.00	$ 1.97
WEIGHTED AVERAGE NUMBER OF DILUTED AEP COMMON SHARES OUTSTANDING	493,505,085	492,642,100	493,317,355	492,337,255
TOTAL DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO AEP COMMON SHAREHOLDERS	$1.07	$ 0.76	$1.99	$ 1.96
CASH DIVIDENDS DECLARED PER SHARE	$0.62	$ 0.59	$1.24	$ 1.18

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

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AMERICAN ELECTRIC POWER COMPANY, INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Three and Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net Income	$530.1	$376.2	$986.8	$970.4
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES				
Cash Flow Hedges, Net of Tax of $0.5 and $4.6 for the Three Months Ended June 30, 2018 and 2017, Respectively, and $1.2 and $(4.1) for the Six Months Ended June 30, 2018 and 2017, Respectively	1.8	8.5	4.5	(7.6)
Securities Available for Sale, Net of Tax of $0 and $0.4 for the Three Months Ended June 30, 2018 and 2017, Respectively, and $0 and $1.0 for the Six Months Ended June 30, 2018 and 2017, Respectively	—	0.6	—	1.8
Amortization of Pension and OPEB Deferred Costs, Net of Tax of $(0.3) and $0.2 for the Three Months Ended June 30, 2018 and 2017, Respectively, and $(0.7) and $0.3 for the Six Months Ended June 30, 2018 and 2017, Respectively	(1.2)	0.3	(2.6)	0.5
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	0.6	9.4	1.9	(5.3)
TOTAL COMPREHENSIVE INCOME	530.7	385.6	988.7	965.1
Total Comprehensive Income Attributable to Noncontrolling Interests	1.7	1.2	4.0	3.2
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO AEP COMMON SHAREHOLDERS	$529.0	$384.4	$984.7	$961.9

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

AMERICAN ELECTRIC POWER COMPANY, INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	AEP Common Shareholders						
	Common Stock						
	Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
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				(583.2)		(1.7)	(584.9)
Other Changes in Equity			48.4			0.8	49.2
Net Income				967.2		3.2	970.4
Other Comprehensive Loss					(5.3)		(5.3)
TOTAL EQUITY – JUNE 30, 2017	512.0	$3,328.3	$6,381.0	$8,276.4	$ (161.6)	$ 25.4	$17,849.5
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	0.9	6.0	44.9				50.9
Common Stock Dividends				(612.3)		(1.9)	(614.2)
Other Changes in Equity			15.0			0.4	15.4
ASU 2018-02 Adoption				14.0	(17.0)		(3.0)
ASU 2016-01 Adoption				11.9	(11.9)		—
Net Income				982.8		4.0	986.8
Other Comprehensive Income					1.9		1.9
TOTAL EQUITY – JUNE 30, 2018	513.1	$3,335.4	$6,458.6	$9,023.1	$ (94.8)	$ 29.1	$18,751.4

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

AMERICAN ELECTRIC POWER COMPANY, INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS
ASSETS
June 30, 2018 and December 31, 2017
(in millions)
(Unaudited)

	June 30, 2018	December 31, 2017
CURRENT ASSETS		
Cash and Cash Equivalents	$211.2	$ 214.6
Restricted Cash (June 30, 2018 and December 31, 2017 Amounts Include $176.1 and $198, Respectively, Related to Transition Funding, Ohio Phase-in-Recovery Funding and Appalachian Consumer Rate Relief Funding)	176.1	198.0
Other Temporary Investments (June 30, 2018 and December 31, 2017 Amounts Include $157.1 and $155.4, Respectively, Related to EIS and Transource Energy)	163.1	161.7
Accounts Receivable:		
Customers	827.2	643.9
Accrued Unbilled Revenues	207.4	230.2
Pledged Accounts Receivable – AEP Credit	1,133.4	954.2
Miscellaneous	143.3	101.2
Allowance for Uncollectible Accounts	(40.6)	(38.5)
Total Accounts Receivable	2,270.7	1,891.0
Fuel	352.8	387.7
Materials and Supplies	562.8	565.5
Risk Management Assets	194.6	126.2
Regulatory Asset for Under-Recovered Fuel Costs	280.4	292.5
Margin Deposits	115.3	105.5
Prepayments and Other Current Assets	243.1	310.4
TOTAL CURRENT ASSETS	4,570.1	4,253.1
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	21,235.2	20,760.5
Transmission	19,818.7	18,972.5
Distribution	20,447.9	19,868.5
Other Property, Plant and Equipment (Including Coal Mining and Nuclear Fuel)	3,880.8	3,706.3
Construction Work in Progress	4,630.3	4,120.7
Total Property, Plant and Equipment	70,012.9	67,428.5
Accumulated Depreciation and Amortization	17,571.4	17,167.0
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	52,441.5	50,261.5
OTHER NONCURRENT ASSETS		
Regulatory Assets	3,375.6	3,587.6
Securitized Assets	1,082.1	1,211.2
Spent Nuclear Fuel and Decommissioning Trusts	2,554.9	2,527.6
Goodwill	52.5	52.5
Long-term Risk Management Assets	264.5	282.1

Deferred Charges and Other Noncurrent Assets	2,528.9	2,553.5
TOTAL OTHER NONCURRENT ASSETS	9,858.5	10,214.5
TOTAL ASSETS	$66,870.1	$ 64,729.1

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

AMERICAN ELECTRIC POWER COMPANY, INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND EQUITY
June 30, 2018 and December 31, 2017
(dollars in millions)
(Unaudited)

	June 30, 2018	December 31, 2017
CURRENT LIABILITIES		
Accounts Payable	$ 1,635.4	$ 2,065.3
Short-term Debt:		
Securitized Debt for Receivables – AEP Credit	750.0	718.0
Other Short-term Debt	1,839.2	920.6
Total Short-term Debt	2,589.2	1,638.6
Long-term Debt Due Within One Year (June 30, 2018 and December 31, 2017 Amounts Include $423.2 and $406.9, Respectively, Related to Transition Funding, DCC Fuel, Ohio Phase-in-Recovery Funding, Appalachian Consumer Rate Relief Funding and Sabine)	2,281.4	1,753.7
Risk Management Liabilities	54.0	61.6
Customer Deposits	369.0	357.0
Accrued Taxes	943.9	1,115.5
Accrued Interest	235.2	234.5
Regulatory Liability for Over-Recovered Fuel Costs	11.4	11.9
Other Current Liabilities	938.8	1,033.2
TOTAL CURRENT LIABILITIES	9,058.3	8,271.3
NONCURRENT LIABILITIES		
Long-term Debt (June 30, 2018 and December 31, 2017 Amounts Include $1,247.3 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)	19,750.6	19,419.6
Long-term Risk Management Liabilities	279.6	322.0
Deferred Income Taxes	7,085.3	6,813.9
Regulatory Liabilities and Deferred Investment Tax Credits	8,683.7	8,422.3
Asset Retirement Obligations	1,966.2	1,925.5
Employee Benefits and Pension Obligations	329.4	398.1
Deferred Credits and Other Noncurrent Liabilities	871.6	830.9
TOTAL NONCURRENT LIABILITIES	38,966.4	38,132.3
TOTAL LIABILITIES	48,024.7	46,403.6
Rate Matters (Note 4)		
Commitments and Contingencies (Note 5)		
MEZZANINE EQUITY		
Redeemable Noncontrolling Interest	70.4	—
Contingently Redeemable Performance Share Awards	23.6	11.9
TOTAL MEZZANINE EQUITY	94.0	11.9

EQUITY

Common Stock – Par Value – $6.50 Per Share:

	2018	2017		
Shares Authorized	600,000,000	600,000,000		
Shares Issued	513,130,857	512,210,644		
(20,204,160 and 20,205,046 Shares were Held in Treasury as of June 30, 2018 and December 31, 2017, Respectively)			3,335.4	3,329.4
Paid-in Capital			6,458.6	6,398.7
Retained Earnings			9,023.1	8,626.7
Accumulated Other Comprehensive Income (Loss)			(94.8)	(67.8)
TOTAL AEP COMMON SHAREHOLDERS' EQUITY			18,722.3	18,287.0
Noncontrolling Interests			29.1	26.6
TOTAL EQUITY			18,751.4	18,313.6
TOTAL LIABILITIES, MEZZANINE EQUITY AND TOTAL EQUITY			$66,870.1	$ 64,729.1

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

AMERICAN ELECTRIC POWER COMPANY, INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	Six Months Ended June 30, 2018		2017	
OPERATING ACTIVITIES				
Net Income	$ 986.8		$ 970.4	
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:				
Depreciation and Amortization	1,092.9		967.4	
Deferred Income Taxes	149.7		424.1	
Allowance for Equity Funds Used During Construction	(61.5	)	(42.2	)
Mark-to-Market of Risk Management Contracts	(112.9	)	(84.7	)
Amortization of Nuclear Fuel	51.4		71.6	
Pension Contributions to Qualified Plan Trust	—		(93.3	)
Property Taxes	119.9		122.9	
Deferred Fuel Over/Under-Recovery, Net	12.3		20.7	
Gain on Sale of Merchant Generation Assets	—		(226.4	)
Recovery of Ohio Capacity Costs	35.8		47.1	
Provision for Refund – Global Settlement, Net	(5.5	)	(88.1	)
Change in Other Noncurrent Assets	10.4		(188.0	)
Change in Other Noncurrent Liabilities	185.1		132.0	
Changes in Certain Components of Working Capital:				
Accounts Receivable, Net	(209.9	)	270.5	
Fuel, Materials and Supplies	31.2		(9.5	)
Accounts Payable	(53.6	)	(170.5	)
Accrued Taxes, Net	(127.8	)	(72.8	)
Other Current Assets	14.8		(45.3	)
Other Current Liabilities	(112.3	)	(288.9	)
Net Cash Flows from Operating Activities	2,006.8		1,717.0	

INVESTING ACTIVITIES

Construction Expenditures	(3,223.4	)	(2,510.4	)
Purchases of Investment Securities	(1,069.2	)	(1,318.2	)
Sales of Investment Securities	1,037.8		1,289.1	
Acquisitions of Nuclear Fuel	(24.2	)	(38.9	)
Proceeds from Sale of Merchant Generation Assets	—		2,159.6	
Other Investing Activities	40.1		22.0	
Net Cash Flows Used for Investing Activities	(3,238.9	)	(396.8	)
FINANCING ACTIVITIES				
Issuance of Common Stock	50.9		—	
Issuance of Long-term Debt	2,209.2		1,050.0	
Commercial Paper and Credit Facility Borrowings	205.6		—	
Change in Short-term Debt, Net	952.0		138.7	
Retirement of Long-term Debt	(1,339.8	)	(1,899.3	)
Commercial Paper and Credit Facility Repayments	(207.0	)	—	
Make Whole Premium on Extinguishment of Long-term Debt	—		(44.9	)
Principal Payments for Capital Lease Obligations	(33.5	)	(33.3	)
Dividends Paid on Common Stock	(614.2	)	(584.9	)
Other Financing Activities	(16.4	)	(5.7	)
Net Cash Flows from (Used for) Financing Activities	1,206.8		(1,379.4	)
Net Decrease in Cash, Cash Equivalents and Restricted Cash	(25.3	)	(59.2	)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	412.6		403.5	
Cash, Cash Equivalents and Restricted Cash at End of Period	$ 387.3		$ 344.3	
SUPPLEMENTARY INFORMATION				
Cash Paid for Interest, Net of Capitalized Amounts	$ 455.4		$ 442.3	
Net Cash Paid (Received) for Income Taxes	33.8		(21.2	)
Noncash Acquisitions Under Capital Leases	32.8		23.6	
	940.0		597.9	

Construction Expenditures Included in Current Liabilities as of June 30,		
Construction Expenditures Included in Noncurrent Liabilities as of June 30,	—	71.8
Acquisition of Nuclear Fuel Included in Current Liabilities as of June 30,	0.6	26.0
Noncash Contribution of Assets by Noncontrolling Interest	84.0	—
Expected Reimbursement for Spent Nuclear Fuel Dry Cask Storage	0.7	2.4

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

AEP TEXAS INC.
AND SUBSIDIARIES

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions of KWhs)			
Retail:				
Residential	3,122	3,095	5,786	5,296
Commercial	2,954	2,935	5,266	5,260
Industrial	2,229	2,251	4,189	4,158
Miscellaneous	149	144	271	272
Total Retail	8,454	8,425	15,512	14,986

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in degree days)			
Actual – Heating (a)	4	1	234	103
Normal – Heating (b)	3	4	194	199
Actual – Cooling (c)	992	989	1,188	1,247
Normal – Cooling (b)	927	919	1,046	1,032

(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.

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

Second Quarter of 2017	$49.0
Changes in Gross Margin:	
Retail Margins	1.9
Off-system Sales	(0.1)
Transmission Revenues	(0.4)
Other Revenues	(2.5)
Total Change in Gross Margin	(1.1)
Changes in Expenses and Other:	
Other Operation and Maintenance	(14.2)
Depreciation and Amortization	(5.4)
Taxes Other Than Income Taxes	(1.9)
Other Income	2.4
Non-Service Cost Components of Net Periodic Benefit Cost	2.1
Interest Expense	(1.3)
Total Change in Expenses and Other	(18.3)
Income Tax Expense	16.9
Second Quarter of 2018	$46.5

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

- Retail Margins increased $2 million primarily due to the following:
- A $6 million increase in revenues associated with the Distribution Cost Recovery Factor revenue rider.
- A $4 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.

These increases were partially offset by:

- A $7 million decrease due to the 2018 provisions for customer refunds related to Tax Reform. This decrease was offset in Income Tax Expense below.
- Transmission Revenues were unchanged primarily due to the following:
- A $6 million increase due to recovery of increased transmission investment in ERCOT.

This increase was offset by:

- A $6 million decrease due to the 2018 provisions for customer refunds due to Tax Reform. This decrease was offset in Income Tax Expense below.
- Other Revenues decreased $3 million primarily due to securitization revenue related to Transition Funding. This decrease 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 $14 million primarily due to the following:
- A $5 million increase in distribution expenses primarily due to advanced metering infrastructure projects.

- A $4 million increase in ERCOT transmission expenses. This increase was offset by an increase in Retail Margins above.
- A $4 million increase in employee-related expenses.

- Depreciation and Amortization expenses increased $5 million primarily due to the following:
  - A $4 million increase in depreciation expense primarily due to an increase in the depreciable base of transmission and distribution assets.
  - A $2 million increase in amortization related to advanced metering infrastructure projects.

  These increases were partially offset by:
  - A $1 million decrease in securitization amortizations related to Transition Funding. This decrease was offset in Other Revenues above and in Interest Expense below.
- Other Income increased $2 million primarily due to a $3 million increase in AFUDC due to increased transmission projects.
- Interest Expense increased $1 million primarily due to the following:
  - A $6 million increase due to the issuance of long-term debt in September 2017.

  This increase was offset by:
  - A $4 million decrease due to a higher debt component of AFUDC from increased transmission projects.
  - A $2 million decrease in securitization assets related to Transition Funding. This decrease was offset above in Other Revenues and in Depreciation and Amortization.
- 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 amortization of Excess ADIT associated with certain depreciable property and a decrease in pretax book income.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Reconciliation of Six Months Ended June 30, 2017 to Six Months Ended June 30, 2018 Net Income (in millions)	
Six Months Ended June 30, 2017	$82.3
Changes in Gross Margin:	
Retail Margins	20.5
Off-system Sales	(1.7)
Transmission Revenues	2.0
Other Revenues	0.2
Total Change in Gross Margin	21.0
Changes in Expenses and Other:	
Other Operation and Maintenance	(25.5)
Depreciation and Amortization	(12.6)
Taxes Other Than Income Taxes	(6.0)
Other Income	5.6
Non-Service Cost Components of Net Periodic Benefit Cost	4.3
Interest Expense	(1.3)
Total Change in Expenses and Other	(35.5)
Income Tax Expense	25.5
Six Months Ended June 30, 2018	$93.3

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 $21 million primarily due to the following:
  - A $12 million increase in revenues associated with the Distribution Cost Recovery Factor revenue rider.
  - An $11 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.
  - An $11 million increase in weather-related usage primarily driven by a 127% increase in heating degree days partially offset by a 5% decrease in cooling degree days.

  These increases were partially offset by:
  - A $12 million decrease due to the 2018 provisions for customer refunds related to Tax Reform. This decrease was offset in Income Tax Expense below.
- Transmission Revenues increased by $2 million primarily due to the following:
  - A $13 million increase due to recovery of increased transmission investment in ERCOT.

  This increase was partially offset by:
  - An $11 million decrease due to the 2018 provisions for customer refunds due to Tax Reform. This decrease was offset in Income Tax Expense below.

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

- Other Operation and Maintenance expenses increased $26 million primarily due to the following:

- A $15 million increase in ERCOT transmission expenses. This increase was partially offset by an increase in Retail Margins above.
- A $6 million increase in distribution expenses primarily due to advanced metering infrastructure projects.
- A $3 million increase in employee-related expenses.

- Depreciation and Amortization expenses increased $13 million primarily due to the following:
  - A $7 million increase in depreciation expense primarily due to an increase in the depreciable base of transmission and distribution assets.
  - A $4 million increase in securitization amortizations related to Transition Funding. This increase was offset in Other Revenues above and in Interest Expense below.
  - A $2 million increase in amortization primarily due to advanced metering infrastructure projects and capitalized software.
- Taxes Other Than Income Taxes increased $6 million primarily due to increased property taxes as a result of additional capital investment and increased tax rates.
- Other Income increased $6 million primarily due to a $7 million increase in AFUDC due to increased transmission projects.
- Non-Service Cost Components of Net Periodic Cost decreased $4 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 Texas' ability to capitalize a portion of its non-service cost components.
- Interest Expense increased $1 million primarily due to the following:
  - An $11 million increase due to the issuance of long-term debt in September 2017.

  This increase was partially offset by:
  - A $6 million decrease due to a higher debt component of AFUDC from increased transmission projects.
  - A $5 million decrease in securitization assets related to Transition Funding. This decrease was offset above in Other Revenues and in Depreciation and Amortization.
- 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 amortization of Excess ADIT associated with certain depreciable property and a decrease in pretax book income.

AEP TEXAS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three and Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUES				
Electric Transmission and Distribution	$370.1	$371.0	$722.5	$699.9
Sales to AEP Affiliates	17.6	17.8	35.8	31.9
Other Revenues	0.6	0.7	1.6	1.3
TOTAL REVENUES	388.3	389.5	759.9	733.1
EXPENSES				
Fuel and Other Consumables Used for Electric Generation	5.8	5.9	14.7	8.9
Other Operation	118.0	106.5	235.0	215.3
Maintenance	23.1	20.4	44.6	38.8
Depreciation and Amortization	121.6	116.2	231.6	219.0
Taxes Other Than Income Taxes	33.6	31.7	66.0	60.0
TOTAL EXPENSES	302.1	280.7	591.9	542.0
OPERATING INCOME	86.2	108.8	168.0	191.1
Other Income (Expense):				
Other Income	2.9	0.5	8.9	3.3
Non-Service Cost Components of Net Periodic Benefit Cost	3.0	0.9	6.1	1.8
Interest Expense	(36.6)	(35.3)	(71.6)	(70.3)
INCOME BEFORE INCOME TAX EXPENSE	55.5	74.9	111.4	125.9
Income Tax Expense	9.0	25.9	18.1	43.6
NET INCOME	$46.5	$49.0	$93.3	$82.3

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

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

AEP TEXAS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Three and Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net Income	$46.5	$49.0	$93.3	$82.3
OTHER COMPREHENSIVE INCOME, NET OF TAXES				
Cash Flow Hedges, Net of Tax of $0 and $0.1 for the Three Months Ended June 30, 2018 and 2017, Respectively, and $0.1 and $0.2 for the Six Months Ended June 30, 2018 and 2017, Respectively	0.3	0.3	0.5	0.5
Amortization of Pension and OPEB Deferred Costs, Net of Tax of $0 and $0.1 for the Three Months Ended June 30, 2018 and 2017, Respectively, and $0 and $0.1 for the Six Months Ended June 30, 2018 and 2017, Respectively	—	—	0.1	0.1
TOTAL OTHER COMPREHENSIVE INCOME	0.3	0.3	0.6	0.6
TOTAL COMPREHENSIVE INCOME	$46.8	$49.3	$93.9	$82.9

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

AEP TEXAS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER’S EQUITY
For the Six Months Ended June 30, 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		82.3		82.3
Other Comprehensive Income			0.6	0.6
TOTAL COMMON SHAREHOLDER’S EQUITY – JUNE 30, 2017	$1,057.9	$896.4	$ (14.3)	$1,940.0
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		93.3		93.3
Other Comprehensive Income			0.6	0.6
TOTAL COMMON SHAREHOLDER’S EQUITY – JUNE 30, 2018	$1,157.9	$1,219.7	$ (14.7)	$2,362.9

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

AEP TEXAS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
ASSETS
June 30, 2018 and December 31, 2017
(in millions)
(Unaudited)

	June 30, 2018	December 31, 2017
CURRENT ASSETS		
Cash and Cash Equivalents	$0.1	$2.0
Restricted Cash for Securitized Transition Funding	131.9	155.2
Advances to Affiliates	27.1	111.9
Accounts Receivable:		
Customers	138.9	105.3
Affiliated Companies	42.7	12.3
Accrued Unbilled Revenues	79.7	75.8
Miscellaneous	0.3	1.3
Allowance for Uncollectible Accounts	(0.5)	(0.7)
Total Accounts Receivable	261.1	194.0
Fuel	4.6	3.6
Materials and Supplies	50.5	52.0
Risk Management Assets	0.4	0.5
Accrued Tax Benefits	16.0	41.0
Prepayments and Other Current Assets	3.6	3.6
TOTAL CURRENT ASSETS	495.3	563.8
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	351.1	350.7
Transmission	3,263.3	3,053.6
Distribution	3,913.8	3,718.6
Other Property, Plant and Equipment	488.9	461.0
Construction Work in Progress	1,009.1	835.7
Total Property, Plant and Equipment	9,026.2	8,419.6
Accumulated Depreciation and Amortization	1,627.8	1,594.5
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	7,398.4	6,825.1
OTHER NONCURRENT ASSETS		
Regulatory Assets	399.3	378.7
Securitized Transition Assets (June 30, 2018 and December 31, 2017 Amounts Include $769 and $869.5, Respectively, Related to Transition Funding)	786.6	891.2
Long-term Risk Management Assets	0.1	—
Deferred Charges and Other Noncurrent Assets	115.5	114.8
TOTAL OTHER NONCURRENT ASSETS	1,301.5	1,384.7
TOTAL ASSETS	$9,195.2	$8,773.6

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

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AEP TEXAS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY
June 30, 2018 and December 31, 2017
(in millions)
(Unaudited)

	June 30, 2018	December 31, 2017
CURRENT LIABILITIES		
Accounts Payable:		
General	$220.1	$379.4
Affiliated Companies	23.0	30.2
Long-term Debt Due Within One Year – Nonaffiliated (June 30, 2018 and December 31, 2017 Amounts Include $243.7 and $236.1, Respectively, Related to Transition Funding)	293.7	266.1
Accrued Taxes	89.7	77.2
Accrued Interest (June 30, 2018 and December 31, 2017 Amounts Include $13.4 and $15.9, Respectively, Related to Transition Funding)	41.5	42.2
Other Current Liabilities	81.6	76.4
TOTAL CURRENT LIABILITIES	749.6	871.5
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated (June 30, 2018 and December 31, 2017 Amounts Include $658.9 and $790.1, Respectively, Related to Transition Funding)	3,697.6	3,383.2
Deferred Income Taxes	908.1	913.1
Regulatory Liabilities and Deferred Investment Tax Credits	1,336.1	1,320.5
Oklaunion Purchase Power Agreement	51.7	52.0
Deferred Credits and Other Noncurrent Liabilities	89.2	63.4
TOTAL NONCURRENT LIABILITIES	6,082.7	5,732.2
TOTAL LIABILITIES	6,832.3	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	1,219.7	1,124.6
Accumulated Other Comprehensive Income (Loss)	(14.7)	(12.6)
TOTAL COMMON SHAREHOLDER'S EQUITY	2,362.9	2,169.9
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	$9,195.2	$8,773.6

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

AEP TEXAS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	Six Months Ended June 30, 2018	2017
OPERATING ACTIVITIES		
Net Income	$93.3	$82.3
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	231.6	219.0
Deferred Income Taxes	24.9	71.8
Allowance for Equity Funds Used During Construction	(9.4)	(2.2)
Mark-to-Market of Risk Management Contracts	—	0.3
Pension Contributions to Qualified Plan Trust	—	(8.8)
Property Taxes	(38.4)	(32.7)
Change in Other Noncurrent Assets	(36.1)	(20.4)
Change in Other Noncurrent Liabilities	21.6	5.9
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	(67.1)	(38.0)
Fuel, Materials and Supplies	0.5	4.8
Accounts Payable	(29.6)	(4.5)
Accrued Taxes, Net	37.5	(4.3)
Other Current Assets	1.6	1.4
Other Current Liabilities	(5.5)	(31.0)
Net Cash Flows from Operating Activities	224.9	243.6
INVESTING ACTIVITIES		
Construction Expenditures	(792.8)	(378.5)
Change in Advances to Affiliates, Net	84.8	0.3
Other Investing Activities	19.2	6.9
Net Cash Flows Used for Investing Activities	(688.8)	(371.3)
FINANCING ACTIVITIES		
Capital Contribution from Parent	100.0	200.0
Issuance of Long-term Debt – Nonaffiliated	494.5	—
Change in Advances from Affiliates, Net	—	28.2
Retirement of Long-term Debt – Nonaffiliated	(154.1)	(117.1)
Principal Payments for Capital Lease Obligations	(2.3)	(1.9)
Other Financing Activities	0.6	0.8
Net Cash Flows from Financing Activities	438.7	110.0
Net Decrease in Cash, Cash Equivalents and Restricted Cash for Securitized Transition Funding	(25.2)	(17.7)
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	$132.0	$129.2

SUPPLEMENTARY INFORMATION

Cash Paid for Interest, Net of Capitalized Amounts	$69.3	$69.4
Net Cash Paid (Received) for Income Taxes	(22.4)	1.5
Noncash Acquisitions Under Capital Leases	6.3	2.9
Construction Expenditures Included in Current Liabilities as of June 30,	186.8	95.2

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

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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 June 30,	
	2018	2017
	(in millions)	
Plant In Service	$5,840.5	$4,493.3
Construction Work in Progress	1,585.9	1,197.0
Accumulated Depreciation and Amortization	210.5	133.1
Total Transmission Property, Net	$7,215.9	$5,557.2

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

Second Quarter of 2017	$107.4
Changes in Transmission Revenues:	
Transmission Revenues	(45.6)
Total Change in Transmission Revenues	(45.6)
Changes in Expenses and Other:	
Other Operation and Maintenance	(7.1)
Depreciation and Amortization	(9.6)
Taxes Other Than Income Taxes	(9.0)
Interest Income	0.3
Allowance for Equity Funds Used During Construction	2.9
Interest Expense	(4.6)
Total Change in Expenses and Other	(27.1)
Income Tax Expense	35.8
Second Quarter of 2018	$70.5

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

- Transmission Revenues decreased $46 million primarily due to the following:
  - A $64 million decrease in revenues due to a lower annual formula rate true-up in 2018 driven by implementing forward looking formula rates.
  - An $18 million decrease in revenues primarily due to an out of period correction of an error related to revenue recorded from 2013 through March 31, 2018. The out of period correction relates to certain transmission assets that management believes should not have been included in the SPP transmission formula rate.

  These decreases were partially offset by:

- A $37 million increase in revenues due to an increase in the formula rate revenue requirement primarily driven by continued investment in transmission assets. This increase includes the impact of the reduction in revenue related to Tax Reform. The decrease in Transmission Revenues related to Tax Reform is offset by a decrease 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 $10 million primarily due to a higher depreciable base.
- Taxes Other Than Income Taxes increased $9 million primarily due to higher property taxes as a result of increased transmission investment.
- Allowance for Equity Funds Used During Construction increased $3 million primarily due to increased transmission investment resulting in a higher CWIP balance.
- Interest Expense increased $5 million primarily due to higher outstanding long-term debt balances.
- 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.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Reconciliation of Six Months Ended June 30, 2017 to Six Months Ended June 30, 2018
Net Income
(in millions)

Six Months Ended June 30, 2017	$164.4
Changes in Transmission Revenues:	
Transmission Revenues	(4.8)
Total Change in Transmission Revenues	(4.8)
Changes in Expenses and Other:	
Other Operation and Maintenance	(14.1)
Depreciation and Amortization	(16.9)
Taxes Other Than Income Taxes	(13.3)
Interest Income	0.5
Allowance for Equity Funds Used During Construction	7.3
Interest Expense	(8.5)
Total Change in Expenses and Other	(45.0)
Income Tax Expense	41.8
Six Months Ended June 30, 2018	$156.4

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

- Transmission Revenues decreased $5 million primarily due to the following:
  - A $64 million decrease in revenues due to a lower annual formula rate true-up in 2018 driven by implementing forward looking formula rates.
  - An $18 million decrease in revenues primarily due to an out of period correction of an error related to revenue recorded from 2013 through March 31, 2018. The out of period correction relates to certain transmission assets that management believes should not have been included in the SPP transmission formula rate.

  These decreases were partially offset by:
  - A $79 million increase in revenues due to an increase in the formula rate revenue requirement primarily driven by continued investment in transmission assets. This increase includes the impact of the reduction in revenue related to Tax Reform. The decrease in Transmission Revenues related to Tax Reform is offset by a decrease in Income Tax Expense below.

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

- Other Operation and Maintenance expenses increased $14 million primarily due to increased transmission investment.
- Depreciation and Amortization expenses increased $17 million primarily due to a higher depreciable base.
- Taxes Other Than Income Taxes increased $13 million primarily due to higher property taxes as a result of increased transmission investment.
- Allowance for Equity Funds Used During Construction increased $7 million primarily due to increased transmission investment resulting in a higher CWIP balance.
- Interest Expense increased $9 million primarily due to higher outstanding long-term debt balances.

- Income Tax Expense decreased $42 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 COMPANY, LLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three and Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUES				
Transmission Revenues	$51.2	$44.0	$82.5	$63.2
Sales to AEP Affiliates	132.6	185.4	294.7	318.8
Other Revenues	—	—	0.1	0.1
TOTAL REVENUES	183.8	229.4	377.3	382.1
EXPENSES				
Other Operation	18.5	11.3	35.1	20.4
Maintenance	2.2	2.3	4.8	5.4
Depreciation and Amortization	32.4	22.8	63.0	46.1
Taxes Other Than Income Taxes	36.6	27.6	67.7	54.4
TOTAL EXPENSES	89.7	64.0	170.6	126.3
OPERATING INCOME	94.1	165.4	206.7	255.8
Other Income (Expense):				
Interest Income	0.4	0.1	0.8	0.3
Allowance for Equity Funds Used During Construction	16.3	13.4	31.6	24.3
Interest Expense	(20.3)	(15.7)	(40.2)	(31.7)
INCOME BEFORE INCOME TAX EXPENSE	90.5	163.2	198.9	248.7
Income Tax Expense	20.0	55.8	42.5	84.3
NET INCOME	$70.5	$107.4	$156.4	$164.4

See Condensed Notes to Condensed Consolidated Financial Statements beginning on page 137.

AEP TRANSMISSION COMPANY, LLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER’S EQUITY
For the Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	Paid-in Capital	Retained Earnings	Total
TOTAL MEMBER'S EQUITY – DECEMBER 31, 2016	$1,455.0	$ 502.6	$1,957.6
Capital Contributions from Member	166.7		166.7
Net Income		164.4	164.4
TOTAL MEMBER'S EQUITY – JUNE 30, 2017	$1,621.7	$ 667.0	$2,288.7
TOTAL MEMBER'S EQUITY – DECEMBER 31, 2017	$1,816.6	$ 788.7	$2,605.3
Capital Contributions from Member	377.0		377.0
Net Income		156.4	156.4
TOTAL MEMBER'S EQUITY – JUNE 30, 2018	$2,193.6	$ 945.1	$3,138.7

See Condensed Notes to Condensed Consolidated Financial Statements beginning on page 137.

AEP TRANSMISSION COMPANY, LLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
ASSETS
June 30, 2018 and December 31, 2017
(in millions)
(Unaudited)

	June 30, 2018	December 31, 2017
CURRENT ASSETS		
Advances to Affiliates	$53.6	$ 146.3
Accounts Receivable:		
Customers	15.3	19.1
Affiliated Companies	88.8	93.2
Miscellaneous	1.1	1.3
Total Accounts Receivable	105.2	113.6
Materials and Supplies	16.0	13.6
Accrued Tax Benefits	32.9	46.6
Prepayments and Other Current Assets	12.4	7.6
TOTAL CURRENT ASSETS	220.1	327.7
TRANSMISSION PROPERTY		
Transmission Property	5,700.0	5,336.1
Other Property, Plant and Equipment	140.5	131.4
Construction Work in Progress	1,585.9	1,312.7
Total Transmission Property	7,426.4	6,780.2
Accumulated Depreciation and Amortization	210.5	170.4
TOTAL TRANSMISSION PROPERTY – NET	7,215.9	6,609.8
OTHER NONCURRENT ASSETS		
Regulatory Assets	18.2	11.7
Deferred Property Taxes	73.1	117.8
Deferred Charges and Other Noncurrent Assets	7.4	1.1
TOTAL OTHER NONCURRENT ASSETS	98.7	130.6
TOTAL ASSETS	$7,534.7	$ 7,068.1

See Condensed Notes to Condensed Consolidated Financial Statements beginning on page 137.

AEP TRANSMISSION COMPANY, LLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND MEMBER'S EQUITY
June 30, 2018 and December 31, 2017
(in millions)
(Unaudited)

	June 30, 2018	December 31, 2017
CURRENT LIABILITIES		
Advances from Affiliates	$ 167.5	$ 15.7
Accounts Payable:		
General	230.3	473.2
Affiliated Companies	66.8	52.9
Long-term Debt Due Within One Year – Nonaffiliated	50.0	50.0
Accrued Taxes	181.8	225.4
Accrued Interest	11.7	15.0
Other Current Liabilities	7.0	4.1
TOTAL CURRENT LIABILITIES	715.1	836.3
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	2,500.9	2,500.4
Deferred Income Taxes	659.0	601.7
Regulatory Liabilities	501.6	493.7
Deferred Credits and Other Noncurrent Liabilities	19.4	30.7
TOTAL NONCURRENT LIABILITIES	3,680.9	3,626.5
TOTAL LIABILITIES	4,396.0	4,462.8
Rate Matters (Note 4)		
Commitments and Contingencies (Note 5)		
MEMBER'S EQUITY		
Paid-in Capital	2,193.6	1,816.6
Retained Earnings	945.1	788.7
TOTAL MEMBER'S EQUITY	3,138.7	2,605.3
TOTAL LIABILITIES AND MEMBER'S EQUITY	$ 7,534.7	$ 7,068.1

See Condensed Notes to Condensed Consolidated Financial Statements beginning on page 137.

AEP TRANSMISSION COMPANY, LLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
OPERATING ACTIVITIES		
Net Income	$156.4	$164.4
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	63.0	46.1
Deferred Income Taxes	50.2	134.0
Allowance for Equity Funds Used During Construction	(31.6)	(24.3)
Property Taxes	44.7	44.1
Long-term Accounts Receivable – Affiliated	(6.2)	(27.6)
Change in Other Noncurrent Assets	(7.0)	(8.8)
Change in Other Noncurrent Liabilities	17.8	17.0
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	8.4	(37.0)
Materials and Supplies	(2.4)	(5.9)
Accounts Payable	13.7	(2.7)
Accrued Taxes, Net	(29.8)	(27.1)
Accrued Interest	(3.3)	(0.7)
Other Current Assets	0.4	(4.7)
Other Current Liabilities	(28.2)	1.0
Net Cash Flows from Operating Activities	246.1	267.8
INVESTING ACTIVITIES		
Construction Expenditures	(855.4)	(721.2)
Change in Advances to Affiliates, Net	92.7	44.9
Acquisitions of Assets	(13.1)	—
Other Investing Activities	1.1	(0.5)
Net Cash Flows Used for Investing Activities	(774.7)	(676.8)
FINANCING ACTIVITIES		
Capital Contributions from Member	377.0	166.7
Change in Advances from Affiliates, Net	151.8	243.3
Other Financing Activities	(0.2)	(1.0)
Net Cash Flows from Financing Activities	528.6	409.0
Net Change in Cash and Cash Equivalents	—	—
Cash and Cash Equivalents at Beginning of Period	—	—
Cash and Cash Equivalents at End of Period	$—	$—
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest, Net of Capitalized Amounts	$42.7	$31.4
Net Cash Paid (Received) for Income Taxes	(20.4)	(67.0)
Construction Expenditures Included in Current Liabilities as of June 30,	234.7	190.3

See Condensed Notes to Condensed Consolidated Financial Statements beginning on page 137.

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(in millions of KWhs)			
Retail:				
Residential	2,388	2,091	6,233	5,341
Commercial	1,581	1,541	3,275	3,132
Industrial	2,361	2,376	4,738	4,675
Miscellaneous	205	201	429	411
Total Retail	6,535	6,209	14,675	13,559
Wholesale	614	884	1,109	1,690
Total KWhs	7,149	7,093	15,784	15,249

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(in degree days)			
Actual – Heating (a)	129	45	1,518	1,000
Normal – Heating (b)	91	90	1,408	1,418
Actual – Cooling (c)	537	373	545	375
Normal – Cooling (b)	363	360	370	367

(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.

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

Second Quarter of 2017	$52.1
Changes in Gross Margin:	
Retail Margins	(12.0)
Off-system Sales	0.6
Transmission Revenues	2.2
Other Revenues	(1.2)
Total Change in Gross Margin	(10.4)
Changes in Expenses and Other:	
Other Operation and Maintenance	24.4
Depreciation and Amortization	(4.6)
Taxes Other Than Income Taxes	(2.9)
Interest Income	0.1
Carrying Costs Income	0.2
Allowance for Equity Funds Used During Construction	0.9
Non-Service Cost Components of Net Periodic Benefit Cost	3.1
Interest Expense	0.4
Total Change in Expenses and Other	21.6
Income Tax Expense	14.1
Second Quarter of 2018	$77.4

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 decreased $12 million primarily due to the following:
- A $26 million decrease due to the 2018 provisions for customer refunds related to Tax Reform. This decrease was offset in Income Tax Expense below.
- A $10 million decrease in weather-normalized margins occurring across all retail classes.
- A $6 million increase in deferred fuel related to recoverable PJM expenses that were offset below.

These decreases were partially offset by:

- A $26 million increase in weather-related usage primarily due to a 44% increase in cooling degree days.
- A $3 million increase primarily due to increases from rate riders in Virginia. This increase is partially offset by an increase in Other Operation and Maintenance expenses.

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

- Other Operation and Maintenance expenses decreased $24 million primarily due to the following:
  - A $36 million decrease in PJM expenses related to the annual formula rate true-up that will be refunded in future periods.

  This decrease was partially offset by:
  - A $9 million increase in recoverable PJM expenses. This increase was offset in Retail Margins above.
  - A $5 million increase in storm-related expenses.
- Depreciation and Amortization expenses increased $5 million primarily due to a higher depreciable base.
- Taxes Other Than Income Taxes increased $3 million primarily driven by an increase in property taxes due to additional investments in utility plant.
- 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 APCo's ability to capitalize a portion of its non-service cost components.
- Income Tax Expense decreased $14 million primarily due to the change in 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.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017
Reconciliation of Six Months Ended June 30, 2017 to Six Months
Ended June 30, 2018
Net Income
(in millions)

Six Months Ended June 30, 2017	$162.7
Changes in Gross Margin:	
Retail Margins	3.0
Off-system Sales	0.3
Transmission Revenues	0.4
Other Revenues	(3.4)
Total Change in Gross Margin	0.3
Changes in Expenses and Other:	
Other Operation and Maintenance	(0.7)
Depreciation and Amortization	(12.5)
Taxes Other Than Income Taxes	(6.5)
Interest Income	0.1
Carrying Costs Income	0.4
Allowance for Equity Funds Used During Construction	2.0
Non-Service Cost Components of Net Periodic Benefit Cost	6.3
Interest Expense	1.1
Total Change in Expenses and Other	(9.8)
Income Tax Expense	49.7
Six Months Ended June 30, 2018	$202.9

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 $75 million increase in weather-related usage primarily driven by a 52% increase in heating degree days along with a 45% increase in cooling degree days.
  - A $5 million increase primarily due to increases from rate riders in Virginia. This was partially offset by an increase in Other Operation and Maintenance expenses.

  These increases were partially offset by:
  - A $58 million decrease due to the 2018 provisions for customer refunds related to Tax Reform. This decrease was offset in Income Tax Expense below.
  - A $15 million increase in deferred fuel related to recoverable PJM expenses that were offset below.
  - A $5 million decrease in weather-normalized margins occurring across all retail classes.

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

- Other Operation and Maintenance expenses increased $1 million primarily due to the following:
- A $21 million increase in recoverable PJM expenses. This increase in expense was primarily offset within Retail Margins above.
- A $7 million increase in storm-related expenses.
- A $5 million increase in estimated expenses for claims related to asbestos exposure.
- A $5 million increase in employee-related expenses.

These increases were partially offset by:

- A $37 million decrease in PJM expenses related to the annual formula rate true-up that will be refunded in future periods.
- Depreciation and Amortization expenses increased $13 million primarily due to a higher depreciable base.
- Taxes Other Than Income Taxes increased $7 million primarily driven by an increase in property taxes due to additional investments in utility plant.
- 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 APCo’s ability to capitalize a portion of its non-service cost components.
- Income Tax Expense decreased $50 million primarily due to the change in corporate federal income tax rate from 35% in 2017 to 21% in 2018 as a result of Tax Reform, amortization of Excess ADIT associated with certain depreciable property and a decrease in pretax book income.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three and Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
REVENUES				
Electric Generation, Transmission and Distribution	$618.8	$625.6	$1,386.3	$1,370.6
Sales to AEP Affiliates	46.4	46.3	95.8	88.7
Other Revenues	1.8	3.4	5.3	8.8
TOTAL REVENUES	667.0	675.3	1,487.4	1,468.1
EXPENSES				
Fuel and Other Consumables Used for Electric Generation	155.3	152.5	224.3	319.7
Purchased Electricity for Resale	64.5	65.2	270.4	156.0
Other Operation	109.9	139.2	248.1	253.1
Maintenance	65.7	60.8	137.7	132.0
Depreciation and Amortization	105.3	100.7	213.8	201.3
Taxes Other Than Income Taxes	33.7	30.8	67.5	61.0
TOTAL EXPENSES	534.4	549.2	1,161.8	1,123.1
OPERATING INCOME	132.6	126.1	325.6	345.0
Other Income (Expense):				
Interest Income	0.6	0.5	0.9	0.8
Carrying Costs Income	0.5	0.3	1.0	0.6
Allowance for Equity Funds Used During Construction	2.9	2.0	5.5	3.5
Non-Service Cost Components of Net Periodic Benefit Cost	4.4	1.3	8.9	2.6
Interest Expense	(47.8)	(48.2)	(95.2)	(96.3)
INCOME BEFORE INCOME TAX EXPENSE	93.2	82.0	246.7	256.2
Income Tax Expense	15.8	29.9	43.8	93.5
NET INCOME	$77.4	$52.1	$202.9	$162.7

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

See Condensed Notes to

Condensed Financial Statements of Registrants beginning on page 137.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Three and Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net Income	$77.4	$52.1	$202.9	$162.7
OTHER COMPREHENSIVE LOSS, NET OF TAXES				
Cash Flow Hedges, Net of Tax of $0 and $(0.1) for the Three Months Ended June 30, 2018 and 2017, Respectively, and $(0.1) and $(0.2) for the Six Months Ended June 30, 2018 and 2017, Respectively	(0.2)	(0.2)	(0.4)	(0.4)
Amortization of Pension and OPEB Deferred Costs, Net of Tax of $(0.2) and $(0.1) for the Three Months Ended June 30, 2018 and 2017, Respectively, and $(0.4) and $(0.3) for the Six Months Ended June 30, 2018 and 2017, Respectively	(0.8)	(0.3)	(1.6)	(0.6)
TOTAL OTHER COMPREHENSIVE LOSS	(1.0)	(0.5)	(2.0)	(1.0)
TOTAL COMPREHENSIVE INCOME	$76.4	$51.6	$200.9	$161.7

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
COMMON SHAREHOLDER'S EQUITY
For the Six Months Ended June 30, 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			(60.0)		(60.0)
Net Income			162.7		162.7
Other Comprehensive Loss				(1.0)	(1.0)
TOTAL COMMON SHAREHOLDER'S EQUITY – JUNE 30, 2017	$ 260.4	$1,828.7	$1,605.5	$ (9.4)	$3,685.2
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2017	$ 260.4	$1,828.7	$1,714.1	$ 1.3	$3,804.5
Common Stock Dividends			(80.0)		(80.0)
ASU 2018-02 Adoption			0.1	0.3	0.4
Net Income			202.9		202.9
Other Comprehensive Loss				(2.0)	(2.0)
TOTAL COMMON SHAREHOLDER'S EQUITY – JUNE 30, 2018	$ 260.4	$1,828.7	$1,837.1	$ (0.4)	$3,925.8

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
ASSETS
June 30, 2018 and December 31, 2017
(in millions)
(Unaudited)

	June 30, 2018	December 31, 2017
CURRENT ASSETS		
Cash and Cash Equivalents	$2.8	$ 2.9
Restricted Cash for Securitized Funding	17.7	16.3
Advances to Affiliates	23.4	23.5
Accounts Receivable:		
Customers	177.9	123.1
Affiliated Companies	80.1	69.3
Accrued Unbilled Revenues	53.4	74.1
Miscellaneous	1.0	1.1
Allowance for Uncollectible Accounts	(3.9)	(3.7)
Total Accounts Receivable	308.5	263.9
Fuel	69.4	89.3
Materials and Supplies	99.2	99.5
Risk Management Assets	60.4	24.9
Regulatory Asset for Under-Recovered Fuel Costs	162.6	88.8
Margin Deposits	12.4	14.4
Prepayments and Other Current Assets	8.5	12.7
TOTAL CURRENT ASSETS	764.9	636.2
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	6,477.7	6,446.9
Transmission	3,082.9	3,019.9
Distribution	3,843.8	3,763.8
Other Property, Plant and Equipment	450.8	427.9
Construction Work in Progress	602.1	483.0
Total Property, Plant and Equipment	14,457.3	14,141.5
Accumulated Depreciation and Amortization	4,028.8	3,896.4
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	10,428.5	10,245.1
OTHER NONCURRENT ASSETS		
Regulatory Assets	527.4	573.9
Securitized Assets	270.4	282.3
Long-term Risk Management Assets	2.1	1.1
Deferred Charges and Other Noncurrent Assets	211.0	190.0
TOTAL OTHER NONCURRENT ASSETS	1,010.9	1,047.3
TOTAL ASSETS	$12,204.3	$ 11,928.6

See
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Condensed Financial Statements of Registrants beginning on page 137.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY
June 30, 2018 and December 31, 2017
(Unaudited)

	June 30, 2018	December 31, 2017
	(in millions)	
CURRENT LIABILITIES		
Advances from Affiliates	$ 172.7	$ 186.0
Accounts Payable:		
General	227.7	264.9
Affiliated Companies	81.4	92.7
Long-term Debt Due Within One Year – Nonaffiliated	530.5	249.2
Risk Management Liabilities	1.4	1.3
Customer Deposits	88.0	86.1
Accrued Taxes	94.0	94.5
Accrued Interest	41.1	40.5
Other Current Liabilities	89.9	109.0
TOTAL CURRENT LIABILITIES	1,326.7	1,124.2
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	3,543.2	3,730.9
Long-term Risk Management Liabilities	0.5	0.2
Deferred Income Taxes	1,593.2	1,565.7
Regulatory Liabilities and Deferred Investment Tax Credits	1,522.3	1,454.9
Asset Retirement Obligations	105.5	100.2
Employee Benefits and Pension Obligations	66.2	73.3
Deferred Credits and Other Noncurrent Liabilities	120.9	74.7
TOTAL NONCURRENT LIABILITIES	6,951.8	6,999.9
TOTAL LIABILITIES	8,278.5	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	1,837.1	1,714.1
Accumulated Other Comprehensive Income (Loss)	(0.4)	1.3
TOTAL COMMON SHAREHOLDER'S EQUITY	3,925.8	3,804.5
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	$ 12,204.3	$ 11,928.6

See
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Condensed Financial Statements of Registrants beginning on page 137.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	Six Months Ended June 30, 2018	2017
OPERATING ACTIVITIES		
Net Income	$202.9	$162.7
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	213.8	201.3
Deferred Income Taxes	10.8	86.2
Allowance for Equity Funds Used During Construction	(5.5)	(3.5)
Mark-to-Market of Risk Management Contracts	(36.1)	(39.4)
Pension Contributions to Qualified Plan Trust	—	(10.2)
Deferred Fuel Over/Under-Recovery, Net	(73.8)	(4.0)
Change in Other Noncurrent Assets	32.0	15.5
Change in Other Noncurrent Liabilities	68.7	13.7
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	4.7	24.0
Fuel, Materials and Supplies	20.2	0.3
Accounts Payable	(11.1)	18.7
Accrued Taxes, Net	(7.6)	(35.8)
Other Current Assets	7.1	8.5
Other Current Liabilities	(21.9)	(14.1)
Net Cash Flows from Operating Activities	404.2	423.9
INVESTING ACTIVITIES		
Construction Expenditures	(406.8)	(372.2)
Change in Advances to Affiliates, Net	0.1	0.3
Other Investing Activities	7.8	10.5
Net Cash Flows Used for Investing Activities	(398.9)	(361.4)
FINANCING ACTIVITIES		
Issuance of Long-term Debt - Nonaffiliated	103.7	320.9
Change in Advances from Affiliates, Net	(13.3)	45.1
Retirement of Long-term Debt - Nonaffiliated	(11.7)	(365.9)
Principal Payments for Capital Lease Obligations	(3.4)	(3.5)
Dividends Paid on Common Stock	(80.0)	(60.0)
Other Financing Activities	0.7	0.4
Net Cash Flows Used for Financing Activities	(4.0)	(63.0)
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash for Securitized Funding	1.3	(0.5)
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	$20.5	$18.0
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest, Net of Capitalized Amounts	$90.9	$92.4

Net Cash Paid for Income Taxes	19.7	32.0
Noncash Acquisitions Under Capital Leases	2.7	1.7
Construction Expenditures Included in Current Liabilities as of June 30,	89.5	99.1

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

INDIANA MICHIGAN POWER COMPANY
AND SUBSIDIARIES

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(in millions of KWhs)			
Retail:				
Residential	1,245	1,119	2,868	2,611
Commercial	1,209	1,170	2,385	2,327
Industrial	1,973	1,919	3,877	3,815
Miscellaneous	15	14	35	34
Total Retail	4,442	4,222	9,165	8,787
Wholesale	2,388	2,806	5,314	5,760
Total KWhs	6,830	7,028	14,479	14,547

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(in degree days)			
Actual – Heating (a)	364	168	2,521	1,816
Normal – Heating (b)	235	234	2,403	2,419
Actual – Cooling (c)	362	260	362	260
Normal – Cooling (b)	261	259	263	261

(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.

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

Second Quarter of 2017	$ 10.5
Changes in Gross Margin:	
Retail Margins	59.7
Off-system Sales	(2.0)
Transmission Revenues	18.7
Other Revenues	1.0
Total Change in Gross Margin	77.4
Changes in Expenses and Other:	
Other Operation and Maintenance	22.6
Depreciation and Amortization	(12.8)
Taxes Other Than Income Taxes	(3.4)
Interest Income	0.7
Carrying Cost Income	(2.7)
Allowance for Equity Funds Used During Construction	(0.2)
Non-Service Cost Components of Net Periodic Benefit Cost	2.9
Interest Expense	(3.6)
Total Change in Expenses and Other	3.5
Income Tax Expense	3.3
Second Quarter of 2018	$ 94.7

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 $60 million primarily due to the following:
- A $35 million increase in FERC generation wholesale municipal and cooperative revenues primarily due to the annual formula rate true-up and changes to the formula rate.
- A $23 million increase from rate proceedings in the I&M service territory. The increase in Retail Margins relating to riders had corresponding increases in other expense items below.
- A $16 million increase in weather-related usage primarily due to a 117% increase in heating degree days and a 40% increase in cooling degree days.

These increases were partially offset by:

- An $11 million decrease related to over/under recovery of riders.
- Transmission Revenues increased $19 million increase primarily due to the annual formula rate true-up and decreased RTO provisions.

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

- Other Operation and Maintenance expenses decreased $23 million primarily due to a $26 million decrease in transmission expenses driven by a decrease in recoverable PJM expenses. This decrease was partially offset within Retail Margins above.

- Depreciation and Amortization expenses increased $13 million primarily due to a higher depreciable base and increased depreciation rates approved in the 2017 Michigan base rate case.
- Taxes Other Than Income Taxes increased $3 million primarily due to increased property and payroll taxes.

- Carrying Cost Income decreased $3 million primarily due to a decrease in carrying charges for certain riders in Indiana. This decrease was partially offset in Interest Expense below.
- 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.
- Interest Expense increased $4 million primarily due to increased long-term debt balances. This increase was partially offset in Carrying Cost Income above.
- Income Tax Expense decreased $3 million primarily due to other book/tax differences which are accounted for on a flow-through basis and 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.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Reconciliation of Six Months Ended June 30, 2017 to Six Months Ended June 30, 2018 Net Income (in millions)	
Six Months Ended June 30, 2017	$78.9
Changes in Gross Margin:	
Retail Margins	62.9
Off-system Sales	(1.6)
Transmission Revenues	21.5
Other Revenues	(1.7)
Total Change in Gross Margin	81.1
Changes in Expenses and Other:	
Other Operation and Maintenance	10.5
Depreciation and Amortization	(22.1)
Taxes Other Than Income Taxes	(5.5)
Interest Income	(0.2)
Carrying Cost Income	(3.7)
Allowance for Equity Funds Used During Construction	(0.5)
Non-Service Cost Components of Net Periodic Benefit Cost	5.9
Interest Expense	(5.6)
Total Change in Expenses and Other	(21.2)
Income Tax Expense	20.1
Six Months Ended June 30, 2018	$158.9

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 $63 million primarily due to the following:
  - A $46 million increase from rate proceedings in the I&M service territory. The increase in Retail Margins relating to riders had corresponding increases in other expense items below.
  - A $31 million increase in FERC generation wholesale municipal and cooperative revenues primarily due to the annual formula rate true-up and changes to the formula rate.
  - A $30 million increase in weather-related usage primarily due to a 39% increase in heating degree days and a 40% increase in cooling degree days.
  - A $3 million increase due to lower weather-normalized margins primarily due to wholesale customer load loss from contracts that expired at the end of 2017.

  These increases were partially offset by:
  - A $15 million decrease related to the 2018 provisions for customer refunds related to Tax Reform. This decrease was offset in Income Tax Expense below.
  - A $15 million decrease related to over/under recovery of riders.
  - A $3 million decrease due to increased fuel and other variable production costs not recovered through fuel clauses or other trackers.
-

Transmission Revenues increased $22 million increase primarily due to the annual formula rate true-up and decreased RTO provisions.

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

- Other Operation and Maintenance expenses decreased $11 million primarily due to the following:
  - A $14 million decrease in transmission expenses primarily due to a decrease in recoverable PJM expenses. This decrease was partially offset within Retail Margins above.
  - A $7 million decrease due to an increased Nuclear Electric Insurance Limited distribution in 2018.

  These decreases were partially offset by:
  - A $4 million increase in employee-related expenses.
  - A $4 million increase in Cook Plant refueling outage amortization expense, primarily due to increased costs of outages.
- Depreciation and Amortization expenses increased $22 million primarily due to a higher depreciable base and increased depreciation rates approved in the 2017 Michigan base rate case.
- Taxes Other Than Income Taxes increased $6 million primarily due to increased property and payroll taxes.
- Carrying Cost Income decreased $4 million primarily due to a decrease in carrying charges for certain riders in Indiana. This decrease was partially offset in Interest Expense below.
- 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 I&M's ability to capitalize a portion of its non-service cost components.
- Interest Expense increased $6 million primarily due to increased long-term debt balances. This increase was partially offset in Carrying Cost Income above.
- Income Tax Expense decreased $20 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.

INDIANA MICHIGAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three and Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
REVENUES				
Electric Generation, Transmission and Distribution	$560.1	$451.9	$1,114.0	$990.4
Other Revenues – Affiliated	27.2	12.4	45.1	31.1
Other Revenues – Nonaffiliated	2.4	3.0	7.4	6.3
TOTAL REVENUES	589.7	467.3	1,166.5	1,027.8
EXPENSES				
Fuel and Other Consumables Used for Electric Generation	73.4	71.1	150.9	161.8
Purchased Electricity for Resale	63.2	31.0	118.8	68.3
Purchased Electricity from AEP Affiliates	60.4	49.9	121.8	103.8
Other Operation	130.4	159.7	276.5	296.8
Maintenance	57.4	50.7	111.9	102.1
Depreciation and Amortization	62.6	49.8	121.9	99.8
Taxes Other Than Income Taxes	24.9	21.5	49.9	44.4
TOTAL EXPENSES	472.3	433.7	951.7	877.0
OPERATING INCOME	117.4	33.6	214.8	150.8
Other Income (Expense):				
Interest Income	1.0	0.3	1.2	1.4
Carrying Costs Income	1.6	4.3	4.0	7.7
Allowance for Equity Funds Used During Construction	2.3	2.5	4.1	4.6
Non-Service Cost Components of Net Periodic Benefit Cost	4.5	1.6	9.0	3.1
Interest Expense	(31.4)	(27.8)	(61.1)	(55.5)
INCOME BEFORE INCOME TAX EXPENSE	95.4	14.5	172.0	112.1
Income Tax Expense	0.7	4.0	13.1	33.2
NET INCOME	$94.7	$10.5	$158.9	$78.9

The common stock of I&M is wholly-owned by Parent.

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

INDIANA MICHIGAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Three and Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net Income	$94.7	$10.5	$158.9	$78.9
OTHER COMPREHENSIVE INCOME, NET OF TAXES				
Cash Flow Hedges, Net of Tax of $0.1 and $0.2 for the Three Months Ended June 30, 2018 and 2017, Respectively, and $0.2 and $0.4 for the Six Months Ended June 30, 2018 and 2017, Respectively	0.5	0.4	0.9	0.7
TOTAL COMPREHENSIVE INCOME	$95.2	$10.9	$159.8	$79.6

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

INDIANA MICHIGAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
COMMON SHAREHOLDER'S EQUITY
For the Six Months Ended June 30, 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			(62.5)		(62.5)
Net Income			78.9		78.9
Other Comprehensive Income				0.7	0.7
TOTAL COMMON SHAREHOLDER'S EQUITY – JUNE 30, 2017	$ 56.6	$ 980.9	$ 1,146.9	$ (15.5)	$ 2,168.9
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2017	$ 56.6	$ 980.9	$ 1,192.2	$ (12.1)	$ 2,217.6
Common Stock Dividends			(67.0)		(67.0)
ASU 2018-02 Adoption			0.3	(2.7)	(2.4)
Net Income			158.9		158.9
Other Comprehensive Income				0.9	0.9
TOTAL COMMON SHAREHOLDER'S EQUITY – JUNE 30, 2018	$ 56.6	$ 980.9	$ 1,284.4	$ (13.9)	$ 2,308.0

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

INDIANA MICHIGAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
ASSETS
June 30, 2018 and December 31, 2017
(in millions)
(Unaudited)

	June 30, 2018	December 31, 2017
CURRENT ASSETS		
Cash and Cash Equivalents	$1.4	$ 1.3
Advances to Affiliates	92.3	12.4
Accounts Receivable:		
Customers	94.6	56.4
Affiliated Companies	63.1	50.0
Accrued Unbilled Revenues	4.3	7.3
Miscellaneous	1.7	2.0
Allowance for Uncollectible Accounts	—	(0.1)
Total Accounts Receivable	163.7	115.6
Fuel	33.1	31.4
Materials and Supplies	164.9	160.6
Risk Management Assets	14.4	7.6
Accrued Tax Benefits	59.2	58.4
Regulatory Asset for Under-Recovered Fuel Costs	4.3	15.0
Accrued Reimbursement of Spent Nuclear Fuel Costs	8.7	10.8
Prepayments and Other Current Assets	23.6	20.9
TOTAL CURRENT ASSETS	565.6	434.0
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	4,572.3	4,445.9
Transmission	1,529.8	1,504.0
Distribution	2,149.1	2,069.3
Other Property, Plant and Equipment (Including Coal Mining and Nuclear Fuel)	595.8	595.2
Construction Work in Progress	404.3	460.2
Total Property, Plant and Equipment	9,251.3	9,074.6
Accumulated Depreciation, Depletion and Amortization	3,057.3	3,024.2
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	6,194.0	6,050.4
OTHER NONCURRENT ASSETS		
Regulatory Assets	562.6	579.4
Spent Nuclear Fuel and Decommissioning Trusts	2,554.9	2,527.6
Long-term Risk Management Assets	1.2	0.7
Deferred Charges and Other Noncurrent Assets	176.3	179.9
TOTAL OTHER NONCURRENT ASSETS	3,295.0	3,287.6
TOTAL ASSETS	$10,054.6	$ 9,772.0

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

INDIANA MICHIGAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER’S EQUITY
June 30, 2018 and December 31, 2017
(dollars in millions)
(Unaudited)

	June 30, 2018	December 31, 2017
CURRENT LIABILITIES		
Advances from Affiliates	$—	$ 211.6
Accounts Payable:		
General	162.0	154.5
Affiliated Companies	78.0	98.3
Long-term Debt Due Within One Year – Nonaffiliated (June 30, 2018 and December 31, 2017 Amounts Include $104.2 and $96.3, Respectively, Related to DCC Fuel)	657.6	474.7
Risk Management Liabilities	5.4	3.5
Customer Deposits	37.6	37.7
Accrued Taxes	76.4	81.3
Accrued Interest	40.0	37.5
Obligations Under Capital Leases	5.7	5.8
Other Current Liabilities	86.1	106.4
TOTAL CURRENT LIABILITIES	1,148.8	1,211.3
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	2,439.2	2,270.4
Long-term Risk Management Liabilities	0.3	0.1
Deferred Income Taxes	1,004.2	953.8
Regulatory Liabilities and Deferred Investment Tax Credits	1,710.6	1,708.7
Asset Retirement Obligations	1,350.5	1,321.6
Deferred Credits and Other Noncurrent Liabilities	93.0	88.5
TOTAL NONCURRENT LIABILITIES	6,597.8	6,343.1
TOTAL LIABILITIES	7,746.6	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	1,284.4	1,192.2
Accumulated Other Comprehensive Income (Loss)	(13.9)	(12.1)
TOTAL COMMON SHAREHOLDER’S EQUITY	2,308.0	2,217.6
TOTAL LIABILITIES AND COMMON SHAREHOLDER’S EQUITY	$10,054.6	$ 9,772.0

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

INDIANA MICHIGAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	Six Months Ended June 30, 2018			2017		
OPERATING ACTIVITIES						
Net Income	$	158.9		$	78.9	
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:						
Depreciation and Amortization	121.9			99.8		
Deferred Income Taxes	33.1			74.4		
Amortization (Deferral) of Incremental Nuclear Refueling Outage Expenses, Net	(3.5		)	31.6		
Carrying Costs Income	(4.0		)	(7.7		)
Allowance for Equity Funds Used During Construction	(4.1		)	(4.6		)
Mark-to-Market of Risk Management Contracts	(5.2		)	(12.3		)
Amortization of Nuclear Fuel	51.4			71.6		
Pension Contribution to Qualified Plan Trust	—			(13.0		)
Deferred Fuel Over/Under-Recovery, Net	8.1			25.3		
Change in Other Noncurrent Assets	(5.6		)	(18.7		)
Change in Other Noncurrent Liabilities	44.4			34.8		
Changes in Certain Components of Working Capital:						
Accounts Receivable, Net	(18.3		)	33.5		
Fuel, Materials and Supplies	(5.0		)	(15.2		)
Accounts Payable	(12.2		)	9.0		
Customer Deposits	(0.1		)	2.3		
Accrued Taxes, Net	0.8			13.0		
Accrued Interest	2.5			0.1		
Other Current Assets	1.2			15.9		
Other Current Liabilities	(19.3		)	(29.5		)
Net Cash Flows from Operating Activities	345.0			389.2		
INVESTING ACTIVITIES						
Construction Expenditures	(284.7		)	(304.4		)

Change in Advances to Affiliates, Net	(79.9)	(0.1)
Purchases of Investment Securities	(1,067.8)	(1,317.2)
Sales of Investment Securities	1,037.8	1,289.1
Acquisitions of Nuclear Fuel	(24.2)	(38.9)
Other Investing Activities	8.2	3.4
Net Cash Flows Used for Investing Activities	(410.6)	(368.1)
FINANCING ACTIVITIES		
Issuance of Long-term Debt – Nonaffiliated	700.6	411.5
Change in Advances from Affiliates, Net	(211.6)	(171.8)
Retirement of Long-term Debt – Nonaffiliated	(352.4)	(193.3)
Principal Payments for Capital Lease Obligations	(5.2)	(5.9)
Dividends Paid on Common Stock	(67.0)	(62.5)
Other Financing Activities	1.3	0.8
Net Cash Flows from (Used for) Financing Activities	65.7	(21.2)
Net Increase (Decrease) in Cash and Cash Equivalents	0.1	(0.1)
Cash and Cash Equivalents at Beginning of Period	1.3	1.2
Cash and Cash Equivalents at End of Period	$ 1.4	$ 1.1
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest, Net of Capitalized Amounts	$ 55.2	$ 49.2
Net Cash Paid (Received) for Income Taxes	(23.6)	(56.9)
Noncash Acquisitions Under Capital Leases	3.2	2.6
Construction Expenditures Included in Current Liabilities as of June 30,	86.5	96.0
Acquisition of Nuclear Fuel Included in Current Liabilities as of June 30,	0.6	26.0
Expected Reimbursement for Capital Cost of Spent Nuclear Fuel Dry Cask Storage	0.7	2.5

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

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OHIO POWER COMPANY AND SUBSIDIARIES

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions of KWhs)			
Retail:				
Residential	3,287	2,861	7,420	6,554
Commercial	3,651	3,555	7,203	6,983
Industrial	3,796	3,690	7,350	7,259
Miscellaneous	26	27	57	59
Total Retail (a)	10,760	10,133	22,030	20,855
Wholesale (b)	534	490	1,201	1,164
Total KWhs	11,294	10,623	23,231	22,019

(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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in degree days)			
Actual – Heating (a)	274	97	2,158	1,500
Normal – Heating (b)	186	186	2,070	2,085
Actual – Cooling (c)	454	312	458	315
Normal – Cooling (b)	291	287	294	290

(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.

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

Second Quarter of 2017	$62.3
Changes in Gross Margin:	
Retail Margins	64.1
Off-system Sales	11.0
Transmission Revenues	(2.4)
Other Revenues	(0.6)
Total Change in Gross Margin	72.1
Changes in Expenses and Other:	
Other Operation and Maintenance	(68.1)
Depreciation and Amortization	(14.0)
Taxes Other Than Income Taxes	(4.1)
Interest Income	0.1
Allowance for Equity Funds Used During Construction	2.5
Non-Service Cost Components of Net Periodic Benefit Cost	2.8
Interest Expense	0.8
Total Change in Expenses and Other	(80.0)
Income Tax Expense	14.4
Second Quarter of 2018	$68.8

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 $64 million primarily due to the following:
  - A $70 million net increase in Basic Transmission Cost Rider revenues and recoverable PJM expenses. This increase was partially offset by an increase in Other Operation and Maintenance expenses below.
  - A $19 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.
  - An $8 million increase in rider revenues associated with the DIR. This increase was partially offset in various expenses below.

  These increases were partially offset by:
  - A $14 million decrease due to the 2018 provisions for customer refunds related to Tax Reform. This decrease was offset in Income Tax Expense below.
  - An $11 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.
- Margins from Off-system Sales increased $11 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.

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

- Other Operation and Maintenance expenses increased $68 million primarily due to the following:
  - A $96 million increase in recoverable PJM expenses. This increase was offset within Gross Margins above.
  - A $19 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 $48 million decrease in PJM expenses related to the annual formula rate true-up that will be refunded in future periods.
- Depreciation and Amortization expenses increased $14 million primarily due to the following:
  - A $6 million increase in recoverable DIR depreciation expense. This increase was offset in Retail Margins above.
  - A $4 million increase in depreciation expense due to an increase in the depreciable base of transmission and distribution assets.
- Taxes Other Than Income Taxes increased $4 million primarily due to an 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 $14 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.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Reconciliation of Six Months Ended June 30, 2017 to Six Months Ended June 30, 2018
Net Income
(in millions)

Six Months Ended June 30, 2017	$148.5
Changes in Gross Margin:	
Retail Margins	95.9
Off-system Sales	18.2
Transmission Revenues	(8.8)
Other Revenues	(1.5)
Total Change in Gross Margin	103.8
Changes in Expenses and Other:	
Other Operation and Maintenance	(118.0)
Depreciation and Amortization	(21.5)
Taxes Other Than Income Taxes	(10.7)
Interest Income	(1.5)
Carrying Costs Income	(1.2)
Allowance for Equity Funds Used During Construction	2.6
Non-Service Cost Components of Net Periodic Benefit Cost	5.6
Interest Expense	0.6
Total Change in Expenses and Other	(144.1)
Income Tax Expense	40.2
Six Months Ended June 30, 2018	$148.4

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 $96 million primarily due to the following:
- A $109 million net increase in Basic Transmission Cost Rider revenues and recoverable PJM expenses. This increase was partially offset by an increase in Other Operation and Maintenance expenses below.
- A $40 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 $14 million increase in rider revenues associated with the DIR. This increase was partially offset in various expenses below.
- A $9 million increase in usage primarily in the residential class.
- A $5 million increase in state excise taxes due to an increase in metered KWh. This increase was offset by a corresponding increase in Taxes Other Than Income Taxes below.

These increases were partially offset by:

- A $30 million decrease due to the 2018 provisions for customer refunds related to Tax Reform. This decrease was offset in Income Tax Expense below.
- An $18 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.
-

- An $11 million decrease in Energy Efficiency/Peak Demand Reduction rider revenues. This decrease was partially offset by a decrease in Other Operation and Maintenance expenses below.
- A $9 million net decrease in margin for the Phase-In-Recovery Rider including associated amortizations.
- A $9 million decrease in revenues associated with smart grid riders. This decrease was partially offset by a decrease in various expenses below.

- Margins from Off-system Sales increased $18 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 $9 million due to the 2018 provisions for customer refunds due to Tax Reform. This decrease was offset in Income Tax Expense below.

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

- Other Operation and Maintenance expenses increased $118 million primarily due to the following:
- A $131 million increase in recoverable PJM expenses. This increase was offset within Gross Margins above.
- A $40 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 $50 million decrease in PJM expenses related to the annual formula rate true-up that will be refunded in future periods.
- A $9 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 $22 million primarily due to the following:
- A $12 million increase in recoverable DIR depreciation expense. This increase was offset in Retail Margins above.
- A $7 million increase in depreciation expense due to an increase in the depreciable base of transmission and distribution assets.
- Taxes Other Than Income Taxes increased $11 million primarily due to the following:
- A $5 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.
- A $5 million increase in property taxes due to additional investments in transmission and distribution assets and higher tax rates.
- Non-Service Cost Components of Net Periodic 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 OPCo’s ability to capitalize a portion of its non-service cost components.
- Income Tax Expense decreased $40 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 and Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
REVENUES				
Electricity, Transmission and Distribution	$735.9	$653.4	$1,522.2	$1,391.8
Sales to AEP Affiliates	11.5	9.1	14.6	14.8
Other Revenues	1.4	1.4	2.9	3.4
TOTAL REVENUES	748.8	663.9	1,539.7	1,410.0
EXPENSES				
Purchased Electricity for Resale	162.9	156.4	368.4	344.7
Purchased Electricity from AEP Affiliates	27.9	24.7	58.1	56.7
Amortization of Generation Deferrals	56.4	53.3	115.0	114.2
Other Operation	199.0	131.7	371.2	254.0
Maintenance	34.1	33.3	71.3	70.5
Depreciation and Amortization	65.1	51.1	129.9	108.4
Taxes Other Than Income Taxes	99.0	94.9	204.1	193.4
TOTAL EXPENSES	644.4	545.4	1,318.0	1,141.9
OPERATING INCOME	104.4	118.5	221.7	268.1
Other Income (Expense):				
Interest Income	0.9	0.8	1.8	3.3
Carrying Costs Income	0.6	0.6	1.3	2.5
Allowance for Equity Funds Used During Construction	3.3	0.8	5.8	3.2
Non-Service Cost Components of Net Periodic Benefit Cost	3.9	1.1	7.8	2.2
Interest Expense	(25.3)	(26.1)	(50.5)	(51.1)
INCOME BEFORE INCOME TAX EXPENSE	87.8	95.7	187.9	228.2
Income Tax Expense	19.0	33.4	39.5	79.7
NET INCOME	$68.8	$62.3	$148.4	$148.5

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

See Condensed Notes to

Condensed Financial Statements of Registrants beginning on page 137.

OHIO POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Three and Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net Income	$68.8	$62.3	$148.4	$148.5
OTHER COMPREHENSIVE LOSS, NET OF TAXES				
Cash Flow Hedges, Net of Tax of $(0.1) and $(0.2) for the Three Months Ended June 30, 2018 and 2017, Respectively, and $(0.2) and $(0.3) for the Six Months Ended June 30, 2018 and 2017, Respectively	(0.3)	(0.3)	(0.6)	(0.5)
TOTAL COMPREHENSIVE INCOME	$68.5	$62.0	$147.8	$148.0

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

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OHIO POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY
For the Six Months Ended June 30, 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			(130.0)		(130.0)
Net Income			148.5		148.5
Other Comprehensive Loss				(0.5)	(0.5)
TOTAL COMMON SHAREHOLDER'S EQUITY – JUNE 30, 2017	$ 321.2	$ 838.8	$ 973.0	$ 2.5	$ 2,135.5
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2017	$ 321.2	$ 838.8	$ 1,148.4	$ 1.9	$ 2,310.3
Common Stock Dividends			(225.0)		(225.0)
ASU 2018-02 Adoption				0.4	0.4
Net Income			148.4		148.4
Other Comprehensive Loss				(0.6)	(0.6)
TOTAL COMMON SHAREHOLDER'S EQUITY – JUNE 30, 2018	$ 321.2	$ 838.8	$ 1,071.8	$ 1.7	$ 2,233.5

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

OHIO POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
ASSETS
June 30, 2018 and December 31, 2017
(in millions)
(Unaudited)

	June 30, 2018	December 31, 2017
CURRENT ASSETS		
Cash and Cash Equivalents	$3.3	$ 3.1
Restricted Cash for Securitized Funding	26.5	26.6
Accounts Receivable:		
Customers	128.4	67.8
Affiliated Companies	75.8	70.2
Accrued Unbilled Revenues	21.7	29.7
Miscellaneous	0.7	1.9
Allowance for Uncollectible Accounts	(0.6)	(0.6)
Total Accounts Receivable	226.0	169.0
Materials and Supplies	40.0	41.9
Renewable Energy Credits	22.2	25.0
Risk Management Assets	0.4	0.6
Regulatory Asset for Under-Recovered Fuel Costs	56.3	115.9
Prepayments and Other Current Assets	28.3	15.8
TOTAL CURRENT ASSETS	403.0	397.9
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Transmission	2,460.1	2,419.2
Distribution	4,740.9	4,626.4
Other Property, Plant and Equipment	532.6	495.9
Construction Work in Progress	445.2	410.1
Total Property, Plant and Equipment	8,178.8	7,951.6
Accumulated Depreciation and Amortization	2,218.6	2,184.8
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	5,960.2	5,766.8
OTHER NONCURRENT ASSETS		
Regulatory Assets	480.0	652.8
Securitized Assets	25.1	37.7
Long-term Risk Management Assets	0.1	—
Deferred Charges and Other Noncurrent Assets	324.2	406.5
TOTAL OTHER NONCURRENT ASSETS	829.4	1,097.0
TOTAL ASSETS	$7,192.6	$ 7,261.7

See Condensed Notes to Condensed Financial Statements

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OHIO POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY
June 30, 2018 and December 31, 2017
(dollars in millions)
(Unaudited)

	June 30, 2018	December 31, 2017
CURRENT LIABILITIES		
Advances from Affiliates	$213.9	$ 87.8
Accounts Payable:		
General	160.1	205.8
Affiliated Companies	95.3	118.2
Long-term Debt Due Within One Year – Nonaffiliated (June 30, 2018 and December 31, 2017 Amounts Include $47.5 and $47, Respectively, Related to Ohio Phase-in-Recovery Funding)	47.5	397.0
Risk Management Liabilities	4.8	6.4
Customer Deposits	77.6	69.2
Accrued Taxes	341.5	512.5
Other Current Liabilities	187.0	196.9
TOTAL CURRENT LIABILITIES	1,127.7	1,593.8
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated (June 30, 2018 and December 31, 2017 Amounts Include $24.3 and $47.5, Respectively, Related to Ohio Phase-in-Recovery Funding)	1,692.5	1,322.3
Long-term Risk Management Liabilities	82.0	126.0
Deferred Income Taxes	751.4	762.9
Regulatory Liabilities and Deferred Investment Tax Credits	1,222.4	1,100.2
Deferred Credits and Other Noncurrent Liabilities	83.1	46.2
TOTAL NONCURRENT LIABILITIES	3,831.4	3,357.6
TOTAL LIABILITIES	4,959.1	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	1,071.8	1,148.4
Accumulated Other Comprehensive Income (Loss)	1.7	1.9
TOTAL COMMON SHAREHOLDER'S EQUITY	2,233.5	2,310.3
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	$7,192.6	$ 7,261.7

See
Condensed

Notes to Condensed Financial Statements of Registrants beginning on page 137.

OHIO POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
OPERATING ACTIVITIES		
Net Income	$148.4	$148.5
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	129.9	108.4
Amortization of Generation Deferrals	115.0	114.2
Deferred Income Taxes	(12.5)	94.5
Carrying Costs Income	(1.3)	(2.5)
Allowance for Equity Funds Used During Construction	(5.8)	(3.2)
Mark-to-Market of Risk Management Contracts	(45.5)	11.8
Pension Contributions to Qualified Plan Trust	—	(8.2)
Property Taxes	129.6	117.2
Provision for Refund – Global Settlement, Net	(5.5)	(88.1)
Change in Other Noncurrent Assets	83.3	(93.1)
Change in Other Noncurrent Liabilities	56.0	41.8
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	14.0	18.3
Materials and Supplies	(3.6)	(7.4)
Accounts Payable	(39.9)	(6.8)
Accrued Taxes, Net	(169.5)	(252.5)
Other Current Assets	(0.6)	(9.6)
Other Current Liabilities	(11.4)	(25.3)
Net Cash Flows from Operating Activities	380.6	158.0
INVESTING ACTIVITIES		
Construction Expenditures	(312.8)	(224.5)
Change in Advances to Affiliates, Net	—	24.2
Other Investing Activities	12.7	4.9
Net Cash Flows Used for Investing Activities	(300.1)	(195.4)
FINANCING ACTIVITIES		
Issuance of Long-term Debt – Nonaffiliated	392.9	—
Change in Advances from Affiliates, Net	126.1	190.5
Retirement of Long-term Debt – Nonaffiliated	(372.9)	(22.5)
Principal Payments for Capital Lease Obligations	(1.9)	(2.0)
Dividends Paid on Common Stock	(225.0)	(130.0)
Other Financing Activities	0.4	0.6
Net Cash Flows from (Used for) Financing Activities	(80.4)	36.6
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash for Securitized Funding	0.1	(0.8)
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	$29.8	$29.5

SUPPLEMENTARY INFORMATION		
Cash Paid for Interest, Net of Capitalized Amounts	$48.3	$50.0
Net Cash Paid for Income Taxes	45.1	76.8
Noncash Acquisitions Under Capital Leases	1.9	1.9
Construction Expenditures Included in Current Liabilities as of June 30,	64.5	50.3

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

PUBLIC SERVICE COMPANY OF OKLAHOMA

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(in millions of KWhs)			
Retail:				
Residential	1,635	1,358	3,128	2,670
Commercial	1,390	1,308	2,552	2,438
Industrial	1,496	1,471	2,836	2,777
Miscellaneous	333	316	609	589
Total Retail	4,854	4,453	9,125	8,474
Wholesale	205	146	362	227
Total KWhs	5,059	4,599	9,487	8,701

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(in degree days)			
Actual – Heating (a)	129	12	1,161	682
Normal – Heating (b)	40	41	1,081	1,103
Actual – Cooling (c)	907	629	919	688
Normal – Cooling (b)	650	655	667	669

(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.

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

Second Quarter of 2017	$20.4
Changes in Gross Margin:	
Retail Margins (a)	34.2
Off-system Sales	0.1
Transmission Revenues	(0.6)
Other Revenues	0.4
Total Change in Gross Margin	34.1
Changes in Expenses and Other:	
Other Operation and Maintenance	(12.8)
Depreciation and Amortization	(8.8)
Taxes Other Than Income Taxes	(0.6)
Other Income (Loss)	(0.1)
Non-Service Cost Components of Net Periodic Benefit Cost	1.4
Interest Expense	(2.9)
Total Change in Expenses and Other	(23.8)
Income Tax Expense	5.9
Second Quarter of 2018	$36.6

(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 $34 million primarily due to the following:
- A $21 million increase in weather-related usage due to a 44% increase in cooling degree days.
- A $13 million increase due to new rates implemented in March 2018, inclusive of an $8 million decrease due to the change in the corporate federal tax rate.
- A $9 million increase in revenue from rate riders. This increase in Retail Margins was partially offset by corresponding increases to riders/trackers recognized in other expense items below.

These increases were partially offset by:

- A $7 million decrease related to the System Reliability Rider (SRR) that ended in August 2017. This decrease was partially offset by a corresponding decrease recognized in other expense items below.
- A $3 million decrease due to 2018 provisions for customer refunds related to Tax Reform. This decrease was offset in Income Tax Expense below.

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

- Other Operation and Maintenance expenses increased $13 million primarily due the following:
  - A $15 million increase in transmission expenses primarily due to increased SPP transmission services.
  - A $5 million increase due to the Wind Catcher Project.
  - A $5 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 $10 million decrease due to a probable refund associated with transmission expenses incurred in prior periods.
  - A $2 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 $9 million primarily due to a higher depreciable base.
- Interest Expense increased $3 million primarily due to the 2017 deferral of the debt component of carrying charges on environmental control costs for projects at Northeastern Plant, Unit 3 and Comanche Plant.
- 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 and amortization of Excess ADIT associated with certain depreciable property, partially offset by an increase in pretax book income.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017
Reconciliation of Six Months Ended June 30, 2017 to Six Months
Ended June 30, 2018
Net Income
(in millions)

Six Months Ended June 30, 2017	$25.2
Changes in Gross Margin:	
Retail Margins (a)	34.0
Off-system Sales	0.2
Transmission Revenues	(0.6)
Total Change in Gross Margin	33.6
Changes in Expenses and Other:	
Other Operation and Maintenance	(24.0)
Depreciation and Amortization	(12.1)
Taxes Other Than Income Taxes	(1.6)
Other Income (Loss)	(0.6)
Non-Service Cost Components of Net Periodic Benefit Cost	2.7
Interest Expense	(4.0)
Total Change in Expenses and Other	(39.6)
Income Tax Expense	10.2
Six Months Ended June 30, 2018	$29.4

(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 $34 million primarily due to the following:
  - A $24 million increase in weather-related usage due to a 70% increase in heating degree days and 34% increase in cooling degree days.
  - A $17 million increase due to new rates implemented in March 2018, inclusive of a $10 million decrease due to the change in the corporate federal tax rate.
  - A $13 million increase in revenue from rate riders. This increase in Retail Margins was partially offset by corresponding increases to riders/trackers recognized in other expense items below.
  - A $2 million increase due to higher weather-normalized margins.

  These increases were partially offset by:
  - A $12 million decrease related to the SRR that ended in August 2017. This decrease was partially offset by a corresponding decrease recognized in other expense items below.
  - A $10 million decrease due to 2018 provisions for customer refunds related to Tax Reform. This decrease was offset in Income Tax Expense below.

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

- Other Operation and Maintenance expenses increased $24 million primarily due to the following:
  - A $24 million increase in transmission expenses primarily due to increased SPP transmission services.
  - A $9 million increase due to the Wind Catcher Project.
  - An $8 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 $10 million decrease due to a probable refund associated with transmission expenses incurred in prior periods.
  - An $8 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 $12 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 PSO's ability to capitalize a portion of its non-service cost components.
- Interest Expense increased $4 million primarily due to the 2017 deferral of the debt component of carrying charges on environmental control costs for projects at Northeastern Plant, Unit 3 and Comanche Plant.
- Income Tax Expense decreased $10 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 ADIT associated with certain depreciable property and a decrease in pretax book income.

PUBLIC SERVICE COMPANY OF OKLAHOMA
CONDENSED STATEMENTS OF INCOME
For the Three and Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUES				
Electric Generation, Transmission and Distribution	$395.3	$342.6	$730.4	$644.5
Sales to AEP Affiliates	1.5	1.0	2.6	2.1
Other Revenues	1.5	1.1	2.1	2.2
TOTAL REVENUES	398.3	344.7	735.1	648.8
EXPENSES				
Fuel and Other Consumables Used for Electric Generation	58.7	25.6	107.1	37.9
Purchased Electricity for Resale	113.1	126.7	235.5	252.0
Other Operation	93.7	76.1	180.5	144.4
Maintenance	24.0	28.8	50.9	63.0
Depreciation and Amortization	41.4	32.6	78.2	66.1
Taxes Other Than Income Taxes	10.2	9.6	21.8	20.2
TOTAL EXPENSES	341.1	299.4	674.0	583.6
OPERATING INCOME	57.2	45.3	61.1	65.2
Other Income (Expense):				
Other Income (Loss)	(0.1)	—	(0.1)	0.5
Non-Service Cost Components of Net Periodic Benefit Cost	2.2	0.8	4.4	1.7
Interest Expense	(16.3)	(13.4)	(31.0)	(27.0)
INCOME BEFORE INCOME TAX EXPENSE	43.0	32.7	34.4	40.4
Income Tax Expense	6.4	12.3	5.0	15.2
NET INCOME	$36.6	$20.4	$29.4	$25.2

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

See Condensed Notes to Condensed Financial Statements of

Registrants
beginning on
page 137.

PUBLIC SERVICE COMPANY OF OKLAHOMA
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Three and Six Months Ended June 30, 2018 and 2017
(in millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net Income	$36.6	$20.4	$29.4	$25.2
OTHER COMPREHENSIVE LOSS, NET OF TAXES				
Cash Flow Hedges, Net of Tax of $(0.1) and $(0.1) for the Three Months Ended June 30, 2018 and 2017, Respectively, and $(0.2) and $(0.2) for the Six Months Ended June 30, 2018 and 2017, Respectively	(0.3)	(0.2)	(0.5)	(0.4)
TOTAL COMPREHENSIVE INCOME	$36.3	$20.2	$28.9	$24.8

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

PUBLIC SERVICE COMPANY OF OKLAHOMA
CONDENSED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY
For the Six Months Ended June 30, 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			(35.0)		(35.0)
Net Income			25.2		25.2
Other Comprehensive Loss				(0.4)	(0.4)
TOTAL COMMON SHAREHOLDER'S EQUITY – JUNE 30, 2017	$ 157.2	$ 364.0	$ 679.7	$ 3.0	$ 1,203.9
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2017	$ 157.2	$ 364.0	$ 691.5	$ 2.6	$ 1,215.3
Common Stock Dividends			(25.0)		(25.0)
ASU 2018-02 Adoption				0.5	0.5
Net Income			29.4		29.4
Other Comprehensive Loss				(0.5)	(0.5)
TOTAL COMMON SHAREHOLDER'S EQUITY – JUNE 30, 2018	$ 157.2	$ 364.0	$ 695.9	$ 2.6	$ 1,219.7

See Condensed Notes to Condensed Financial Statements of Registrants beginning on page 137.

PUBLIC SERVICE COMPANY OF OKLAHOMA
CONDENSED BALANCE SHEETS
ASSETS
June 30, 2018 and December 31, 2017
(in millions)
(Unaudited)

	June 30, 2018	December 31, 2017
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1.6	$ 1.6
Accounts Receivable:		
Customers	29.7	32.5
Affiliated Companies	42.9	32.9
Miscellaneous	3.2	4.1
Allowance for Uncollectible Accounts	—	(0.1)
Total Accounts Receivable	75.8	69.4
Fuel	11.8	12.5
Materials and Supplies	43.5	42.0
Risk Management Assets	24.5	6.4
Accrued Tax Benefits	20.4	28.1
Regulatory Asset for Under-Recovered Fuel Costs	7.4	36.7
Prepayments and Other Current Assets	7.7	8.6
TOTAL CURRENT ASSETS	192.7	205.3
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	1,574.7	1,577.2
Transmission	871.4	858.8
Distribution	2,503.7	2,445.1
Other Property, Plant and Equipment	301.4	287.4
Construction Work in Progress	103.1	111.3
Total Property, Plant and Equipment	5,354.3	5,279.8
Accumulated Depreciation and Amortization	1,439.3	1,393.6
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	3,915.0	3,886.2