

The following tables set forth a reconciliation of changes in the fair value of net trading derivatives classified as Level 3 in the fair value hierarchy:

Year Ended December 31, 2017	AEP	APCo	I&M	OPCo	PSO	SWEPCo
	(in millions)					
Balance as of December 31, 2016	\$ 2.5	\$ 1.4	\$ 2.8	\$ (119.0)	\$ 0.7	\$ 0.7
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (b) (c)	37.3	17.2	4.0	(1.4)	3.1	6.0
Unrealized Gain (Loss) Included in Net Income (or Changes in Net Assets) Relating to Assets Still Held at the Reporting Date (b)	33.6	—	—	—	—	—
Realized and Unrealized Gains (Losses) Included in Other Comprehensive Income	(18.8)	—	—	—	—	—
Settlements	(50.6)	(18.9)	(7.1)	7.4	(3.8)	(6.8)
Transfers into Level 3 (d) (e)	16.2	—	—	—	—	—
Transfers out of Level 3 (e)	(10.1)	—	—	—	—	—
Changes in Fair Value Allocated to Regulated Jurisdictions (f)	30.2	25.0	7.9	(19.4)	6.2	6.0
Balance as of December 31, 2017	<u>\$ 40.3</u>	<u>\$ 24.7</u>	<u>\$ 7.6</u>	<u>\$ (132.4)</u>	<u>\$ 6.2</u>	<u>\$ 5.9</u>
Year Ended December 31, 2016	AEP	APCo (a)	I&M (a)	OPCo	PSO	SWEPCo
	(in millions)					
Balance as of December 31, 2015	\$ 146.9	\$ 11.7	\$ 4.3	\$ 15.9	\$ 0.6	\$ 0.8
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (b) (c)	42.8	25.6	7.1	(3.0)	(1.0)	7.7
Unrealized Gain (Loss) Included in Net Income (or Changes in Net Assets) Relating to Assets Still Held at the Reporting Date (b)	26.1	—	—	—	—	—
Realized and Unrealized Gains (Losses) Included in Other Comprehensive Income	(23.0)	—	—	—	—	—
Settlements	(71.4)	(37.5)	(11.1)	6.2	0.4	(8.4)
Transfers into Level 3 (d) (e)	13.3	—	—	—	—	—
Transfers out of Level 3 (e)	(2.6)	0.1	0.1	—	—	—
Changes in Fair Value Allocated to Regulated Jurisdictions (f)	(129.6)	1.5	2.4	(138.1)	0.7	0.6
Balance as of December 31, 2016	<u>\$ 2.5</u>	<u>\$ 1.4</u>	<u>\$ 2.8</u>	<u>\$ (119.0)</u>	<u>\$ 0.7</u>	<u>\$ 0.7</u>

Year Ended December 31, 2015	AEP	APCo (a)	I&M (a)	OPCo	PSO	SWEPCo
	(in millions)					
Balance as of December 31, 2014	\$ 150.8	\$ 15.8	\$ 14.7	\$ 48.4	\$ (0.3)	\$ (0.5)
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (b) (c)	13.5	2.1	0.2	0.5	(0.2)	9.2
Unrealized Gain (Loss) Included in Net Income (or Changes in Net Assets) Relating to Assets Still Held at the Reporting Date (b)	53.7	—	—	—	—	—
Realized and Unrealized Gains (Losses) Included in Other Comprehensive Income	(4.9)	—	—	—	—	—
Settlements	(63.0)	(17.2)	(14.2)	(6.7)	0.6	(8.7)
Transfers into Level 3 (d) (e)	28.7	—	—	—	—	—
Transfers out of Level 3 (e)	(18.9)	1.2	0.8	—	—	—
Changes in Fair Value Allocated to Regulated Jurisdictions (f)	(13.0)	9.8	2.8	(26.3)	0.5	0.8
Balance as of December 31, 2015	<u>\$ 146.9</u>	<u>\$ 11.7</u>	<u>\$ 4.3</u>	<u>\$ 15.9</u>	<u>\$ 0.6</u>	<u>\$ 0.8</u>

- (a) Includes both affiliated and nonaffiliated transactions.
(b) Included in revenues on the statements of income.
(c) Represents the change in fair value between the beginning of the reporting period and the settlement of the risk management commodity contract.
(d) Represents existing assets or liabilities that were previously categorized as Level 2.
(e) Transfers are recognized based on their value at the beginning of the reporting period that the transfer occurred.
(f) 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 assets/liabilities or accounts payable.

The following tables quantify the significant unobservable inputs used in developing the fair value of Level 3 positions:

**Significant Unobservable Inputs
December 31, 2017**

AEP

	Fair Value		Valuation Technique	Significant Unobservable Input	Input/Range		
	Assets	Liabilities			Low	High	Weighted Average
	(in millions)						
Energy Contracts	\$ 225.1	\$ 233.7	Discounted Cash Flow	Forward Market Price (a)	\$ (0.05)	\$ 263.00	\$ 36.32
				Counterparty Credit Risk (b)	8	456	180
Natural Gas Contracts	—	0.2	Discounted Cash Flow	Forward Market Price (c)	2.37	2.96	2.62
FTRs	53.7	4.6	Discounted Cash Flow	Forward Market Price (a)	(55.62)	54.88	0.41
Total	<u>\$ 278.8</u>	<u>\$ 238.5</u>					

**Significant Unobservable Inputs
December 31, 2016**

AEP

	Fair Value		Valuation Technique	Significant Unobservable Input	Input/Range		
	Assets	Liabilities			Low	High	Weighted Average
	(in millions)						
Energy Contracts	\$ 183.8	\$ 187.1	Discounted Cash Flow	Forward Market Price (a)	\$ 6.51	\$ 86.59	\$ 39.40
				Counterparty Credit Risk (b)	35	824	391
FTRs	10.1	4.3	Discounted Cash Flow	Forward Market Price (a)	(7.99)	8.91	0.86
Total	<u>\$ 193.9</u>	<u>\$ 191.4</u>					

**Significant Unobservable Inputs
December 31, 2017**

APCo

	Fair Value		Valuation Technique	Significant Unobservable Input (a)	Input/Range		
	Assets	Liabilities			Low	High	Weighted Average
	(in millions)						
Energy Contracts	\$ 0.8	\$ 0.4	Discounted Cash Flow	Forward Market Price	\$ 20.52	\$ 195.00	\$ 33.80
FTRs	24.3	—	Discounted Cash Flow	Forward Market Price	(0.36)	7.15	1.62
Total	<u>\$ 25.1</u>	<u>\$ 0.4</u>					

**Significant Unobservable Inputs
December 31, 2016**

APCo

	Fair Value		Valuation Technique	Significant Unobservable Input (a)	Input/Range		
	Assets	Liabilities			Low	High	Weighted Average
	(in millions)						
Energy Contracts	\$ 0.4	\$ 0.4	Discounted Cash Flow	Forward Market Price	\$ 19.68	\$ 48.55	\$ 36.34
FTRs	3.5	2.1	Discounted Cash Flow	Forward Market Price	(0.23)	8.91	2.37
Total	<u>\$ 3.9</u>	<u>\$ 2.5</u>					

**Significant Unobservable Inputs
December 31, 2017**

I&M

	Fair Value		Valuation Technique	Significant Unobservable Input (a)	Input/Range		
	Assets	Liabilities			Low	High	Weighted Average
	(in millions)						
Energy Contracts	\$ 0.5	\$ 0.3	Discounted Cash Flow	Forward Market Price	\$ 20.52	\$ 195.00	\$ 33.80
FTRs	8.6	1.2	Discounted Cash Flow	Forward Market Price	(0.36)	5.75	0.86
Total	\$ 9.1	\$ 1.5					

**Significant Unobservable Inputs
December 31, 2016**

I&M

	Fair Value		Valuation Technique	Significant Unobservable Input (a)	Input/Range		
	Assets	Liabilities			Low	High	Weighted Average
	(in millions)						
Energy Contracts	\$ 0.3	\$ 0.2	Discounted Cash Flow	Forward Market Price	\$ 19.68	\$ 48.55	\$ 36.34
FTRs	2.7	—	Discounted Cash Flow	Forward Market Price	(7.90)	8.91	1.32
Total	\$ 3.0	\$ 0.2					

**Significant Unobservable Inputs
December 31, 2017**

OPCo

	Fair Value		Valuation Technique	Significant Unobservable Input	Input/Range		
	Assets	Liabilities			Low	High	Weighted Average
	(in millions)						
Energy Contracts	\$ —	\$ 132.4	Discounted Cash Flow	Forward Market Price (a)	\$ 30.52	\$ 170.43	\$ 44.62
				Counterparty Credit Risk (b)	8	190	136
Total	\$ —	\$ 132.4					

**Significant Unobservable Inputs
December 31, 2016**

OPCo

	Fair Value		Valuation Technique	Significant Unobservable Input	Input/Range		
	Assets	Liabilities			Low	High	Weighted Average
	(in millions)						
Energy Contracts	\$ —	\$ 119.0	Discounted Cash Flow	Forward Market Price (a)	\$ 30.14	\$ 71.85	\$ 47.45
				Counterparty Credit Risk (b)	47	340	272
Total	\$ —	\$ 119.0					

**Significant Unobservable Inputs
December 31, 2017**

PSO

	Fair Value		Valuation Technique	Significant Unobservable Input (a)	Input/Range		
	Assets	Liabilities			Low	High	Weighted Average
	(in millions)						
FTRs	\$ 6.4	\$ 0.2	Discounted Cash Flow	Forward Market Price	\$ (6.62)	\$ 1.41	\$ (0.76)

**Significant Unobservable Inputs
December 31, 2016**

PSO

	Fair Value		Valuation Technique	Significant Unobservable Input (a)	Input/Range		
	Assets	Liabilities			Low	High	Weighted Average
	(in millions)						
FTRs	\$ 0.7	\$ —	Discounted Cash Flow	Forward Market Price	\$ (7.99)	\$ 1.03	\$ (0.36)

**Significant Unobservable Inputs
December 31, 2017**

SWEPCo

	Fair Value		Valuation Technique	Significant Unobservable Input	Input/Range		
	Assets	Liabilities			Low	High	Weighted Average
	(in millions)						
Natural Gas Contracts	\$ —	\$ 0.2	Discounted Cash Flow	Forward Market Price (c)	\$ 2.37	\$ 2.96	\$ 2.62
FTRs	6.7	0.6	Discounted Cash Flow	Forward Market Price (a)	(6.62)	1.41	(0.76)
Total	\$ 6.7	\$ 0.8					

**Significant Unobservable Inputs
December 31, 2016**

SWEPCo

	Fair Value		Valuation Technique	Significant Unobservable Input (a)	Input/Range		
	Assets	Liabilities			Low	High	Weighted Average
	(in millions)						
FTRs	\$ 0.8	\$ 0.1	Discounted Cash Flow	Forward Market Price	\$ (7.99)	\$ 1.03	\$ (0.36)

- (a) Represents market prices in dollars per MWh.
(b) Represents prices of credit default swaps used to calculate counterparty credit risk, reported in basis points.
(c) Represents market prices in dollars per MMBtu.

The following table provides sensitivity of fair value measurements to increases (decreases) in significant unobservable inputs related to Energy Contracts, Natural Gas Contracts and FTRs for the Registrants as of December 31, 2017 and 2016:

Sensitivity of Fair Value Measurements

Significant Unobservable Input	Position	Change in Input	Impact on Fair Value Measurement
Forward Market Price	Buy	Increase (Decrease)	Higher (Lower)
Forward Market Price	Sell	Increase (Decrease)	Lower (Higher)
Counterparty Credit Risk	Loss	Increase (Decrease)	Higher (Lower)
Counterparty Credit Risk	Gain	Increase (Decrease)	Lower (Higher)

12. INCOME TAXES

The disclosures in this note apply to all Registrants unless indicated otherwise.

Federal Tax Reform

In December 2017, legislation referred to as Tax Reform was signed into law. The majority of the provisions in the new legislation are effective for taxable years beginning after December 31, 2017. Tax Reform includes significant changes to the Internal Revenue Code of 1986 (as amended, the Code), including amendments which significantly change the taxation of business entities and also includes provisions specific to regulated public utilities. The more significant changes that affect the Registrants include the reduction in the corporate federal income tax rate from 35% to 21%, and several technical provisions including, among others, limiting the utilization of net operating losses arising after December 31, 2017 to 80% of taxable income with an indefinite carryforward period. The 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.

Provisional Amounts

Given the significance of the legislative changes resulting from Tax Reform, the timing of its enactment, and the widespread applicability to registrants, the SEC staff recognized the potential challenges faced by registrants when reflecting the effects of Tax Reform in their 2017 financial statements. Accordingly, in order to address potential uncertainty or diversity of views in practice regarding the application of the accounting guidance for “Income Taxes” in situations where a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for “Income Taxes” for certain tax effects of Tax Reform for the reporting period in which the legislation was enacted, the SEC staff issued Staff Accounting Bulletin 118 (SAB 118) in December 2017. For such areas of analysis that are incomplete, SAB 118 provides for up to a one year period in which to complete the required analyses and accounting required by the accounting guidance for “Income Taxes,” referred to as the measurement period.

SAB 118 describes three categories associated with a registrant’s status of accounting for Tax Reform during the measurement period: (a) a registrant is complete with its accounting for certain effects of Tax Reform, (b) a registrant’s accounting is incomplete but is able to determine a reasonable estimate for certain effects of Tax Reform and records that estimate as a provisional amount, or (c) the accounting is incomplete and a registrant is not able to determine a reasonable estimate and therefore continues to apply existing accounting guidance for income taxes, based on the provisions of the tax laws that were in effect immediately prior to the enactment of the Tax Reform legislation. For items in which the accounting assessment is complete or a reasonable estimate can be made, a registrant must reflect the income tax effects of Tax Reform for those items in its financial statements that include the enactment of the Tax Reform legislation. SAB 118 also requires certain disclosures to provide information about the material financial reporting impacts, if any, due to Tax Reform for which the accounting is not complete. Subsequent disclosures in future reporting periods in which the accounting is completed are also a requirement of the guidance.

The Registrants have made a reasonable estimate for the measurement and accounting of the effects of Tax Reform which have been reflected in the December 31, 2017 financial statements as provisional amounts based on information available. While the Registrants were able to make reasonable estimates of the impact of Tax Reform, the final impact may differ from the recorded provisional amounts to the extent refinements are made to the estimated cumulative temporary 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.

The recorded provisional amounts include \$154 million of excess accumulated deferred income taxes (Excess ADIT) related to AEP Transmission Holdco's equity investment in ETT. ETT is a three-member limited liability company that is a partnership for federal income tax purposes. The rates ETT is permitted to charge its customers are regulated by the PUCT. Those rates contemplate deferred taxes; however, the income tax effects of ETT's activities are the responsibility of its members, including AEP Transmission Holdco. As a result, AEP's proportionate share of the Excess ADIT related to ETT is reflected by AEP Transmission Holdco and is reflected in AEP's December 31, 2017 balance sheet as a reduction in Deferred Income Taxes with a corresponding increase in Regulatory Liabilities and Deferred Investment Tax Credits. AEP's accounting for Excess ADIT related to partnerships is provisional as it may be subject to further interpretation of Tax Reform.

Impact of Tax Reform on the Financial Statements

Changes in the Code due to Tax Reform had a material impact on the Registrants' 2017 financial statements. In accordance with the accounting guidance for "Income Taxes", the effect of a change in tax law must be recognized at the date of enactment. The accounting guidance for "Income Taxes" also requires deferred tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences will be realized or settled. As a result, the Registrants' deferred tax assets and liabilities were re-measured using the newly enacted tax rate of 21% in December 2017. This re-measurement resulted in a significant reduction in the Registrants' net accumulated deferred income tax liability. With respect to the Registrants' regulated operations, the reduction of the net accumulated deferred income tax liability was primarily offset by a corresponding decrease in income tax related regulatory assets and an increase in income tax related regulatory liabilities because the benefit of the lower federal tax rate is expected to be provided to customers. However, when the underlying asset or liability giving rise to the temporary difference was not previously contemplated in regulated rates, the re-measurement of the deferred taxes on those assets or liabilities was recorded as an adjustment to income tax expense. For the Registrants' unregulated operations, the re-measurement of deferred taxes arising from those operations was recorded as an adjustment to income tax expense.

The following tables provide a summary of the impact of Tax Reform on the Registrants' 2017 financial statements.

Year Ended December 31, 2017	AEP	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
	(in millions)							
Decrease in Deferred Income Tax Liabilities	\$ 6,101.1	\$ 807.1	\$ 558.6	\$ 1,296.4	\$ 808.7	\$ 743.1	\$ 538.6	\$ 782.9

This decrease in deferred income tax liabilities resulted in an increase in income tax related regulatory liabilities, a decrease in income tax related regulatory assets and an adjustment to income tax expense as shown in the table below.

Year Ended December 31, 2017	AEP (c)	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
	(in millions)							
Increase (Decrease) in Income Tax Expense (a)	\$ (16.5)	\$ (117.4) (b)	\$ 0.6	\$ 5.7	\$ 2.3	\$ (14.3) (b)	\$ 2.8	\$ 0.7
Decrease in Regulatory Assets	470.2	12.1	66.9	129.1	85.3	62.7	8.3	69.8
Increase in Regulatory Liabilities	5,614.4	677.6	492.3	1,173.0	725.7	666.1	533.1	713.8

- (a) In 2017, in contemplation of corporate federal tax reform, the Registrants adopted a method under Internal Revenue Section 162 for deducting repair and maintenance costs associated with transmission and distribution property. This change resulted in a decrease in state income tax expense of approximately \$10 million that has been excluded from the tables above.
- (b) AEP Texas and OPCo recorded favorable adjustments to income tax expense of approximately \$113 million and \$16 million related to previously owned deregulated generation assets and certain deferred fuel amounts, respectively.
- (c) The effect of Tax Reform on AEP's other business operations (other than the Registrant Subsidiaries), which primarily include unregulated activities in the Generation & Marketing segment, transmission operations reflected in the AEP Transmission Holdco segment and activities recorded in Corporate and Other, increased income tax expense for the year-ended December 31, 2017 by approximately \$103 million.

Regulatory Treatment

As a result of Tax Reform, the Registrants recognized a regulatory liability for approximately \$4.4 billion of Excess ADIT, as well as an incremental liability of \$1.2 billion to reflect the \$4.4 billion Excess ADIT on a pre-tax basis, which is presented in Regulatory Liabilities and Deferred Income Taxes 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. Approximately \$3.2 billion of the Excess ADIT relates to temporary differences associated with depreciable property. The Tax Reform legislation includes certain rate normalization requirements that stipulate how the portion of the total Excess ADIT that is related to certain depreciable property must be returned to customers. Specifically, for AEP's regulated public utilities that are subject to those rate normalization requirements, Excess ADIT resulting from the reduction of the corporate tax rate with respect to prior depreciation or recovery deductions on property will be normalized using the average rate assumption method. As a result, once the amortization of this Excess ADIT is reflected in rates, customers will receive the benefits over the remaining weighted average useful life of the applicable property.

For the remaining \$1.2 billion of Excess ADIT, the Registrants expect to continue working with each state regulatory commission to determine the appropriate mechanism and time period over which to provide the benefits of Tax Reform to customers.

The Registrants expect the mechanism and time period to provide the benefits of Tax Reform to customers will vary by jurisdiction and will reduce future cash flows, may impact financial condition, but is not expected to have a material impact on future net income.

State Regulatory Matters

Various state utility commissions have recently issued orders requiring public utilities, including the Registrants, to record regulatory liabilities to reflect the corporate federal income taxes currently collected in utility rates in excess of the enacted corporate federal income tax rate of 21% beginning January 1, 2018. See Note 4 - Rate Matters for additional information regarding state utility commission orders received impacting the Registrant Subsidiaries.

Income Tax Expense (Credit)

The details of the Registrants' income tax expense (credit) before discontinued operations as reported are as follows:

Year Ended December 31, 2017	AEP	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
	(in millions)							
Federal:								
Current	\$ (4.0)	\$ (85.7)	\$ (127.5)	\$ 15.3	\$ (106.5)	\$ 11.2	\$ (77.1)	\$ (30.1)
Deferred	856.6	63.3	256.0	166.9	202.1	141.3	122.7	84.8
Deferred Investment Tax Credits	48.6	(1.6)	—	(0.1)	(4.7)	—	(1.6)	(1.4)
Total Federal	901.2	(24.0)	128.5	182.1	90.9	152.5	44.0	53.3
State and Local:								
Current	16.0	0.6	1.9	(1.4)	(8.1)	0.2	(0.2)	(0.9)
Deferred	44.9	—	16.8	4.6	(1.4)	6.6	2.0	(4.3)
Deferred Investment Tax Credits	7.6	—	—	—	—	—	4.3	—
Total State and Local	68.5	0.6	18.7	3.2	(9.5)	6.8	6.1	(5.2)
Income Tax Expense (Credit) Before Discontinued Operations	\$ 969.7	\$ (23.4)	\$ 147.2	\$ 185.3	\$ 81.4	\$ 159.3	\$ 50.1	\$ 48.1

Year Ended December 31, 2016	AEP	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
	(in millions)							
Federal:								
Current	\$ (30.7)	\$ 40.9	\$ (129.4)	\$ 64.1	\$ (44.8)	\$ 178.8	\$ (28.0)	\$ (96.7)
Deferred	(28.8)	29.9	205.9	125.8	104.9	(40.8)	77.2	172.6
Deferred Investment Tax Credits	17.6	(1.7)	—	(0.1)	3.8	—	(1.4)	(1.2)
Total Federal	(41.9)	69.1	76.5	189.8	63.9	138.0	47.8	74.7
State and Local:								
Current	(10.5)	(8.8)	0.4	4.4	3.4	4.2	(1.9)	(12.6)
Deferred	(21.2)	(0.4)	17.2	4.9	0.2	1.6	5.3	(10.0)
Deferred Investment Tax Credits	(0.1)	—	—	—	—	—	3.2	—
Total State and Local	(31.8)	(9.2)	17.6	9.3	3.6	5.8	6.6	(22.6)
Income Tax Expense (Credit) Before Discontinued Operations	\$ (73.7)	\$ 59.9	\$ 94.1	\$ 199.1	\$ 67.5	\$ 143.8	\$ 54.4	\$ 52.1

Year Ended December 31, 2015	AEP	AEP Texas	AEPTCo
	(in millions)		
Federal:			
Current	\$ 107.3	\$ 61.4	\$ (126.3)
Deferred	774.8	(7.1)	171.3
Deferred Investment Tax Credits	—	(1.7)	—
Total Federal	882.1	52.6	45.0
State and Local:			
Current	14.5	5.6	3.1
Deferred	23.0	—	11.9
Total State and Local	37.5	5.6	15.0
Income Tax Expense Before Discontinued Operations	\$ 919.6	\$ 58.2	\$ 60.0

<u>Year Ended December 31, 2015</u>	<u>APCo</u>	<u>I&M</u>	<u>OPCo</u>	<u>PSO</u>	<u>SWEPCo</u>
	<u>(in millions)</u>				
Income Tax Expense (Credit):					
Current	\$ (32.9)	\$ 5.2	\$ 89.0	\$ (6.4)	\$ 44.3
Deferred	227.5	94.2	37.6	58.3	41.9
Deferred Investment Tax Credits	(0.3)	(3.3)	(0.1)	(0.6)	(1.4)
Income Tax Expense	<u>\$ 194.3</u>	<u>\$ 96.1</u>	<u>\$ 126.5</u>	<u>\$ 51.3</u>	<u>\$ 84.8</u>

The following is a reconciliation for each Registrant of the difference between the amounts of federal income taxes computed by multiplying book income before income taxes by the federal statutory tax rate and the amount of income taxes reported:

AEP

	<u>Years Ended December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<u>(in millions)</u>		
Net Income	\$ 1,928.9	\$ 618.0	\$ 2,052.3
Discontinued Operations (Net of Income Tax of \$0, \$0 and \$6.2 in 2017, 2016 and 2015, Respectively)	—	2.5	(283.7)
Income Tax Expense (Credit) Before Discontinued Operations	969.7	(73.7)	919.6
Pretax Income	<u>\$ 2,898.6</u>	<u>\$ 546.8</u>	<u>\$ 2,688.2</u>
Income Taxes on Pretax Income at Statutory Rate (35%)	\$ 1,014.5	\$ 191.4	\$ 940.9
Increase (Decrease) in Income Taxes Resulting from the Following Items:			
Depreciation	60.2	41.7	53.6
Investment Tax Credit Amortization	(18.8)	(12.3)	(11.6)
State and Local Income Taxes, Net	54.7	(20.7)	24.4
Removal Costs	(32.7)	(39.8)	(28.8)
AFUDC	(37.4)	(44.8)	(51.6)
Valuation Allowance	(1.8)	(128.3)	17.2
U.K. Windfall Tax	—	(12.9)	—
Tax Reform Adjustments	(26.7)	—	—
Tax Adjustments	(35.8)	(43.9)	(20.1)
Other	(6.5)	(4.1)	(4.4)
Income Tax Expense (Credit) Before Discontinued Operations	<u>\$ 969.7</u>	<u>\$ (73.7)</u>	<u>\$ 919.6</u>
Effective Income Tax Rate	33.5 %	(13.5)%	34.2 %

AEP Texas

	Years Ended December 31,		
	2017	2016 (in millions)	2015
Net Income	\$ 310.5	\$ 146.6	\$ 120.3
Discontinued Operations (Net of Income Tax of \$0, \$27.6 and \$1.8 in 2017, 2016 and 2015, Respectively)	—	48.8	1.4
Income Tax Expense	(23.4)	59.9	58.2
Pretax Income	\$ 287.1	\$ 255.3	\$ 179.9
Income Taxes on Pretax Income at Statutory Rate (35%)	\$ 100.5	\$ 89.4	\$ 63.0
Increase (Decrease) in Income Taxes Resulting from the Following Items:			
Depreciation	0.7	0.5	0.5
Investment Tax Credit Amortization	(1.6)	(1.7)	(1.7)
State and Local Income Taxes, Net	0.4	(6.0)	3.6
Parent Company Loss Benefit	—	(2.5)	(3.1)
Tax Reform Adjustments	(117.4)	—	—
Tax Adjustments	(4.2)	(4.9)	(1.6)
U.K. Windfall Tax	—	(12.9)	—
Other	(1.8)	(2.0)	(2.5)
Income Tax Expense (Credit) Before Discontinued Operations	\$ (23.4)	\$ 59.9	\$ 58.2
Effective Income Tax Rate	(8.2)%	23.5 %	32.4 %

AEPTCo

	Years Ended December 31,		
	2017	2016 (in millions)	2015
Net Income	\$ 286.1	\$ 192.7	\$ 132.9
Income Tax Expense	147.2	94.1	60.0
Pretax Income	\$ 433.3	\$ 286.8	\$ 192.9
Income Taxes on Pretax Income at Statutory Rate (35%)	\$ 151.7	\$ 100.4	\$ 67.5
Increase (Decrease) in Income Taxes Resulting from the Following Items:			
AFUDC	(18.3)	(18.3)	(18.6)
State and Local Income Taxes, Net	12.2	11.4	9.8
Tax Reform Adjustments	0.6	—	—
Other	1.0	0.6	1.3
Income Tax Expense	\$ 147.2	\$ 94.1	\$ 60.0
Effective Income Tax Rate	34.0 %	32.8 %	31.1 %

APCo

	Years Ended December 31,		
	2017	2016 (in millions)	2015
Net Income	\$ 331.3	\$ 369.1	\$ 340.6
Income Tax Expense	185.3	199.1	194.3
Pretax Income	\$ 516.6	\$ 568.2	\$ 534.9
Income Taxes on Pretax Income at Statutory Rate (35%)	\$ 180.8	\$ 198.9	\$ 187.2
Increase (Decrease) in Income Taxes Resulting from the Following Items:			
Depreciation	18.0	19.3	19.8
Investment Tax Credit Amortization	(0.1)	(0.1)	(0.3)
State and Local Income Taxes, Net	3.5	6.0	7.2
Removal Costs	(12.4)	(12.0)	(9.9)
AFUDC	(5.0)	(6.1)	(7.0)
Valuation Allowance	—	(1.7)	1.7
Tax Reform Adjustments	4.3	—	—
Other	(3.8)	(5.2)	(4.4)
Income Tax Expense	\$ 185.3	\$ 199.1	\$ 194.3
Effective Income Tax Rate	35.9 %	35.0 %	36.3 %

I&M

	Years Ended December 31,		
	2017	2016 (in millions)	2015
Net Income	\$ 186.7	\$ 239.9	\$ 204.8
Income Tax Expense	81.4	67.5	96.1
Pretax Income	\$ 268.1	\$ 307.4	\$ 300.9
Income Taxes on Pretax Income at Statutory Rate (35%)	\$ 93.8	\$ 107.6	\$ 105.3
Increase (Decrease) in Income Taxes Resulting from the Following Items:			
Depreciation	11.4	6.7	9.5
Investment Tax Credit Amortization	(4.7)	(4.7)	(3.3)
State and Local Income Taxes, Net	(1.0)	2.4	5.8
Removal Costs	(13.3)	(21.3)	(12.6)
AFUDC	(5.6)	(7.3)	(6.2)
Tax Adjustments	2.7	(14.2)	(4.2)
Tax Reform Adjustments	(2.9)	—	—
Other	1.0	(1.7)	1.8
Income Tax Expense	\$ 81.4	\$ 67.5	\$ 96.1
Effective Income Tax Rate	30.4 %	22.0 %	31.9 %

OPCo

	Years Ended December 31,		
	2017	2016 (in millions)	2015
Net Income	\$ 323.9	\$ 282.2	\$ 232.7
Income Tax Expense	159.3	143.8	126.5
Pretax Income	\$ 483.2	\$ 426.0	\$ 359.2
Income Taxes on Pretax Income at Statutory Rate (35%)	\$ 169.1	\$ 149.1	\$ 125.7
Increase (Decrease) in Income Taxes Resulting from the Following Items:			
Depreciation	7.6	7.1	8.2
Investment Tax Credit Amortization	—	—	(0.1)
State and Local Income Taxes, Net	4.4	3.8	0.7
Tax Reform Adjustments	(14.4)	—	—
Other	(7.4)	(16.2)	(8.0)
Income Tax Expense	\$ 159.3	\$ 143.8	\$ 126.5
Effective Income Tax Rate	33.0 %	33.8 %	35.2 %

PSO

	Years Ended December 31,		
	2017	2016 (in millions)	2015
Net Income	\$ 72.0	\$ 100.0	\$ 92.5
Income Tax Expense	50.1	54.4	51.3
Pretax Income	\$ 122.1	\$ 154.4	\$ 143.8
Income Taxes on Pretax Income at Statutory Rate (35%)	\$ 42.7	\$ 54.0	\$ 50.3
Increase (Decrease) in Income Taxes Resulting from the Following Items:			
Depreciation	0.3	0.8	0.5
Investment Tax Credit Amortization	(1.6)	(1.4)	(1.8)
State and Local Income Taxes, Net	4.0	4.2	5.1
AFUDC	(0.2)	(2.2)	(3.1)
Tax Reform Adjustments	2.8	—	—
Other	2.1	(1.0)	0.3
Income Tax Expense	\$ 50.1	\$ 54.4	\$ 51.3
Effective Income Tax Rate	41.0 %	35.2 %	35.7 %

SWEPCo

	Years Ended December 31,		
	2017	2016 (in millions)	2015
Net Income	\$ 137.5	\$ 169.7	\$ 196.0
Income Tax Expense	48.1	52.1	84.8
Pretax Income	\$ 185.6	\$ 221.8	\$ 280.8
Income Taxes on Pretax Income at Statutory Rate (35%)	\$ 65.0	\$ 77.6	\$ 98.3
Increase (Decrease) in Income Taxes Resulting from the Following Items:			
Depreciation	1.9	3.2	3.1
Depletion	(5.7)	(5.5)	(5.5)
Investment Tax Credit Amortization	(1.4)	(1.2)	(1.4)
State and Local Income Taxes, Net	(2.3)	(14.7)	4.8
AFUDC	(0.9)	(3.9)	(9.2)
Tax Adjustments	(9.9)	(0.9)	(3.9)
Tax Reform Adjustments	(0.4)	—	—
Other	1.8	(2.5)	(1.4)
Income Tax Expense	\$ 48.1	\$ 52.1	\$ 84.8
Effective Income Tax Rate	25.9 %	23.5 %	30.2 %

Net Deferred Tax Liability

The following tables show elements of the net deferred tax liability and significant temporary differences for each Registrant:

AEP

	December 31,	
	2017	2016
	(in millions)	
Deferred Tax Assets	\$ 3,504.6	\$ 2,753.0
Deferred Tax Liabilities	(10,318.5)	(14,637.4)
Net Deferred Tax Liabilities	\$ (6,813.9)	\$ (11,884.4)
Property Related Temporary Differences	\$ (5,680.6)	\$ (8,758.1)
Amounts Due to/(from) Customers for Future Federal Income Taxes	1,064.8	(292.2)
Deferred State Income Taxes	(1,124.4)	(976.6)
Securitized Assets	(257.7)	(535.6)
Regulatory Assets	(500.3)	(896.9)
Deferred Income Taxes on Other Comprehensive Loss	25.7	88.7
Accrued Nuclear Decommissioning	(457.0)	(666.8)
Net Operating Loss Carryforward	86.6	101.2
Tax Credit Carryforward	174.7	45.1
Investment in Partnership	(222.0)	(349.6)
Valuation Allowance	—	(1.8)
All Other, Net	76.3	358.2
Net Deferred Tax Liabilities	\$ (6,813.9)	\$ (11,884.4)

AEP Texas

	December 31,	
	2017	2016
	(in millions)	
Deferred Tax Assets	\$ 221.0	\$ 135.8
Deferred Tax Liabilities	(1,134.1)	(1,667.5)
Net Deferred Tax Liabilities	\$ (913.1)	\$ (1,531.7)
Property Related Temporary Differences	\$ (791.5)	\$ (1,056.1)
Amounts Due to/(from) Customers for Future Federal Income Taxes	140.9	(5.7)
Deferred State Income Taxes	(27.5)	(24.2)
Regulatory Assets	(36.4)	(61.3)
Securitized Transition Assets	(190.5)	(407.0)
Deferred Income Taxes on Other Comprehensive Loss	4.1	8.0
Deferred Revenues	10.9	18.0
All Other, Net	(23.1)	(3.4)
Net Deferred Tax Liabilities	\$ (913.1)	\$ (1,531.7)

AEPTCo

	December 31,	
	2017	2016
	(in millions)	
Deferred Tax Assets	\$ 162.7	\$ 61.4
Deferred Tax Liabilities	(764.4)	(923.5)
Net Deferred Tax Liabilities	\$ (601.7)	\$ (862.1)
Property Related Temporary Differences	\$ (654.7)	\$ (825.6)
Amounts Due to/(from) Customers for Future Federal Income Taxes	89.7	(37.2)
Deferred State Income Taxes	(77.4)	(55.6)
Deferred Federal Income Taxes on Deferred State Income Taxes	16.3	19.5
Net Operating Loss Carryforward	16.8	33.3
Valuation Allowance	—	0.1
Tax Credit Carryforward	0.3	—
All Other, Net	7.3	3.4
Net Deferred Tax Liabilities	\$ (601.7)	\$ (862.1)

APCo

	December 31,	
	2017	2016
	(in millions)	
Deferred Tax Assets	\$ 614.4	\$ 413.5
Deferred Tax Liabilities	(2,180.1)	(3,085.8)
Net Deferred Tax Liabilities	\$ (1,565.7)	\$ (2,672.3)
Property Related Temporary Differences	\$ (1,308.2)	\$ (2,031.9)
Amounts Due to/(from) Customers for Future Federal Income Taxes	228.0	(73.1)
Deferred State Income Taxes	(335.7)	(319.3)
Regulatory Assets	(83.9)	(159.9)
Securitized Assets	(59.3)	(106.9)
Deferred Income Taxes on Other Comprehensive Loss	(0.4)	4.5
Tax Credit Carryforward	16.6	11.7
All Other, Net	(22.8)	2.6
Net Deferred Tax Liabilities	\$ (1,565.7)	\$ (2,672.3)

I&M

	December 31,	
	2017	2016
	(in millions)	
Deferred Tax Assets	\$ 1,096.4	\$ 912.9
Deferred Tax Liabilities	(2,050.2)	(2,440.3)
Net Deferred Tax Liabilities	\$ (953.8)	\$ (1,527.4)
Property Related Temporary Differences	\$ (403.0)	\$ (579.4)
Amounts Due to/(from) Customers for Future Federal Income Taxes	137.6	(50.4)
Deferred State Income Taxes	(180.6)	(158.7)
Deferred Income Taxes on Other Comprehensive Loss	3.9	8.8
Accrued Nuclear Decommissioning	(457.0)	(666.8)
Regulatory Assets	(43.8)	(81.0)
Net Operating Loss Carryforward	1.6	7.1
All Other, Net	(12.5)	(7.0)
Net Deferred Tax Liabilities	\$ (953.8)	\$ (1,527.4)

OPCo

	December 31,	
	2017	2016
	(in millions)	
Deferred Tax Assets	\$ 286.0	\$ 232.4
Deferred Tax Liabilities	(1,048.9)	(1,578.5)
Net Deferred Tax Liabilities	\$ (762.9)	\$ (1,346.1)
Property Related Temporary Differences	\$ (761.2)	\$ (1,090.8)
Amounts Due to/(from) Customers for Future Federal Income Taxes	127.3	(43.6)
Deferred State Income Taxes	(41.7)	(34.6)
Regulatory Assets	(107.7)	(174.1)
Deferred Income Taxes on Other Comprehensive Loss	(0.6)	(1.6)
Deferred Fuel and Purchased Power	(24.5)	(117.6)
All Other, Net	45.5	116.2
Net Deferred Tax Liabilities	\$ (762.9)	\$ (1,346.1)

PSO

	December 31,	
	2017	2016
	(in millions)	
Deferred Tax Assets	\$ 269.2	\$ 153.8
Deferred Tax Liabilities	(911.2)	(1,212.6)
Net Deferred Tax Liabilities	\$ (642.0)	\$ (1,058.8)
Property Related Temporary Differences	\$ (623.8)	\$ (927.3)
Amounts Due to/(from) Customers for Future Federal Income Taxes	111.6	(3.2)
Deferred State Income Taxes	(142.7)	(128.5)
Regulatory Assets	(34.4)	(67.6)
Deferred Income Taxes on Other Comprehensive Loss	(0.8)	(1.8)
Deferred Federal Income Taxes on Deferred State Income Taxes	33.5	50.6
Net Operating Loss Carryforward	23.1	16.5
Tax Credit Carryforward	0.7	—
All Other, Net	(9.2)	2.5
Net Deferred Tax Liabilities	\$ (642.0)	\$ (1,058.8)

SWEPCo

	December 31,	
	2017	2016
	(in millions)	
Deferred Tax Assets	\$ 349.4	\$ 230.5
Deferred Tax Liabilities	(1,267.1)	(1,837.4)
Net Deferred Tax Liabilities	\$ (917.7)	\$ (1,606.9)
Property Related Temporary Differences	\$ (908.8)	\$ (1,445.2)
Amounts Due to/(from) Customers for Future Federal Income Taxes	135.8	(48.2)
Deferred State Income Taxes	(189.2)	(175.1)
Regulatory Assets	(30.8)	(40.7)
Deferred Income Taxes on Other Comprehensive Loss	1.3	5.1
Capital/Impairment Loss - Turk Plant	17.4	20.3
Net Operating Loss Carryforward	38.7	40.3
Tax Credit Carryforward	0.8	0.1
All Other, Net	17.1	36.5
Net Deferred Tax Liabilities	\$ (917.7)	\$ (1,606.9)

AEP System Tax Allocation Agreement

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

Valuation Allowance

AEP assesses the available positive and negative evidence to estimate whether sufficient future taxable income of the appropriate tax character will be generated to realize the benefits of existing deferred tax assets. When the evaluation of the evidence indicates that AEP will not be able to realize the benefits of existing deferred tax assets, a valuation allowance is recorded to reduce existing deferred tax assets to the net realizable amount. Objective negative evidence evaluated includes whether AEP has a history of recognizing income of the character which can be offset by loss carryforwards. Other objective negative evidence evaluated is the impact recently enacted federal tax legislation will have on future taxable income and on AEP's ability to benefit from the carryforward of charitable contribution deductions.

On the basis of this evaluation, AEP recorded a valuation allowance of \$17 million in the fourth quarter of 2015 related to the expected expiration of charitable contribution carryforward deductions and realized capital losses. In the fourth quarter of 2015, AEP also reversed a valuation allowance originally recorded in the third quarter of 2015 of \$156 million attributable to the unrealized capital loss associated with the excess tax basis of the stock over the book value of AEP's investment in the operations of AEPRO. With the sale of AEPRO in the fourth quarter of 2015, AEP recorded a valuation allowance of \$48 million attributable to realized capital losses from the sale. As of December 31, 2015 there was a valuation allowance of \$130 million recorded against AEP's deferred tax asset balance.

AEP recorded changes in the valuation allowance in the second quarter of 2016 related to the reversal of a \$56 million unrealized capital loss where AEP effectively settled a 2011 audit issue with the IRS. AEP also recorded changes in the third quarter of 2016 by reducing the capital loss valuation allowance by \$66 million to reflect the impact of the reclassification of certain assets held for sale and the filing of the 2015 federal income tax return. The sale of these assets held for sale are expected to result in a gain, the character of which will allow AEP to recognize the capital loss and allowed AEP to reverse substantially all of the remaining capital loss valuation allowance previously recorded. During the fourth quarter of 2016, AEP reversed \$6 million of the valuation allowance associated with charitable contributions that expired at the end of the year. As of December 31, 2016 there was a valuation allowance of \$2 million recorded against AEP's deferred tax asset balance related to an unrealized capital loss carryforward.

During 2017, the valuation allowance of \$2 million recorded against AEP's deferred tax asset balance related to an unrealized capital loss carryforward was reversed, as the Company expects to have sufficient capital gains in the future to use this capital loss when realized. As of December 31, 2017, AEP and AEPTCo have recorded valuation allowances of \$5 million and \$2 million, respectively, against certain state and municipal net income tax operating loss carryforwards since future taxable income is not expected to be sufficient to realize the remaining state net income tax operating loss tax benefits before the carryforward expires.

Federal and State Income Tax Audit Status

AEP and subsidiaries are no longer subject to U.S. federal examination for years before 2011. The IRS examination of years 2011 through 2013 started in April 2014. AEP and subsidiaries received a Revenue Agents Report in April 2016, completing the 2011 through 2013 audit cycle indicating an agreed upon audit. The 2011 through 2013 audit was submitted to the Congressional Joint Committee on Taxation for approval. The Joint Committee referred the audit back to the IRS exam team for further consideration. To resolve the issue under consideration, AEP and subsidiaries

and the IRS exam team agreed to go to Appeals using Fast Track in December 2017. The issue is still waiting for resolution with Appeals. Although the outcome of tax audits is uncertain, in management's opinion, adequate provisions for federal income taxes have been made for potential liabilities resulting from such matters. In addition, the Registrants accrue interest on these uncertain tax positions. Management is not aware of any issues for open tax years that upon final resolution are expected to materially impact net income.

AEP and subsidiaries file income tax returns in various state and local jurisdictions. These taxing authorities routinely examine their tax returns. AEP and subsidiaries are currently under examination in several state and local jurisdictions. However, it is possible that previously filed tax returns have positions that may be challenged by these tax authorities. Management believes that adequate provisions for income taxes have been made for potential liabilities resulting from such challenges and that the ultimate resolution of these audits will not materially impact net income. The Registrants are no longer subject to state or local income tax examinations by tax authorities for years before 2009.

Net Income Tax Operating Loss Carryforward

In 2017, Registrants specified in the table below recognized federal net income tax operating losses. The 2017 federal net income tax operating losses were driven primarily by bonus depreciation and deductions related to repair and maintenance costs associated with transmission and distribution property.

Company	Year Ended December 31,	
	2017	
	(in millions)	
AEP	\$	230.1
AEP Texas		261.8
AEPTCo		344.1
I&M		332.6
PSO		213.9
SWEPCo		87.6

Substantially all of the 2017 federal net income tax operating losses will be carried back to 2015. As of December 31, 2017, AEP had \$4 million of remaining unrealized federal net operating loss carryforward tax benefits. Management anticipates future taxable income will be sufficient to realize the remaining net income tax operating loss tax benefits before the federal carryforward expires after 2036. AEP, AEPTCo, I&M, PSO and SWEPCo also have state net income tax operating loss carryforwards as of December 31, 2017 as indicated in the table below:

Company	State/Municipality	State Net Income		Year of Expiration
		Tax Operating		
		Loss		
		Carryforward		
		(in millions)		
AEP	Arkansas	\$	72.0	2022
AEP	Kentucky		157.6	2037
AEP	Louisiana		543.1	2037
AEP	Oklahoma		799.8	2037
AEP	Tennessee		27.9	2032
AEP	Virginia		17.8	2037
AEP	West Virginia		29.2	2037
AEP	Ohio Municipal		106.3	2022
AEPTCo	Oklahoma		296.9	2037
AEPTCo	Ohio Municipal		64.2	2022
I&M	West Virginia		14.1	2037
PSO	Oklahoma		477.0	2037
SWEPCo	Arkansas		71.2	2022
SWEPCo	Louisiana		533.4	2037

As of December 31, 2017, AEP and AEPTCo have recorded valuation allowances of \$5 million and \$2 million, respectively, against certain state and municipal net income tax operating loss carryforwards since future taxable income is not expected to be sufficient to realize the remaining state net income tax operating loss tax benefits before the carryforward expires. Management anticipates future taxable income will be sufficient to realize the remaining state net income tax operating loss tax benefits before the carryforward expires for each state.

As of December 31, 2017 and 2016, AEP had \$0 million and \$17 million, respectively, of uncertain tax positions netted against deferred tax liabilities.

Tax Credit Carryforward

Federal and state net income tax operating losses sustained in 2017, 2012, 2011 and 2009 along with lower federal and state taxable income in 2010 resulted in unused federal and state income tax credits. As of December 31, 2017, the Registrants have federal tax credit carryforwards and AEP and PSO have state tax credit carryforwards as indicated in the table below. If these credits are not utilized, federal general business tax credits will expire in the years 2032 through 2036.

Company	Total Federal Tax Credit Carryforward	Federal Tax Credit Carryforward Subject to Expiration	Total State Tax Credit Carryforward	State Tax Credit Carryforward Subject to Expiration
		(in millions)		
AEP	\$ 174.7	\$ 145.8	\$ 31.0	\$ 31.0
AEP Texas	0.6	0.3	—	—
AEPTCo	0.3	0.1	—	—
APCo	16.6	6.1	—	—
I&M	10.6	10.1	—	—
OPCo	14.8	1.0	—	—
PSO	0.7	0.7	31.0	31.0
SWEPCo	0.8	0.7	—	—

The Registrants anticipate future federal taxable income will be sufficient to realize the tax benefits of the federal tax credits before they expire unused.

Uncertain Tax Positions

In May 2013, the U.S. Supreme Court decided that the U.K. Windfall Tax imposed upon U.K. electric companies privatized between 1984 and 1996 is a creditable tax for U.S. federal income tax purposes. AEP filed protective claims asserting the creditability of the tax, dependent upon the outcome of the case. As a result of the favorable U.S. Supreme Court decision, AEP recognized a tax benefit of \$80 million, plus \$43 million of pretax interest income in the second quarter of 2013. In the first quarter of 2017, AEP received the tax refund related to the U.K. Windfall Tax, including interest through the date of the refund.

The Registrants recognize interest accruals related to uncertain tax positions in interest income or expense as applicable and penalties in Other Operation expense in accordance with the accounting guidance for “Income Taxes.”

The following tables show amounts reported for interest expense, interest income and reversal of prior period interest expense:

Year Ended December 31, 2017	AEP	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
	(in millions)							
Interest Expense	\$ 1.7	\$ —	\$ —	\$ 0.5	\$ —	\$ —	\$ —	\$ —
Interest Income	6.1	1.1	—	—	1.0	1.6	—	—
Reversal of Prior Period Interest Expense	—	—	—	—	—	—	—	—

Year Ended December 31, 2016	AEP	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
	(in millions)							
Interest Expense	\$ 2.7	\$ —	\$ —	\$ —	\$ 0.2	\$ 0.2	\$ —	\$ —
Interest Income	9.9	0.2	—	0.1	—	—	0.3	—
Reversal of Prior Period Interest Expense	3.3	0.8	—	—	—	—	0.7	1.4

Year Ended December 31, 2015	AEP	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
	(in millions)							
Interest Expense	\$ 2.7	\$ 0.2	\$ —	\$ 0.4	\$ 0.2	\$ 1.0	\$ 0.1	\$ 0.4
Interest Income	0.8	0.2	—	—	—	—	—	—
Reversal of Prior Period Interest Expense	—	—	—	—	—	—	—	—

The following table shows balances for amounts accrued for the receipt of interest and the payment of interest and penalties:

Company	Years Ended December 31,			
	2017		2016	
	Receipt of Interest	Payment of Interest and Penalties	Receipt of Interest	Payment of Interest and Penalties
	(in millions)			
AEP	\$ 3.6	\$ 8.3	\$ 2.9	\$ 5.8
AEP Texas	2.8	0.1	2.1	0.3
AEPTCo	—	—	—	—
APCo	—	1.0	—	0.1
I&M	—	1.3	—	0.9
OPCo	0.3	1.0	—	1.7
PSO	0.6	—	0.6	—
SWEPCo	—	—	0.1	—

The reconciliations of the beginning and ending amounts of unrecognized tax benefits are as follows:

	<u>AEP</u>	<u>AEP Texas</u>	<u>AEPTCo</u>	<u>APCo</u>	<u>I&M</u>	<u>OPCo</u>	<u>PSO</u>	<u>SWEPCo</u>
	(in millions)							
Balance as of January 1, 2017	\$ 98.8	\$ 6.5	\$ —	\$ —	\$ 3.8	\$ 6.9	\$ 0.1	\$ 1.3
Increase – Tax Positions Taken During a Prior Period	4.5	2.0	—	—	0.2	—	0.1	1.7
Decrease – Tax Positions Taken During a Prior Period	(28.0)	(12.3)	—	—	(0.5)	—	(0.9)	(5.4)
Increase – Tax Positions Taken During the Current Year	3.4	—	—	—	—	—	—	—
Decrease – Tax Positions Taken During the Current Year	—	—	—	—	—	—	—	—
Decrease – Settlements with Taxing Authorities	7.9	3.0	—	—	(0.3)	—	0.7	1.6
Decrease – Lapse of the Applicable Statute of Limitations	—	—	—	—	—	—	—	—
Balance as of December 31, 2017	<u>\$ 86.6</u>	<u>\$ (0.8)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3.2</u>	<u>\$ 6.9</u>	<u>\$ —</u>	<u>\$ (0.8)</u>
	<u>AEP</u>	<u>AEP Texas</u>	<u>AEPTCo</u>	<u>APCo</u>	<u>I&M</u>	<u>OPCo</u>	<u>PSO</u>	<u>SWEPCo</u>
	(in millions)							
Balance as of January 1, 2016	\$ 187.0	\$ 27.8	\$ —	\$ 0.3	\$ 2.4	\$ 6.9	\$ 1.3	\$ 9.3
Increase – Tax Positions Taken During a Prior Period	86.0	6.5	—	—	1.8	—	0.1	1.3
Decrease – Tax Positions Taken During a Prior Period	(161.2)	(15.0)	—	(0.3)	(0.4)	—	(1.3)	(9.3)
Increase – Tax Positions Taken During the Current Year	—	—	—	—	—	—	—	—
Decrease – Tax Positions Taken During the Current Year	—	—	—	—	—	—	—	—
Decrease – Settlements with Taxing Authorities	(13.0)	(12.8)	—	—	—	—	—	—
Decrease – Lapse of the Applicable Statute of Limitations	—	—	—	—	—	—	—	—
Balance as of December 31, 2016	<u>\$ 98.8</u>	<u>\$ 6.5</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3.8</u>	<u>\$ 6.9</u>	<u>\$ 0.1</u>	<u>\$ 1.3</u>
	<u>AEP</u>	<u>AEP Texas</u>	<u>AEPTCo</u>	<u>APCo</u>	<u>I&M</u>	<u>OPCo</u>	<u>PSO</u>	<u>SWEPCo</u>
	(in millions)							
Balance as of January 1, 2015	\$ 182.0	\$ 22.6	\$ —	\$ —	\$ 2.3	\$ 6.9	\$ 1.3	\$ 7.5
Increase – Tax Positions Taken During a Prior Period	5.4	5.2	—	0.3	0.1	—	—	1.8
Decrease – Tax Positions Taken During a Prior Period	(0.4)	—	—	—	—	—	—	—
Increase – Tax Positions Taken During the Current Year	—	—	—	—	—	—	—	—
Decrease – Tax Positions Taken During the Current Year	—	—	—	—	—	—	—	—
Decrease – Settlements with Taxing Authorities	—	—	—	—	—	—	—	—
Decrease – Lapse of the Applicable Statute of Limitations	—	—	—	—	—	—	—	—
Balance as of December 31, 2015	<u>\$ 187.0</u>	<u>\$ 27.8</u>	<u>\$ —</u>	<u>\$ 0.3</u>	<u>\$ 2.4</u>	<u>\$ 6.9</u>	<u>\$ 1.3</u>	<u>\$ 9.3</u>

Management believes that there will be no significant net increase or decrease in unrecognized benefits within 12 months of the reporting date. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate for each Registrant was as follows:

<u>Company</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(in millions)	
AEP	\$ 10.5	\$ 15.8	\$ 100.2
AEP Texas	(0.5)	4.2	26.0
AEPTCo	—	—	—
APCo	—	—	0.2
I&M	2.1	2.5	1.6
OPCo	4.5	4.4	4.5
PSO	—	0.1	0.9
SWEPCo	(0.5)	0.8	6.0

Federal Tax Legislation

The Protecting Americans from Tax Hikes Act of 2015 (PATH) included an extension of the 50% bonus depreciation for three years through 2017, phasing down to 40% in 2018 and 30% in 2019. PATH also provided for the extension of research and development, employment and several energy tax credits for 2015. PATH also includes provisions to extend the wind energy production tax credit through 2016 with a three-year phase-out (2017-2019), and to extend the 30% temporary solar investment tax credit for three years through 2019 and with a two-year phase-out (2020-2021). PATH also provided for a permanent extension of the Research and Development tax credit. The enacted provisions did not materially impact the Registrants' net income or financial condition but did have a favorable impact on cash flows. The federal Tax Reform eliminated bonus depreciation for certain property acquired after September 27, 2017.

State Tax Legislation

Legislation was passed by the state of Indiana in May 2011 enacting a phased reduction in the corporate income tax rate from 8.5% to 6.5%. The 8.5% Indiana corporate income tax rate was reduced 0.5% each year beginning after June 30, 2012, with the final reduction occurring in years beginning after June 30, 2015. Additional legislation was passed by the state of Indiana reducing the corporate income tax rate from 6.5% in 2016 to 4.9% beginning after June 30, 2016 with the final reduction occurring in years beginning after June 30, 2021. The legislation did not materially impact the Registrants' net income, cash flows or financial condition.

House Bill 32 was passed by the state of Texas in June 2015, permanently reducing the Texas income/franchise tax rate from 0.95% to 0.75% effective January 1, 2016, applicable to reports originally due on or after the effective date. The Texas income/franchise tax rate had been scheduled to return to 1% in 2016. The enacted provision did not materially impact the Registrants' net income, cash flows, or financial condition.

In March 2016, the Texas Comptroller of Public Accounts issued clarifying guidance regarding the treatment of transmission and distribution expenses included in the computation of taxable income for purposes of calculating the Texas income/franchise tax. The guidance clarified which specific transmission and distribution expenses are included in the computation of the cost of goods sold deduction. This guidance resulted in a net favorable adjustment to net income of \$21 million, \$7 million, \$2 million and \$9 million in 2016 for AEP, AEP Texas, PSO and SWEPCo, respectively.

In March 2016, Louisiana enacted several tax bills impacting income taxes, franchise taxes and sales taxes. The income tax provisions limit the use of Louisiana net operating losses and the sales tax provisions increase the sales tax rate and suspend or eliminate certain exemptions. The legislation did not materially impact the Registrants' net income, cash flows or financial condition.

Legislation was enacted in the state of Illinois in July 2017 increasing the corporate income tax rate from 5.25% to 7% effective July 1, 2017, with the increased rate applied to the portion of the tax year falling on or after that date. With the inclusion of the 2.5% Illinois Replacement tax, the total Illinois corporate income tax rate will increase from a total of 7.75% to a total of 9.5%, effective July 1, 2017. The legislation is not expected to materially impact the Registrants' net income, cash flows or financial condition.

13. LEASES

The disclosures in this note apply to all Registrants unless indicated otherwise.

Leases of property, plant and equipment are for remaining periods up to 14 years and require payments of related property taxes, maintenance and operating costs. The majority of the leases have purchase or renewal options and will be renewed or replaced by other leases.

Lease rentals for both operating and capital leases are generally charged to Other Operation and Maintenance expense in accordance with rate-making treatment for regulated operations. Additionally, for regulated operations with capital leases, a capital lease asset and offsetting liability are recorded at the present value of the remaining lease payments for each reporting period. Capital leases for nonregulated property are accounted for as if the assets were owned and financed. The components of rental costs are as follows:

Year Ended December 31, 2017	AEP	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
				(in millions)				
Net Lease Expense on Operating Leases	\$ 231.3	\$ 10.5	\$ 1.7	\$ 17.5	\$ 88.4	\$ 8.2	\$ 4.4	\$ 5.3
Amortization of Capital Leases	66.3	4.0	—	6.9	11.1	4.1	4.0	11.2
Interest on Capital Leases	16.7	0.8	—	3.7	3.2	0.5	0.6	3.6
Total Lease Rental Costs	\$ 314.3	\$ 15.3	\$ 1.7	\$ 28.1	\$ 102.7	\$ 12.8	\$ 9.0	\$ 20.1
Year Ended December 31, 2016	AEP	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
				(in millions)				
Net Lease Expense on Operating Leases	\$ 224.9	\$ 9.8 (a)	\$ 0.9	\$ 16.6	\$ 90.5	\$ 7.1	\$ 5.0	\$ 6.7
Amortization of Capital Leases	93.7	3.4	—	6.4	35.6	4.2	3.7	13.6
Interest on Capital Leases	18.9	0.6	—	3.5	3.7	0.5	0.6	5.1
Total Lease Rental Costs	\$ 337.5	\$ 13.8	\$ 0.9	\$ 26.5	\$ 129.8	\$ 11.8	\$ 9.3	\$ 25.4
Year Ended December 31, 2015	AEP	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
				(in millions)				
Net Lease Expense on Operating Leases	\$ 292.6	\$ 8.1 (a)	\$ 0.5	\$ 16.4	\$ 88.3	\$ 7.6	\$ 5.4	\$ 6.7
Amortization of Capital Leases	108.5	2.9	—	5.6	40.7	3.9	3.5	13.7
Interest on Capital Leases	25.1	0.4	—	0.8	3.3	0.6	0.7	6.2
Total Lease Rental Costs	\$ 426.2 (b)	\$ 11.4	\$ 0.5	\$ 22.8	\$ 132.3	\$ 12.1	\$ 9.6	\$ 26.6

- (a) Amounts include lease expenses related to AEP Texas Wind Farms that have been classified as Other Operation Expense from Discontinued Operations on the statements of income in the amount of \$1 million for each of the years ended December 31, 2016 and 2015, respectively. See Note 7 for additional information.
- (b) Amounts include lease expenses related to AEPRO that have been classified as Other Operation Expense from Discontinued Operations on the statement of income in the amount of \$89 million for the year ended December 31, 2015. See "AEPRO (Corporate and Other)" section of Note 7 for additional information.

The following tables show the property, plant and equipment under capital leases and related obligations recorded on the Registrants' balance sheets. Unless shown as a separate line on the balance sheets due to materiality, current capital lease obligations are included in Other Current Liabilities and long-term capital lease obligations are included in Deferred Credits and Other Noncurrent Liabilities on the Registrants' balance sheets.

December 31, 2017	AEP	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
	(in millions)							
Property, Plant and Equipment Under Capital Leases:								
Generation	\$ 141.7	\$ —	\$ —	\$ 42.5	\$ 27.2	\$ —	\$ 8.9	\$ 33.4
Other Property, Plant and Equipment	373.3	32.7	0.2	18.0	34.0	22.8	18.0	122.4
Total Property, Plant and Equipment	515.0	32.7	0.2	60.5	61.2	22.8	26.9	155.8
Accumulated Amortization	229.0	10.0	—	19.0	21.1	10.6	15.3	94.0
Net Property, Plant and Equipment Under Capital Leases	<u>\$ 286.0</u>	<u>\$ 22.7</u>	<u>\$ 0.2</u>	<u>\$ 41.5</u>	<u>\$ 40.1</u>	<u>\$ 12.2</u>	<u>\$ 11.6</u>	<u>\$ 61.8</u>
Obligations Under Capital Leases:								
Noncurrent Liability	\$ 238.8	\$ 18.5	\$ 0.1	\$ 34.9	\$ 34.3	\$ 7.9	\$ 8.3	\$ 57.8
Liability Due Within One Year	59.0	4.2	0.1	6.6	5.8	4.3	3.5	11.2
Total Obligations Under Capital Leases	<u>\$ 297.8</u>	<u>\$ 22.7</u>	<u>\$ 0.2</u>	<u>\$ 41.5</u>	<u>\$ 40.1</u>	<u>\$ 12.2</u>	<u>\$ 11.8</u>	<u>\$ 69.0</u>
December 31, 2016	AEP	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
	(in millions)							
Property, Plant and Equipment Under Capital Leases:								
Generation	\$ 146.3	\$ —	\$ —	\$ 45.0	\$ 26.4	\$ —	\$ 10.0	\$ 34.5
Other Property, Plant and Equipment	373.1	26.1	—	18.1	43.7	23.9	19.4	122.1
Total Property, Plant and Equipment	519.4	26.1	—	63.1	70.1	23.9	29.4	156.6
Accumulated Amortization	226.4	7.7	—	18.1	25.4	11.6	15.6	86.5
Net Property, Plant and Equipment Under Capital Leases	<u>\$ 293.0</u>	<u>\$ 18.4</u>	<u>\$ —</u>	<u>\$ 45.0</u>	<u>\$ 44.7</u>	<u>\$ 12.3</u>	<u>\$ 13.8</u>	<u>\$ 70.1</u>
Obligations Under Capital Leases:								
Noncurrent Liability	\$ 242.1	\$ 14.8	\$ —	\$ 38.2	\$ 35.3	\$ 8.1	\$ 9.8	\$ 65.5
Liability Due Within One Year	63.4	3.6	—	6.8	9.4	4.2	4.1	11.8
Total Obligations Under Capital Leases	<u>\$ 305.5</u>	<u>\$ 18.4</u>	<u>\$ —</u>	<u>\$ 45.0</u>	<u>\$ 44.7</u>	<u>\$ 12.3</u>	<u>\$ 13.9</u>	<u>\$ 77.3</u>

Future minimum lease payments consisted of the following as of December 31, 2017:

Capital Leases	AEP	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
	(in millions)							
2018	\$ 76.6	\$ 5.1	\$ 0.1	\$ 10.0	\$ 11.0	\$ 4.7	\$ 3.8	\$ 14.3
2019	60.4	4.0	0.1	7.9	7.2	2.4	2.5	12.7
2020	49.7	3.4	—	7.0	6.4	1.8	1.7	10.9
2021	42.6	3.1	—	6.8	5.9	1.6	1.3	10.0
2022	35.1	2.6	—	6.4	5.4	1.1	1.0	8.9
Later Years	106.2	8.3	—	18.8	25.2	2.0	2.6	25.6
Total Future Minimum Lease Payments	370.6	26.5	0.2	56.9	61.1	13.6	12.9	82.4
Less Estimated Interest Element	72.8	3.8	—	15.4	21.0	1.4	1.3	13.4
Estimated Present Value of Future Minimum Lease Payments	\$ 297.8	\$ 22.7	\$ 0.2	\$ 41.5	\$ 40.1	\$ 12.2	\$ 11.6	\$ 69.0
Noncancelable Operating Leases	AEP	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
	(in millions)							
2018	\$ 245.9	\$ 11.6	\$ 1.7	\$ 17.3	\$ 91.3	\$ 11.3	\$ 4.8	\$ 6.0
2019	237.9	10.7	1.3	15.6	90.3	10.3	4.3	5.7
2020	227.6	9.8	1.0	14.4	86.9	8.7	3.8	5.3
2021	210.7	8.9	0.4	12.0	82.4	6.3	2.9	4.9
2022	201.1	7.9	—	10.9	81.4	5.4	2.5	4.3
Later Years	137.1	21.5	—	23.3	16.3	19.5	6.5	9.5
Total Future Minimum Lease Payments	\$1,260.3	\$ 70.4	\$ 4.4	\$ 93.5	\$ 448.6	\$ 61.5	\$ 24.8	\$ 35.7

Master Lease Agreements (Applies to all Registrants except AEPTCo)

The Registrants lease certain equipment under master lease agreements. Under the lease agreements, the lessor is guaranteed a residual value up to a stated percentage of either the unamortized balance or the equipment cost at the end of the lease term. If the actual fair value of the leased equipment is below the guaranteed residual value at the end of the lease term, the Registrants are committed to pay the difference between the actual fair value and the residual value guarantee. Historically, at the end of the lease term the fair value has been in excess of the unamortized balance. As of December 31, 2017, the maximum potential loss by the Registrants for these lease agreements assuming the fair value of the equipment is zero at the end of the lease term is as follows:

Company	Maximum Potential Loss (in millions)
AEP	\$ 43.2
AEP Texas	10.0
APCo	8.8
I&M	3.3
OPCo	6.4
PSO	3.6
SWEPCo	3.7

Rockport Lease (Applies to AEP and I&M)

AEGCo and I&M entered into a sale-and-leaseback transaction in 1989 with Wilmington Trust Company (Owner Trustee), an unrelated, unconsolidated trustee for Rockport Plant, Unit 2 (the Plant). The Owner Trustee was capitalized with equity from six owner participants with no relationship to AEP or any of its subsidiaries and debt from a syndicate of banks and securities in a private placement to certain institutional investors.

The gain from the sale was deferred and is being amortized over the term of the lease, which expires in 2022. The Owner Trustee owns the Plant and leases it equally to AEGCo and I&M. The lease is accounted for as an operating lease with the payment obligations included in the future minimum lease payments schedule earlier in this note. The lease term is for 33 years with potential renewal options. At the end of the lease term, AEGCo and I&M have the option to renew the lease or the Owner Trustee can sell the Plant. AEP, AEGCo and I&M have no ownership interest in the Owner Trustee and do not guarantee its debt. The future minimum lease payments for this sale-and-leaseback transaction as of December 31, 2017 are as follows:

Future Minimum Lease Payments	AEP (a)	I&M
	(in millions)	
2018	\$ 147.8	\$ 73.9
2019	147.8	73.9
2020	147.8	73.9
2021	147.8	73.9
2022	147.2	73.6
Total Future Minimum Lease Payments	\$ 738.4	\$ 369.2

(a) AEP's future minimum lease payments include equal shares from AEGCo and I&M.

Railcar Lease (Applies to AEP, I&M and SWEPCo)

In June 2003, AEP Transportation LLC (AEP Transportation), a subsidiary of AEP, entered into an agreement with BTM Capital Corporation, as lessor, to lease 875 coal-transporting aluminum railcars. The lease is accounted for as an operating lease. In January 2008, AEP Transportation assigned the remaining 848 railcars under the original lease agreement to I&M (390 railcars) and SWEPCo (458 railcars). The assignment is accounted for as operating leases for I&M and SWEPCo. The initial lease term was five years with three consecutive five-year renewal periods for a maximum lease term of twenty years. I&M and SWEPCo intend to renew these leases for the full lease term of twenty years via the renewal options. The future minimum lease obligations are \$7 million and \$8 million for I&M and SWEPCo, respectively, for the remaining railcars as of December 31, 2017. These obligations are included in the future minimum lease payments schedule earlier in this note.

Under the lease agreement, the lessor is guaranteed that the sale proceeds under a return-and-sale option will equal at least a lessee obligation amount specified in the lease, which declines from 83% of the projected fair value of the equipment under the current five-year lease term to 77% at the end of the 20-year term. I&M and SWEPCo have assumed the guarantee under the return-and-sale option. The maximum potential losses related to the guarantee are \$8 million and \$10 million for I&M and SWEPCo, respectively, as of December 31, 2017, assuming the fair value of the equipment is zero at the end of the current five-year lease term. However, management believes that the fair value would produce a sufficient sales price to avoid any loss.

AEPRO Boat and Barge Leases (Applies to AEP)

In October 2015, AEP signed a Purchase and Sale Agreement to sell its commercial barge transportation subsidiary, AEPRO, to a nonaffiliated party. The sale closed in November 2015. See “AEPRO (Corporate and Other)” section of Note 7. Certain of the boat and barge leases acquired by the nonaffiliated party are subject to an AEP guarantee in favor of the lessor, ensuring future payments under such leases with maturities up to 2027. As of December 31, 2017, the maximum potential amount of future payments required under the guaranteed leases was \$50 million. In certain instances, AEP has no recourse against the nonaffiliated party if required to pay a lessor under a guarantee, but AEP would have access to sell the leased assets in order to recover payments made by AEP under the guarantee. As of December 31, 2017, AEP’s boat and barge lease guarantee liability was \$7 million, of which \$1 million was recorded in Other Current Liabilities and \$6 million was recorded in Deferred Credits and Other Noncurrent Liabilities on AEP’s balance sheet.

I&M Nuclear Fuel Lease (Applies to AEP and I&M)

In November 2013, I&M entered into a sale-and-leaseback transaction with IMP 11-2013, a nonaffiliated Ohio trust, to lease nuclear fuel for I&M’s Cook Plant. In November 2013, I&M sold a portion of its unamortized nuclear fuel inventory to the trust for \$110 million. The lease has a variable rate based on one month LIBOR and is accounted for as a capital lease with lease terms up to 54 months. The future minimum lease payments for the sales-and-leaseback transaction as of December 31, 2017 are \$2 million based on estimated fuel burn and will be paid in 2018. The net capital lease asset is included in Other Property, Plant and Equipment on the balance sheets. The short-term capital lease obligations are included in Other Current Liabilities on AEP’s balance sheets and in Obligations Under Capital Leases on I&M’s balance sheets. The long-term capital lease obligations are included in Deferred Credits and Other Noncurrent Liabilities on the balance sheets.

14. FINANCING ACTIVITIES

The disclosures in this note apply to all Registrants unless indicated otherwise.

Common Stock (Applies to AEP)

Listed below is a reconciliation of common stock share activity:

Shares of AEP Common Stock	Issued	Held in Treasury
Balance, December 31, 2014	509,739,159	20,336,592
Issued	1,650,014	—
Balance, December 31, 2015	511,389,173	20,336,592
Issued	659,347	—
Balance, December 31, 2016	512,048,520	20,336,592
Issued	162,124	—
Treasury Stock Reissued	—	(131,546) (a)
Balance, December 31, 2017	<u>512,210,644</u>	<u>20,205,046</u>

- (a) Reissued Treasury Stock used to fulfill share commitments related to AEP's Share-based Compensation. See "Share-based Compensation Plans" section of Note 15 for additional information.

Long-term Debt

The following table details long-term debt outstanding:

Company	Maturity	Weighted Average	Interest Rate Ranges as of		Outstanding as of	
		Interest Rate as of	December 31,		December 31,	
		December 31, 2017	2017	2016	2017	2016
(in millions)						
AEP						
Senior Unsecured Notes	2017-2047	4.62%	2.15%-8.13%	1.65%-8.13%	\$ 16,478.3	\$ 14,761.0 (f)
Pollution Control Bonds (a)	2017-2042 (b)	3.06%	1.54%-6.30%	0.69%-6.30%	1,621.7	1,725.1
Notes Payable – Nonaffiliated (c)	2017-2032	3.00%	2.03%-6.37%	1.456%-6.37%	260.8	326.9
Securitization Bonds	2017-2028 (d)	3.70%	1.98%-5.31%	0.88%-5.31%	1,416.5	1,705.0
Spent Nuclear Fuel Obligation (e)					268.6	266.3
Other Long-term Debt	2017-2059	2.75%	1.15%-13.718%	1.15%-13.718%	1,127.4	1,606.9
Total Long-term Debt Outstanding					\$ 21,173.3	\$ 20,391.2 (f)
AEP Texas						
Senior Unsecured Notes	2018-2047	4.12%	2.40%-6.76%	2.61%-6.76%	\$ 1,932.2	\$ 1,241.3
Pollution Control Bonds (a)	2017-2030	4.39%	1.75%-6.30%	4.00%-6.30%	490.5	530.3
Securitization Bonds	2017-2024 (d)	4.05%	1.98%-5.31%	0.88%-5.31%	1,026.1	1,245.8
Other Long-term Debt	2019-2059	2.76%	2.75%-4.50%	2.438%-4.50%	200.5	200.3
Total Long-term Debt Outstanding					\$ 3,649.3	\$ 3,217.7
AEPTCo						
Senior Unsecured Notes	2018-2047	3.85%	2.68%-5.52%	2.68%-5.52%	\$ 2,550.4	\$ 1,932.0
Total Long-term Debt Outstanding					\$ 2,550.4	\$ 1,932.0
APCo						
Senior Unsecured Notes	2017-2045	5.20%	3.30%-7.00%	3.40%-7.00%	\$ 3,045.1	\$ 2,972.4
Pollution Control Bonds (a)	2018-2042 (b)	2.44%	1.625%-5.38%	0.69%-5.38%	512.2	615.8
Securitization Bonds	2023-2028 (d)	2.98%	2.008%-3.772%	2.008%-3.772%	295.9	318.9
Other Long-term Debt	2019-2026	2.92%	2.73%-13.718%	2.06%-13.718%	126.9	126.8
Total Long-term Debt Outstanding					\$ 3,980.1	\$ 4,033.9
I&M						
Senior Unsecured Notes	2019-2047	5.20%	3.20%-7.00%	3.20%-7.00%	\$ 1,809.0	\$ 1,512.8
Pollution Control Bonds (a)	2018-2025 (b)	2.02%	1.75%-2.75%	0.74%-4.625%	264.6	225.4
Notes Payable – Nonaffiliated (c)	2017-2022	2.15%	2.03%-2.19%	1.456%-1.81%	188.6	251.4
Spent Nuclear Fuel Obligation (e)					268.6	266.3
Other Long-term Debt	2018-2025	3.03%	2.82%-6.00%	2.15%-6.00%	214.3	215.5
Total Long-term Debt Outstanding					\$ 2,745.1	\$ 2,471.4
OPCo						
Senior Unsecured Notes	2018-2035	5.98%	5.375%-6.60%	5.375%-6.60%	\$ 1,591.4	\$ 1,590.2
Pollution Control Bonds	2038	5.80%	5.80%	5.80%	32.3	32.3
Securitization Bonds	2018-2019 (d)	2.049%	2.049%	0.958%-2.049%	94.5	140.2
Other Long-term Debt	2028	1.15%	1.15%	1.15%	1.1	1.2
Total Long-term Debt Outstanding					\$ 1,719.3	\$ 1,763.9
PSO						
Senior Unsecured Notes	2019-2046	4.80%	3.05%-6.625%	3.05%-6.625%	\$ 1,144.1	\$ 1,143.2
Pollution Control Bonds (a)	2020	4.45%	4.45%	4.45%	12.6	12.6
Other Long-term Debt	2019-2027	2.60%	2.584%-3.00%	1.92%-3.00%	129.8	130.2
Total Long-term Debt Outstanding					\$ 1,286.5	\$ 1,286.0
SWEPCo						
Senior Unsecured Notes	2017-2045	4.78%	2.75%-6.45%	2.75%-6.45%	\$ 2,110.7	\$ 2,359.2
Pollution Control Bonds (a)	2018-2019	3.62%	1.60%-4.95%	1.60%-4.95%	135.1	134.9
Notes Payable – Nonaffiliated (c)	2024-2032	5.20%	4.58%-6.37%	4.58%-6.37%	72.1	75.3
Other Long-term Debt	2017-2023	3.00%	2.925%-4.28%	2.346%-4.28%	124.0	109.7
Total Long-term Debt Outstanding					\$ 2,441.9	\$ 2,679.1

- (a) For certain series of pollution control bonds, interest rates are subject to periodic adjustment. Certain series may be purchased on demand at periodic interest adjustment dates. Letters of credit from banks and insurance policies support certain series.
- (b) Certain pollution control bonds are subject to redemption earlier than the maturity date. Consequently, these bonds have been classified for maturity purposes as Long-term Debt Due Within One Year - Nonaffiliated on the balance sheets.
- (c) Notes payable represent outstanding promissory notes issued under term loan agreements and credit agreements with a number of banks and other financial institutions. At expiration, all notes then issued and outstanding are due and payable. Interest rates are both fixed and variable. Variable rates generally relate to specified short-term interest rates.
- (d) Dates represent the scheduled final payment dates for the securitization bonds. The legal maturity date is one to two years later. These bonds have been classified for maturity and repayment purposes based on the scheduled final payment date.
- (e) Spent nuclear fuel obligation consists of a liability along with accrued interest for disposal of spent nuclear fuel (see "SNF Disposal" section of Note 6).
- (f) Amounts include debt related to the Lawrenceburg Plant that has been classified as Liabilities Held for Sale on the balance sheet. See "Gavin, Waterford, Darby and Lawrenceburg Plants (Generation & Marketing Segment)" section of Note 7 for additional information.

Long-term debt outstanding as of December 31, 2017 is payable as follows:

	AEP	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
	(in millions)							
2018	\$ 1,753.7	\$ 266.1	\$ 50.0	\$ 249.2	\$ 474.7	\$ 397.0	\$ 0.5	\$ 3.7
2019	2,307.9	501.1	85.0	305.4	535.2	48.0	375.5	457.2
2020	1,322.0	377.7	—	90.3	26.4	0.1	13.2	118.7
2021	1,352.9	66.2	50.0	393.0	49.9	500.1	250.5	3.7
2022	1,318.4	493.1	104.0	26.0	3.5	0.1	0.5	278.7
After 2022	13,265.7	1,970.5	2,286.0	2,951.0	1,673.9	782.9	652.5	1,594.9
Principal Amount	21,320.6	3,674.7	2,575.0	4,014.9	2,763.6	1,728.2	1,292.7	2,456.9
Unamortized Discount, Net and Debt Issuance Costs	(147.3)	(25.4)	(24.6)	(34.8)	(18.5)	(8.9)	(6.2)	(15.0)
Total Long-term Debt Outstanding	\$ 21,173.3	\$ 3,649.3	\$ 2,550.4	\$ 3,980.1	\$ 2,745.1	\$ 1,719.3	\$ 1,286.5	\$ 2,441.9

In January and February 2018, I&M retired \$14 million and \$2 million, respectively, of Notes Payable related to DCC Fuel.

In January 2018, AEP Texas retired \$96 million of Securitization Bonds.

In January 2018, OPCo retired \$23 million of Securitization Bonds.

In January 2018, SWEPCo issued \$450 million of 3.85% Senior Unsecured Notes due in 2048.

In January 2018, Transource Energy issued \$2 million of variable rate Other Long-term Debt due in 2020.

In February 2018, APCo retired \$12 million of Securitization Bonds.

In February 2018, SWEPCo retired \$2 million of Other Long-term Debt.

As of December 31, 2017, trustees held, on behalf of AEP, \$678 million of their reacquired Pollution Control Bonds. Of this total, \$104 million and \$345 million related to APCo and OPCo, respectively.

Debt Covenants (Applies to AEP and AEPTCo)

Covenants in AEPTCo's note purchase agreements and indenture limit the amount of contractually-defined priority debt (which includes a further sub-limit of \$50 million of secured debt) to 10% of consolidated tangible net assets. AEPTCo's contractually-defined priority debt was 0.6% of consolidated tangible net assets as of December 31, 2017. The method for calculating the consolidated tangible net assets is contractually defined in the note purchase agreements.

Dividend Restrictions

Utility Subsidiaries' Restrictions

Parent depends on its utility subsidiaries to pay dividends to shareholders. AEP utility subsidiaries pay dividends to Parent provided funds are legally available. 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.

All of the dividends declared by AEP's utility subsidiaries that provide transmission or local distribution services are subject to a Federal Power Act restriction that prohibits the payment of dividends out of capital accounts without regulatory approval; payment of dividends is allowed out of retained earnings only. Additionally, the Federal Power Act creates a reserve on earnings attributable to hydroelectric generation plants. Because of their ownership of such plants, this reserve applies to AGR, APCo and I&M.

Certain AEP subsidiaries also have credit agreements that contain covenants that limit their debt to capitalization ratio to 67.5%. The method for calculating outstanding debt and capitalization is contractually defined in the credit agreements.

The most restrictive dividend limitation for certain AEP subsidiaries is through the Federal Power Act restriction, while for other AEP subsidiaries the most restrictive dividend limitation is through the credit agreements. As of December 31, 2017, the maximum amount of restricted net assets of AEP's subsidiaries that may not be distributed to the Parent in the form of a loan, advance or dividend was \$11.4 billion.

The Federal Power Act restriction does not limit the ability of the AEP subsidiaries to pay dividends out of retained earnings. However, the credit agreement covenant restrictions can limit the ability of the AEP subsidiaries to pay dividends out of retained earnings. As of December 31, 2017, the amount of any such restrictions was as follows:

	<u>AEP</u>	<u>AEP Texas</u>	<u>AEPTCo</u>	<u>APCo</u>	<u>I&M</u>	<u>OPCo</u>	<u>PSO</u>	<u>SWEPCo</u>
	(in millions)							
Restricted Retained Earnings	\$ 1,375.6 (a)	\$ 219.6	\$ —	\$ —	\$ 416.2	\$ —	\$ 173.5	\$ 470.6

(a) Includes the restrictions of consolidated and unconsolidated subsidiaries.

Parent Restrictions (Applies to AEP)

The holders of AEP's common stock are entitled to receive the dividends declared by the Board of Directors provided funds are legally available for such dividends. Parent's income primarily derives from common stock equity in the earnings of its utility subsidiaries.

Pursuant to the leverage restrictions in credit agreements, AEP must 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 the credit agreements. As of December 31, 2017, AEP had \$7.3 billion of available retained earnings to pay dividends to common shareholders. AEP paid \$1.2 billion, \$1.1 billion and \$1.1 billion of dividends to common shareholders for the years ended December 31, 2017, 2016 and 2015, respectively.

Lines of Credit and Short-term Debt (Applies to AEP and SWEPCo)

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 of the 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. As of December 31, 2017, AEP had a credit facility for \$3 billion to support its commercial paper program. The maximum amount of commercial paper outstanding during 2017 was \$1.6 billion and the weighted average interest rate of commercial paper outstanding during 2017 was 1.25%. AEP's outstanding short-term debt was as follows:

		December 31,			
		2017		2016	
Company	Type of Debt	Outstanding Amount	Interest Rate (a)	Outstanding Amount	Interest Rate (a)
		(in millions)		(in millions)	
AEP	Securitized Debt for Receivables (b)	\$ 718.0	1.22%	\$ 673.0	0.70%
AEP	Commercial Paper	898.6	1.85%	1,040.0	1.02%
SWEPCo	Notes Payable	22.0	2.92%	—	—%
Total Short-term Debt		\$ 1,638.6		\$ 1,713.0	

(a) Weighted average rate.

(b) Amount of securitized debt for receivables as accounted for under the "Transfers and Servicing" accounting guidance.

Corporate Borrowing Program – AEP System (Applies to Registrant Subsidiaries)

The AEP System uses a corporate borrowing program to meet the short-term borrowing needs of AEP's subsidiaries. The corporate borrowing program includes a Utility Money Pool, which funds AEP's utility subsidiaries, a Nonutility Money Pool, which funds certain AEP nonutility subsidiaries, and direct borrowing from AEP. The AEP System Utility Money Pool operates in accordance with the terms and conditions of the AEP System Utility Money Pool agreement filed with the FERC. The amounts of outstanding loans to (borrowings from) the Utility Money Pool as of December 31, 2017 and 2016 are included in Advances to Affiliates and Advances from Affiliates, respectively, on each of the Registrant Subsidiaries' balance sheets. The Utility Money Pool participants' money pool activity and their corresponding authorized borrowing limits are described in the following tables:

Year Ended December 31, 2017:

Company	Maximum Borrowings from the Utility Money Pool	Maximum Loans to the Utility Money Pool	Average Borrowings from the Utility Money Pool	Average Loans to the Utility Money Pool	Net Loans to (Borrowings from) the Utility Money Pool as of December 31, 2017	Authorized Short-term Borrowing Limit
(in millions)						
AEP Texas	\$ 296.0	\$ 451.7	\$ 194.8	\$ 264.6	\$ 103.5	\$ 400.0
AEPTCo	467.2	268.0	180.5	119.8	109.2	795.0 (a)
APCo	231.5	160.7	144.3	30.0	(162.5)	600.0
I&M	367.4	12.6	204.9	12.6	(199.2)	500.0
OPCo	280.6	56.2	137.0	27.9	(87.8)	400.0
PSO	185.2	—	119.3	—	(149.6)	300.0
SWEPCo	187.5	178.6	95.5	169.5	(118.7)	350.0

Year Ended December 31, 2016:

Company	Maximum Borrowings from the Utility Money Pool	Maximum Loans to the Utility Money Pool	Average Borrowings from the Utility Money Pool	Average Loans to the Utility Money Pool	Net Loans to (Borrowings from) the Utility Money Pool as of December 31, 2016	Authorized Short-term Borrowing Limit
(in millions)						
AEP Texas	\$ 176.9	\$ 138.9	\$ 87.5	\$ 79.8	\$ (174.5)	\$ 400.0
AEPTCo	363.4	82.0	153.7	14.6	49.8	795.0 (a)
APCo	286.9	25.7	148.0	24.8	(55.5)	600.0
I&M	369.1	97.6	129.9	19.5	(202.7)	500.0
OPCo	227.9	379.2	116.6	182.4	24.2	400.0
PSO	52.0	205.4	12.9	48.1	(52.0)	300.0
SWEPCo	249.4	313.3	171.8	267.7	167.8	350.0

(a) Amount represents the combined authorized short-term borrowing limit the State Transcos have from FERC or state regulatory commissions.

The activity in the above tables does not include short-term lending activity of certain AEP nonutility subsidiaries. AEP Texas' wholly-owned subsidiary AEP Texas North Generation Company LLC (TNGC) and SWEPCo's wholly-owned subsidiary, Mutual Energy SWEPCo, LP are participants in the Nonutility Money Pool. The amounts of outstanding loans to the Nonutility Money Pool as of December 31, 2017 and 2016 are included in Advances to Affiliates on each subsidiaries' balance sheets. The Nonutility Money Pool participants' money pool activity is described in the following tables:

Year Ended December 31, 2017:

Company	Maximum Borrowings from the Nonutility Money Pool	Maximum Loans to the Nonutility Money Pool	Average Borrowings from the Nonutility Money Pool	Average Loans to the Nonutility Money Pool	Net Loans to the Nonutility Money Pool as of December 31, 2017
	(in millions)				
AEP Texas	\$ —	\$ 8.6	\$ —	\$ 8.3	\$ 8.4
SWEPCo	—	2.0	—	2.0	2.0

Year Ended December 31, 2016:

Company	Maximum Borrowings from the Nonutility Money Pool	Maximum Loans to the Nonutility Money Pool	Average Borrowings from the Nonutility Money Pool	Average Loans to the Nonutility Money Pool	Net Loans to the Nonutility Money Pool as of December 31, 2016
	(in millions)				
AEP Texas (a)	\$ 12.5	\$ 27.0	\$ 12.0	\$ 12.3	\$ 8.6
SWEPCo	—	2.0	—	2.0	2.0

- (a) Amounts include short-term loans and (borrowings) related to Wind Farms that have been classified as Assets and Liabilities From Discontinued Operations, which were transferred to a competitive AEP Affiliate in December 2016. See Note 7 for additional information.

AEP has a direct financing relationship with AEPTCo to meet its short-term borrowing needs. In January 2017, management removed AEP Texas from the direct financing relationship with AEP to better reflect current business operations. The amounts of outstanding loans to (borrowings from) AEP as of December 31, 2017 and 2016 are included in Advances to Affiliates and Advances from Affiliates, respectively, on each Registrant Subsidiaries' balance sheets. The direct borrowing and lending activity with AEP are described in the following tables:

Year Ended December 31, 2017:

Company	Maximum Borrowings from AEP	Maximum Loans to AEP	Average Borrowings from AEP	Average Loans to AEP	Borrowings from AEP as of December 31, 2017	Loans to AEP as of December 31, 2017	Authorized Short-term Borrowing Limit
	(in millions)						
AEP Texas	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
AEPTCo	4.1	151.9	1.1	39.3	1.1	22.5	75.0 (b)

Year Ended December 31, 2016:

Company	Maximum Interest Rate for Funds Borrowed from the Nonutility Money Pool	Minimum Interest Rate for Funds Borrowed from the Nonutility Money Pool	Maximum Interest Rate for Funds Loaned to the Nonutility Money Pool	Minimum Interest Rate for Funds Loaned to the Nonutility Money Pool	Average Interest Rate for Funds Borrowed from the Nonutility Money Pool	Average Interest Rate for Funds Loaned to the Nonutility Money Pool
AEP Texas	1.11%	0.97%	1.02%	0.75%	1.00%	0.86%
SWEPCo	—%	—%	1.02%	0.69%	—%	0.82%

Year Ended December 31, 2015:

Company	Maximum Interest Rate for Funds Borrowed from the Nonutility Money Pool	Minimum Interest Rate for Funds Borrowed from the Nonutility Money Pool	Maximum Interest Rate for Funds Loaned to the Nonutility Money Pool	Minimum Interest Rate for Funds Loaned to the Nonutility Money Pool	Average Interest Rate for Funds Borrowed from the Nonutility Money Pool	Average Interest Rate for Funds Loaned to the Nonutility Money Pool
AEP Texas	1.14%	0.64%	—%	—%	0.76%	—%
SWEPCo	—%	—%	0.87%	0.37%	—%	0.48%

Maximum, minimum and average interest rates for funds either borrowed from or loaned to AEP are summarized in the following tables:

Year Ended December 31, 2017:

Company	Maximum Interest Rate for Funds Borrowed from AEP	Minimum Interest Rate for Funds Borrowed from AEP	Maximum Interest Rate for Funds Loaned to AEP	Minimum Interest Rate for Funds Loaned to AEP	Average Interest Rate for Funds Borrowed from AEP	Average Interest Rate for Funds Loaned to AEP
AEP Texas	—%	—%	—%	—%	—%	—%
AEPTCo	1.85%	0.92%	1.85%	0.92%	1.33%	1.36%

Year Ended December 31, 2016:

Company	Maximum Interest Rate for Funds Borrowed from AEP	Minimum Interest Rate for Funds Borrowed from AEP	Maximum Interest Rate for Funds Loaned to AEP	Minimum Interest Rate for Funds Loaned to AEP	Average Interest Rate for Funds Borrowed from AEP	Average Interest Rate for Funds Loaned to AEP
AEP Texas	0.98%	0.69%	1.02%	0.99%	0.83%	1.00%
AEPTCo	1.02%	0.69%	1.02%	0.69%	0.83%	0.87%

Year Ended December 31, 2015:

Company	Maximum Interest Rate for Funds Borrowed from AEP	Minimum Interest Rate for Funds Borrowed from AEP	Maximum Interest Rate for Funds Loaned to AEP	Minimum Interest Rate for Funds Loaned to AEP	Average Interest Rate for Funds Borrowed from AEP	Average Interest Rate for Funds Loaned to AEP
AEP Texas	0.87%	0.37%	—%	—%	0.48%	—%
AEPTCo	0.87%	0.37%	0.87%	0.37%	0.48%	0.47%

Interest expense and interest income related to the Utility Money Pool, Nonutility Money Pool and direct borrowing financing relationship are included in Interest Expense and Interest Income, respectively, on each of the Registrant Subsidiaries' statements of income. The interest expense and interest income related to the corporate borrowing programs were immaterial for the years ended December 31, 2017, 2016 and 2015.

Credit Facilities

For a discussion of credit facilities, see “Letters of Credit” section of Note 6.

Securitized Accounts Receivables – AEP Credit (Applies to AEP)

AEP Credit has a receivables securitization agreement with bank conduits. Under the securitization agreement, AEP Credit receives financing from the bank conduits for the interest in the receivables AEP Credit acquires from affiliated utility subsidiaries. These securitized transactions allow AEP Credit to repay its outstanding debt obligations, continue to purchase the operating companies’ receivables and accelerate AEP Credit’s cash collections.

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

Accounts receivable information for AEP Credit is as follows:

	Years Ended December 31,		
	2017	2016	2015
	(dollars in millions)		
Effective Interest Rates on Securitization of Accounts Receivable	1.22%	0.70%	0.30%
Net Uncollectible Accounts Receivable Written Off	\$ 23.4	\$ 23.7	\$ 34.1

	December 31,	
	2017	2016
	(in millions)	
Accounts Receivable Retained Interest and Pledged as Collateral Less Uncollectible Accounts	\$ 925.5	\$ 945.0
Short-term – Securitized Debt of Receivables	718.0	673.0
Delinquent Securitized Accounts Receivable	41.1	42.7
Bad Debt Reserves Related to Securitization	28.7	27.7
Unbilled Receivables Related to Securitization	303.2	322.1

AEP Credit’s delinquent customer accounts receivable represent accounts greater than 30 days past due.

Securitized Accounts Receivables – AEP Credit (Applies to Registrant Subsidiaries, except AEPTCo and AEP Texas)

Under this sale of receivables arrangement, the Registrant Subsidiaries sell, without recourse, certain of their customer accounts receivable and accrued unbilled revenue balances to AEP Credit and are charged a fee based on AEP Credit’s financing costs, administrative costs and uncollectible accounts experience for each Registrant Subsidiary’s receivables. APCo does not have regulatory authority to sell its West Virginia accounts receivable. The costs of customer accounts receivable sold are reported in Other Operation expense on the Registrant Subsidiaries’ statements of income. The Registrant Subsidiaries manage and service their customer accounts receivable, which are sold to AEP Credit. AEP Credit securitizes the eligible receivables for the operating companies and retains the remainder.

The amount of accounts receivable and accrued unbilled revenues under the sale of receivables agreement for each Registrant Subsidiary were as follows:

Company	December 31,	
	2017	2016
	(in millions)	
APCo	\$ 136.2	\$ 142.0
I&M	136.5	136.7
OPCo	367.4	388.3
PSO	115.1	110.4
SWEPCo	138.2	130.9

The fees paid by the Registrant Subsidiaries to AEP Credit for customer accounts receivable sold were:

Company	Years Ended December 31,		
	2017	2016	2015
	(in millions)		
APCo	\$ 5.6	\$ 6.7	\$ 7.6
I&M	6.7	7.1	8.4
OPCo	21.7	28.9	30.7
PSO	7.0	6.2	5.8
SWEPCo	7.2	6.9	7.0

The Registrant Subsidiaries' proceeds on the sale of receivables to AEP Credit were:

Company	Years Ended December 31,		
	2017	2016	2015
	(in millions)		
APCo	\$ 1,372.8	\$ 1,412.5	\$ 1,453.8
I&M	1,612.9	1,596.2	1,553.0
OPCo	2,339.0	2,633.0	2,569.4
PSO	1,337.0	1,269.3	1,326.1
SWEPCo	1,563.4	1,531.7	1,597.8

15. STOCK-BASED COMPENSATION

The disclosures in this note apply to AEP only. The impact of AEP's share-based compensation plans is insignificant to the financial statements of the Registrant Subsidiaries.

Awards under AEP's long-term incentive plan may be granted to employees and directors. The Amended and Restated American Electric Power System Long-Term Incentive Plan (the "Prior Plan"), was replaced prospectively for new grants by the American Electric Power System 2015 Long-Term Incentive Plan (the "2015 LTIP") effective in April 2015. The 2015 LTIP was subsequently amended in September 2016. The 2015 LTIP provides for a maximum of 10 million common shares to be available for grant to eligible employees and directors. As of December 31, 2017, 9,011,946 shares remained available for issuance under the 2015 LTIP plan. No new awards may be granted under the Prior Plan. The 2015 LTIP awards may be stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance share units, cash-based awards and other stock-based awards. If a share is issued pursuant to a stock option or a stock appreciation right, it will reduce the aggregate amount authorized under the 2015 LTIP by 0.286 of a share. If a share is issued for any other award that settles in AEP stock, it will reduce the aggregate amount authorized under the 2015 LTIP by one share. Cash settled awards do not reduce the aggregate amount authorized under the 2015 LTIP. The following sections provide further information regarding each type of stock-based compensation award granted under these plans.

Performance Units

Performance units granted prior to 2017 are settled in cash rather than AEP common stock and do not reduce the aggregate share authorization. These performance units have a fair value upon vesting equal to the average closing market price of AEP common stock for the last 20 trading days of the performance period. Performance units granted in 2017 will be settled in AEP common stock and will reduce the aggregate share authorization. In all cases the number of performance units held at the end of the three year performance period is multiplied by the performance score for such period to determine the actual number of performance units realized. The performance score can range from 0% to 200% and is determined at the end of the performance period based on performance measures, which include both performance and market conditions, established for each grant at the beginning of the performance period by the Human Resources Committee of AEP's Board of Directors (HR Committee).

Certain employees must satisfy stock ownership requirements. If those employees have not met their stock ownership requirements, a portion or all of their performance units are mandatorily deferred as AEP career shares to the extent needed to meet their stock ownership requirement. AEP career shares are a form of non-qualified deferred compensation that has a value equivalent to shares of AEP common stock. AEP career shares are settled in AEP common stock after the participant's termination of employment.

AEP career shares are recorded in Paid in Capital on the balance sheet. Amounts equivalent to cash dividends on both performance units and AEP career shares accrue as additional units. Management records compensation cost for performance units over an approximately three-year vesting period. The liability for the pre 2017 performance units is recorded in Employee Benefits and Pension Obligations on the balance sheet and is adjusted for changes in value. Performance units settled in shares are recorded as mezzanine equity on the balance sheet and compensation cost is calculated at fair value using two metrics. Half is based on the total shareholder return measure, which is determined based on a third party Monte Carlo valuation. That metric doesn't change over the three year vesting period. The other half is based on a three year cumulative earnings per share metric which is adjusted quarterly for changes in performance relative to a target approved by the HR Committee.

Monte Carlo Valuation

AEP engaged a third party for a Monte Carlo valuation to calculate half of the fair value for the performance units awarded during 2017. The valuation used a lattice model and the expected volatility assumption used was the historical volatilities for AEP and the members of their peer group over the last 2.86 years (period from award date to vesting date). The range of expected volatilities was 15.65% to 27.19% with an average expected volatility of 19.07%. The dividend rates used were 0% which is the equivalent to reinvesting dividends. The risk-free rate used was 1.44%, which was interpolated between the two year rate of 1.21% and three year rate of 1.48% since 2.86 years was the vesting period from award date to vesting date.

The HR Committee awarded performance units and reinvested dividends on outstanding performance units and AEP career shares for the years ended December 31, 2017, 2016 and 2015 as follows:

Performance Units	Years Ended December 31,		
	2017	2016	2015
Awarded Units (in thousands) (a)	590.7	597.4	575.0
Weighted Average Unit Fair Value at Grant Date	\$ 69.78	\$ 62.77	\$ 59.19
Vesting Period (in years)	3	3	3

Performance Units and AEP Career Shares (Reinvested Dividends Portion)	Years Ended December 31,		
	2017	2016	2015
Awarded Units (in thousands) (c)	74.6	89.2	103.6
Weighted Average Fair Value at Grant Date	\$ 72.35	\$ 63.83	\$ 54.35
Vesting Period (in years)	(b)	(b)	(b)

- (a) Awarded units in 2017 are mezzanine equity awards and awarded units in 2016 and 2015 are liability awards.
- (b) The vesting period for the reinvested dividends on performance units is equal to the remaining life of the related performance units. Dividends on AEP career shares vest immediately when the dividend is awarded but are not settled in AEP common stock until after the participant's AEP employment ends.
- (c) In 2017 the awarded dividends were a mix of equity awards and liability awards, while they were all liability awards in 2016 and 2015.

Performance scores and final awards are determined and certified by the HR Committee in accordance with the pre-established performance measures within approximately a month after the end of the performance period. The performance scores for all performance periods were dependent on two equally-weighted performance measures: (a) three-year total shareholder return measured relative to a peer group of similar companies (b) three-year cumulative earnings per share measured relative to a target approved by the HR Committee.

The certified performance scores and units earned for the three-year periods ended December 31, 2017, 2016 and 2015 were as follows:

Performance Units	Years Ended December 31,		
	2017	2016	2015
Certified Performance Score	164.8%	163.9%	176.3%
Performance Units Earned	956,055	1,111,966	1,202,107
Performance Units Mandatorily Deferred as AEP Career Shares	20,213	9,963	41,707
Performance Units Voluntarily Deferred into the Incentive Compensation Deferral Program	47,177	51,684	54,074
Performance Units to be Settled in Cash	<u>888,665</u>	<u>1,050,319</u>	<u>1,106,326</u>

The settlements for the years ended December 31, 2017, 2016 and 2015 were as follows:

Performance Units and AEP Career Shares	Years Ended December 31,		
	2017	2016	2015
	(in millions)		
Cash Settlements for Performance Units	\$ 64.9	\$ 62.7	\$ 48.1
Cash Settlements for Career Share Distributions	—	9.1	3.0
AEP Common Stock Settlements for Career Share Distributions	0.4	—	—

Restricted Stock Units

The HR Committee grants restricted stock units (RSUs), which generally vest, subject to the participant's continued employment, over at least three years in approximately equal annual increments. The RSUs accrue dividends as additional RSUs. The additional RSUs granted as dividends vest on the same date as the underlying RSUs. RSUs are converted into shares of AEP common stock upon vesting, except that RSUs granted prior to 2017 that vest to AEP's executive officers are settled in cash. Executive officers are those officers who are subject to the disclosure requirements set forth in Section 16 of the Securities Exchange Act of 1934. For RSUs settled in shares, compensation cost is measured at fair value on the grant date and recorded over the vesting period. Fair value is determined by multiplying the number of RSUs granted by the grant date market closing price. For RSUs settled in cash, compensation cost is recorded over the vesting period and adjusted for changes in fair value until vested. The fair value at vesting is determined by multiplying the number of RSUs vested by the 20-day average closing price of AEP common stock. The maximum contractual term of outstanding RSUs is approximately 72 months from the grant date.

In 2010, the HR Committee granted a total of 165,520 RSUs to four Chief Executive Officer succession candidates as a retention incentive for these candidates. These grants vested in three approximately equal installments in August 2013, August 2014 and August 2015.

The HR Committee awarded RSUs, including additional units awarded as dividends, for the years ended December 31, 2017, 2016 and 2015 as follows:

Restricted Stock Units	Years Ended December 31,		
	2017	2016	2015
Awarded Units (in thousands)	255.8	242.0	397.5
Weighted Average Grant Date Fair Value	\$ 65.26	\$ 62.88	\$ 58.56

The total fair value and total intrinsic value of restricted stock units vested during the years ended December 31, 2017, 2016 and 2015 were as follows:

Restricted Stock Units	Years Ended December 31,		
	2017	2016	2015
	(in millions)		
Fair Value of Restricted Stock Units Vested	\$ 16.1	\$ 16.4	\$ 18.3
Intrinsic Value of Restricted Stock Units Vested (a)	20.0	21.0	24.2

(a) Intrinsic value is calculated as market price at exercise date.

A summary of the status of AEP's nonvested RSUs as of December 31, 2017 and changes during the year ended December 31, 2017 are as follows:

Nonvested Restricted Stock Units	Shares/Units	Weighted Average Grant Date Fair Value
	(in thousands)	
Nonvested as of January 1, 2017	603.6	\$ 57.54
Granted	255.8	65.26
Vested	(295.1)	54.72
Forfeited	(34.7)	61.53
Nonvested as of December 31, 2017	<u>529.6</u>	62.13

The total aggregate intrinsic value of nonvested RSUs as of December 31, 2017 was \$39 million and the weighted average remaining contractual life was 1.6 years.

Other Stock-Based Plans

AEP also has a Stock Unit Accumulation Plan for Non-Employee Directors providing each non-employee director with AEP stock units as a substantial portion of their quarterly compensation for their services as a director. The number of stock units provided is based on the closing price of AEP common stock on the last trading day of the quarter for which the stock units were earned. Amounts equivalent to cash dividends on the stock units accrue as additional AEP stock units. The stock units granted to Non-Employee Directors are fully vested upon grant date. Stock units are settled in cash upon termination of board service or up to 10 years later if the participant so elects. Cash settlements for stock units are calculated based on the average closing price of AEP common stock for the last 20 trading days prior to the distribution date. After five years of service on the Board of Directors, non-employee directors receive contributions to an AEP stock fund awarded under the Stock Unit Accumulation Plan. Such amounts may be exchanged into other market-based investments that are similar to the investment options available to employees that participate in AEP's Incentive Compensation Deferral Plan.

Management records compensation cost for stock units when the units are awarded and adjusts the liability for changes in value based on the current 20-day average closing price of AEP common stock on the valuation date.

For 2017, 2016 and 2015, cash settlements for stock unit distributions were immaterial.

The Board of Directors awarded stock units, including units awarded for dividends, for the years ended December 31, 2017, 2016 and 2015 as follows:

Stock Unit Accumulation Plan for Non-Employee Directors	Years Ended December 31,		
	2017	2016	2015
Awarded Units (in thousands)	14.8	19.1	24.9
Weighted Average Grant Date Fair Value	\$ 70.79	\$ 64.96	\$ 55.46

Share-based Compensation Plans

Compensation cost for share-based payment arrangements, the actual tax benefit from the tax deductions for compensation cost for share-based payment arrangements recognized in income and total compensation cost capitalized in relation to the cost of an asset for the years ended December 31, 2017, 2016 and 2015 were as follows:

Share-based Compensation Plans	Years Ended December 31,		
	2017	2016	2015
		(in millions)	
Compensation Cost for Share-based Payment Arrangements (a)	\$ 79.5	\$ 66.5	\$ 63.8
Actual Tax Benefit (b)	18.9	23.3	22.3
Total Compensation Cost Capitalized	26.4	20.8	20.3

- (a) Compensation cost for share-based payment arrangements is included in Other Operation and Maintenance expenses on the statements of income.
- (b) In December 2017, Tax Reform modified Section 162(m) of the Internal Revenue Code. Beginning after 2017, AEP can no longer deduct compensation expense in excess of \$1 million for certain named executive officers. This will reduce the tax benefit going forward.

As of December 31, 2017, there was \$64 million of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the 2015 LTIP and Prior Plan. Unrecognized compensation cost related to unvested share-based arrangements will change as the fair value of performance units are adjusted each period and as forfeitures for all award types are realized. AEP's unrecognized compensation cost will be recognized over a weighted-average period of 1.35 years.

Under the 2015 LTIP and Prior Plan, AEP is permitted to use authorized but unissued shares, treasury shares, shares acquired in the open market specifically for distribution under these plans, or any combination thereof to fulfill share commitments. In 2017, AEP used a combination of all three to fulfill share commitments. AEP's current practice is to use authorized but unissued shares to fulfill share commitments. The number of shares used to fulfill share commitments is generally reduced to offset AEP's tax withholding obligation.

16. RELATED PARTY TRANSACTIONS

The disclosures in this note apply to all Registrant Subsidiaries unless indicated otherwise.

For other related party transactions, also see “AEP System Tax Allocation Agreement” section of Note 12 in addition to “Corporate Borrowing Program – AEP System” and “Securitized Accounts Receivables – AEP Credit” sections of Note 14.

Power Coordination Agreement (PCA), Bridge Agreement and Power Supply Agreement (PSA) (Applies to all Registrant Subsidiaries except AEP Texas and AEPTCo)

Effective January 1, 2014, the FERC approved the following agreements.

- A Power Coordination Agreement (PCA) among APCo, I&M and KPCo with AEPSC as the agent to coordinate the participants’ respective power supply resources. Effective May 2015, the PCA was revised and approved by the FERC to include WPCo. Under the PCA, APCo, I&M, KPCo and WPCo are individually responsible for planning their respective capacity obligations. Further, the Restated and Amended PCA allows, but does not obligate, APCo, I&M, KPCo and WPCo to participate collectively under a common fixed resource requirement capacity plan in PJM and to participate in specified collective off-system sales and purchase activities.
- A Bridge Agreement among AGR, APCo, I&M, KPCo and OPCo with AEPSC as agent. The Bridge Agreement is an interim arrangement to: (a) address the treatment of purchases and sales made by AEPSC on behalf of member companies that extend beyond termination of the Interconnection Agreement and (b) address how member companies would fulfill their existing obligations under the PJM Reliability Assurance Agreement through the 2014/2015 PJM planning year. Under the Bridge Agreement, AGR committed to use its capacity to help meet the PJM capacity obligations of member companies through the PJM planning year that ended May 31, 2015.
- A Power Supply Agreement (PSA) between AGR and OPCo that provided for AGR to supply capacity for OPCo’s switched (at \$188.88/MW day) and non-switched retail load for the period January 1, 2014 through May 31, 2015 and to supply the energy needs of OPCo’s non-switched retail load that was not acquired through auctions in 2014.

AEPSC conducts power, capacity, coal, natural gas, interest rate and, to a lesser extent, heating oil, gasoline and other risk management activities on behalf of APCo, I&M, KPCo, PSO, SWEPCo and WPCo. Effective January 1, 2014 and revised in May 2015, power and natural gas risk management activities for APCo, I&M, KPCo and WPCo are allocated based on the four member companies’ respective equity positions, while power and natural gas risk management activities for PSO and SWEPCo are allocated based on the Operating Agreement. Effective January 1, 2014 and with the transfer of OPCo’s generation assets to AGR, AEPSC conducts only gasoline, diesel fuel, energy procurement and risk management activities on OPCo’s behalf.

System Integration Agreement (SIA) (Applies to APCo, I&M, PSO and SWEPCo)

Under the SIA, AEPSC allocates physical and financial revenues and expenses from transactions with neighboring utilities, power marketers and other power and natural gas risk management activities based upon the location of such activity. Margins resulting from trading and marketing activities originating in PJM and MISO generally accrue to the benefit of APCo, I&M, KPCo and WPCo, while trading and marketing activities originating in SPP generally accrue to the benefit of PSO and SWEPCo. Margins resulting from other transactions are allocated among APCo, I&M, KPCo, PSO, SWEPCo and WPCo based upon the equity positions of these companies.

Affiliated Revenues and Purchases

The following tables show the revenues derived from direct sales to affiliates, auction sales to affiliates, net transmission agreement sales and other revenues for the years ended December 31, 2017, 2016 and 2015:

Related Party Revenues	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
	(in millions)						
Year Ended December 31, 2017							
Direct Sales to East Affiliates	\$ —	\$ —	\$ 130.4	\$ —	\$ —	\$ —	\$ —
Direct Sales to West Affiliates	—	—	—	3.8	—	—	—
Auction Sales to OPCo (a)	—	—	1.0	—	—	—	—
Direct Sales to AEPEP	63.6	—	—	—	—	—	(0.2)
Transmission Agreement and Transmission Coordination Agreement Sales	—	572.0	34.1	(4.4)	6.2	—	24.2
Other Revenues	2.1	8.5	6.5	2.4	18.2	4.3	1.9
Total Affiliated Revenues	\$ 65.7	\$ 580.5	\$ 172.0	\$ 1.8	\$ 24.4	\$ 4.3	\$ 25.9
Related Party Revenues	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
	(in millions)						
Year Ended December 31, 2016							
Direct Sales to East Affiliates	\$ —	\$ —	\$ 126.0	\$ —	\$ —	\$ —	\$ —
Direct Sales to West Affiliates	—	—	—	—	—	—	3.7
Auction Sales to OPCo (a)	—	—	9.2	12.0	—	—	—
Direct Sales to AEPEP	73.9	—	—	—	—	—	(0.2)
Transmission Agreement and Transmission Coordination Agreement Sales	—	366.1	1.3	12.2	(2.0)	(1.7)	19.4
Other Revenues	1.8	—	5.6	2.0	19.3	4.3	1.6
Total Affiliated Revenues	\$ 75.7	\$ 366.1	\$ 142.1	\$ 26.2	\$ 17.3	\$ 2.6	\$ 24.5
Related Party Revenues	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
	(in millions)						
Year Ended December 31, 2015							
Direct Sales to East Affiliates	\$ —	\$ —	\$ 132.1	\$ —	\$ —	\$ —	\$ —
Auction Sales to OPCo (a)	—	—	10.6	17.1	—	—	—
Direct Sales to AEPEP	76.9	—	—	—	29.7	—	(0.2)
Transmission Agreement and Transmission Coordination Agreement Sales	—	225.6	0.7	8.4	35.5	0.2	15.2
Other Revenues	1.6	—	4.4	1.9	18.9	4.4	1.6
Total Affiliated Revenues	\$ 78.5	\$ 225.6	\$ 147.8	\$ 27.4	\$ 84.1	\$ 4.6	\$ 16.6

(a) Refer to the Ohio Auctions section below for further information regarding these amounts.

The following tables show the purchased power expenses incurred for purchases under the Interconnection Agreement and from affiliates for the years ended December 31, 2017, 2016 and 2015. AEP Texas, AEPTCo, APCo and SWEPCo did not purchase any power from affiliates for the years ended December 31, 2017, 2016 and 2015.

Related Party Purchases	I&M	OPCo	PSO
	(in millions)		
Year Ended December 31, 2017			
Auction Purchases from AEPEP (a)	\$ —	\$ 96.5	\$ —
Auction Purchases from AEP Energy (a)	—	5.5	—
Auction Purchases from AEPSC (a)	—	6.5	—
Direct Purchases from AEGCo	223.9	—	—
Total Affiliated Purchases	<u>\$ 223.9</u>	<u>\$ 108.5</u>	<u>\$ —</u>
Related Party Purchases	I&M	OPCo	PSO
	(in millions)		
Year Ended December 31, 2016			
Direct Purchases from West Affiliates	\$ —	\$ —	\$ 3.7
Auction Purchases from AEPEP (a)	—	110.1	—
Auction Purchases from AEP Energy (a)	—	7.7	—
Auction Purchases from AEPSC (a)	—	24.1	—
Direct Purchases from AEGCo	228.6	—	—
Total Affiliated Purchases	<u>\$ 228.6</u>	<u>\$ 141.9</u>	<u>\$ 3.7</u>
Related Party Purchases	I&M	OPCo	PSO
	(in millions)		
Year Ended December 31, 2015			
Direct Purchases from AGR (b)	\$ —	\$ 269.2	\$ —
Auction Purchases from AEPEP (a)	—	225.2	—
Auction Purchases from AEPSC (a)	—	32.7	—
Direct Purchases from AEGCo	232.1	—	—
Total Affiliated Purchases	<u>\$ 232.1</u>	<u>\$ 527.1</u>	<u>\$ —</u>

(a) Refer to the Ohio Auctions section below for further information regarding this amount.

(b) Amount excludes \$31 million in 2015 which is now presented as Generation Deferrals on the Statement of Income.

The above summarized related party revenues and expenses are reported in Sales to AEP Affiliates and Purchased Electricity from AEP Affiliates, respectively, on the Registrant Subsidiaries' statements of income. Since the Registrant Subsidiaries are included in AEP's consolidated results, the above summarized related party transactions are eliminated in total in AEP's consolidated revenues and expenses.

Transmission Agreement (TA) and Transmission Coordination Agreement (TCA) (Applies to all Registrant Subsidiaries except AEP Texas)

APCo, I&M, KGPCo, KPCo, OPCo and WPCo (AEP East Companies) are parties to the TA, effective November 2010, which defines how transmission costs through PJM OATT are allocated among the AEP East Companies on a 12-month average coincident peak basis.

The following table shows the net charges recorded by APCo, I&M and OPCo for the years ended December 31, 2017, 2016 and 2015 related to the TA:

Company	Years Ended December 31,		
	2017	2016	2015
	(in millions)		
APCo	\$ 158.2	\$ 103.2	\$ 92.7
I&M	103.8	53.0	38.0
OPCo	248.6	143.6	81.0

The charges shown above are recorded in Other Operation expenses on the statements of income.

PSO, SWEPCo and AEPSC are parties to the TCA, dated January 1, 1997, by and among PSO, SWEPCo and AEPSC, in connection with the operation of the transmission assets of the two AEP utility subsidiaries. The TCA has been approved by the FERC and establishes a coordinating committee, which is charged with overseeing the coordinated planning of the transmission facilities of the parties to the agreement. This includes the performance of transmission planning studies, the interaction of such companies with independent system operators (ISO) and other regional bodies interested in transmission planning and compliance with the terms of the OATT filed with the FERC and the rules of the FERC relating to such a tariff.

Under the TCA, the parties to the agreement delegated to AEPSC the responsibility of monitoring the reliability of their transmission systems and administering the OATT on their behalf. The allocations have been governed by the FERC-approved OATT for the SPP.

The following table shows the net (revenues) expenses allocated among parties to the TCA pursuant to the SPP OATT protocols as described above for the years ended December 31, 2017, 2016 and 2015:

Company	Years Ended December 31,		
	2017	2016	2015
	(in millions)		
PSO	\$ 56.0	\$ 19.6	\$ 15.0
SWEPCo	6.6	(19.6)	(15.0)

The net revenues shown above are recorded in Sales to AEP Affiliates on the statements of income and the net expenses are recorded in Other Operation expenses on the statements of income.

AEPTCo is a load serving entity within the PJM and SPP regions providing transmission services to affiliates in accordance with the OATT, TA and TCA. AEPTCo recorded affiliated transmission revenues related to the TA and TCA in Sales to AEP Affiliates on the statements of income. Refer to the Affiliated Revenues and Purchases section above for amounts related to these transactions.

ERCOT Transmission Service Charges (Applies to AEP Texas)

Pursuant to an order from the PUCT, ETT bills AEP Texas for its ERCOT wholesale transmission services. ETT billed AEP Texas \$30 million, \$29 million and \$27 million for transmission services in 2017, 2016 and 2015, respectively. The billings are recorded in Other Operation expenses on AEP Texas' statements of income.

Oklauion PPA between AEP Texas and AEPEP (Applies to AEP Texas)

On January 1, 2007, AEP Texas began a PPA with an affiliate, AEPEP, whereby AEP Texas agrees to sell AEPEP 100% of AEP Texas' capacity and associated energy from its undivided interest (54.69%) in the Oklauion Plant. This PPA is effective through December 2027. AEPEP is to pay AEP Texas for the capacity and associated energy delivered to the delivery point, the sum of fuel, operation and maintenance, depreciation, capacity and all taxes other than federal income taxes applicable. A portion of the payment is fixed and is payable regardless of the level of output. In the event AEP Texas or AEPEP terminate the PPA or the Oklauion Plant is closed by a vote of its owners prior to December

2027, AEPEP will make a payment to AEP Texas equal to AEP Texas's net book value of Oklaunion Plant at the time of such termination or plant closure. There are no penalties if AEP Texas fails to maintain a minimum availability level or exceeds a maximum heat rate level. The PPA was approved by the FERC. AEP Texas recognizes revenues for the fuel, operations and maintenance and all other taxes as-billed. Revenue is recognized for the capacity and depreciation billed to AEPEP, on a straight-line basis over the term of the PPA as these represent the minimum payments due.

AEP Texas recorded revenue of \$64 million, \$74 million and \$77 million from AEPEP for the years ended December 31, 2017, 2016 and 2015, respectively. These amounts are included in Sales to AEP Affiliates on AEP Texas' statements of income.

Joint License Agreement (Applies to AEPTCo, I&M, KPCo, OPCo and PSO)

AEPTCo entered into 50-year joint license agreement with I&M, KPCo, OPCo and PSO, respectively, allowing either party to occupy the granting party's facilities or real property. After the expiration of the agreement, the term shall automatically renew for successive one-year terms unless either party provides notice. The joint license billing provides compensation to the granting party for the cost of carrying assets, including depreciation expense, property taxes, interest expense, return on equity and income taxes. For the years ended December 31, 2017, 2016 and 2015, AEPTCo recorded the following costs in Other Operation expense related to these agreements:

Billing Company	Years Ended December 31,		
	2017	2016	2015
	(in millions)		
I&M	\$ 1.4	\$ 0.8	\$ 0.6
KPCo	0.2	0.1	—
OPCo	2.4	2.3	2.0
PSO	0.3	0.2	0.3

I&M, KPCo, OPCo and PSO recorded income related to these agreements in Sales to AEP Affiliates on the statements of income.

Ohio Auctions (Applies to APCo, I&M and OPCo)

In connection with OPCo's June 2012 - May 2015 ESP, the PUCO ordered OPCo to conduct energy and capacity auctions for its entire SSO load for delivery beginning in June 2015. AEP Energy, AEPEP, APCo, KPCo, I&M and WPCo participate in the auction process and have been awarded tranches of OPCo's SSO load. Refer to the Affiliated Revenues and Purchases section above for amounts related to these transactions.

Unit Power Agreements (UPA) (Applies to I&M)

UPA between AEGCo and I&M

A UPA between AEGCo and I&M (the I&M Power Agreement) provides for the sale by AEGCo to I&M of all the power (and the energy associated therewith) available to AEGCo at the Rockport Plant unless it is sold to another utility. Subsequently, I&M assigns 30% of the power to KPCo. See the "UPA between AEGCo and KPCo" section below. I&M is obligated, whether or not power is available from AEGCo, to pay as a demand charge for the right to receive such power (and as an energy charge for any associated energy taken by I&M) net of amounts received by AEGCo from any other sources, sufficient to enable AEGCo to pay all its operating and other expenses, including a rate of return on the common equity of AEGCo as approved by the FERC. The I&M Power Agreement will continue in effect until the expiration of the lease term of Unit 2 of the Rockport Plant unless extended in specified circumstances.

UPA between AEGCo and KPCo

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

Cook Coal Terminal (Applies to I&M, PSO and SWEPCo)

Cook Coal Terminal, which is owned by AEGCo, performs coal transloading and storage services at cost for I&M. The coal transloading costs in 2017, 2016 and 2015 were as follows:

Company	Years Ended December 31,		
	2017	2016	2015
		(in millions)	
I&M	\$ 10.2	\$ 12.8	\$ 15.8

I&M recorded the cost of transloading services in Fuel on the balance sheet.

Cook Coal Terminal also performs railcar maintenance services at cost for I&M, PSO and SWEPCo. The railcar maintenance costs in 2017, 2016 and 2015 were as follows:

Company	Years Ended December 31,		
	2017	2016	2015
		(in millions)	
I&M	\$ 1.3	\$ 1.7	\$ 2.0
PSO	0.5	0.6	0.2
SWEPCo	3.5	3.3	2.8

I&M, PSO and SWEPCo recorded the cost of the railcar maintenance services in Fuel on the balance sheets.

I&M Barging, Urea Transloading and Other Services (Applies to APCo and I&M)

I&M provides barging, urea transloading and other transportation services to affiliates. Urea is a chemical used to control NO_x emissions at certain generation plants in the AEP System. I&M recorded revenues from barging, transloading and other services in Other Revenues – Affiliated on the statements of income. The affiliated companies recorded these costs paid to I&M as fuel expenses or other operation expenses. The amounts of affiliated expenses were:

Company	Years Ended December 31,		
	2017	2016	2015
		(in millions)	
AEGCo	\$ 15.3	\$ 14.8	\$ 16.1
AGR	0.1	0.3	4.9
APCo	37.2	36.9	37.7
KPCo	5.0	5.3	4.6
WPCo	5.0	4.8	—
AEP River Operations LLC – (Nonutility Subsidiary of AEP)	—	—	15.5

Services Provided by AEP River Operations LLC (Applies to I&M)

AEP River Operations LLC provided services for barge towing, chartering and general and administrative expenses to I&M. The costs are recorded by I&M as Other Operation expenses on the statement of income. In October 2015, AEP signed a Purchase and Sale Agreement to sell AEP River Operations LLC to a nonaffiliated party. The sale closed in November 2015. For the year ended December 31, 2015, I&M recorded expenses of \$19 million for these activities.

Central Machine Shop (Applies to APCo, I&M, PSO and SWEPCo)

APCo operates a facility which repairs and rebuilds specialized components for the generation plants across the AEP System. APCo defers the cost of performing these services on the balance sheet and then transfers the cost to the affiliate for reimbursement. The AEP subsidiaries recorded these billings as capital or maintenance expenses depending on the nature of the services received. These billings are recoverable from customers. The following table provides the amounts billed by APCo to the following affiliates:

Company	Years Ended December 31,		
	2017	2016	2015
	(in millions)		
AEGCo	\$ —	\$ —	\$ 0.1
AGR	1.2	2.0	2.7
I&M	2.7	2.9	2.5
KPCo	1.8	1.5	1.3
PSO	1.1	0.5	0.2
SWEPCo	0.8	0.9	0.8

Sales and Purchases of Property

Certain AEP subsidiaries had affiliated sales and purchases of electric property individually amounting to \$100 thousand or more, sales and purchases of meters and transformers, and sales and purchases of transmission property. There were no gains or losses recorded on the transactions. The following tables show the sales and purchases, recorded at net book value, for the years ended December 31, 2017, 2016 and 2015:

Sales

Company	Years Ended December 31,		
	2017	2016	2015
	(in millions)		
AEP Texas	\$ 0.2	\$ 0.3	\$ 0.6
AEPTCo	—	—	0.2
APCo	3.5	4.5	9.4
I&M	5.0	5.2	3.0
OPCo	2.9	1.9	2.4
PSO	1.5	7.5	7.1
SWEPCo	0.5	1.0	0.8

Purchases

Company	Years Ended December 31,		
	2017	2016	2015
	(in millions)		
AEP Texas	\$ 0.4	\$ 0.7	\$ 0.9
AEPTCo	9.1	6.5	0.4
APCo	0.9	1.5	8.6
I&M	3.5	2.7	8.1
OPCo	1.6	1.7	2.1
PSO	0.2	3.2	0.6
SWEPCo	0.4	6.5	7.4

The amounts above are recorded in Property, Plant and Equipment on the balance sheets.

Intercompany Billings

The Registrant Subsidiaries and other AEP subsidiaries perform certain utility services for each other when necessary or practical. The costs of these services are billed on a direct-charge basis, whenever possible, or on reasonable basis of proration for services that benefit multiple companies. The billings for services are made at cost and include no compensation for the use of equity capital.

17. VARIABLE INTEREST ENTITIES

The disclosures in this note apply to all Registrants unless indicated otherwise.

The accounting guidance for “Variable Interest Entities” is a consolidation model that considers if a company has a variable interest in a VIE. A VIE is a legal entity that possesses any of the following conditions: the entity’s equity at risk is not sufficient to permit the legal entity to finance its activities without additional subordinated financial support, equity owners are unable to direct the activities that most significantly impact the legal entity’s economic performance (or they possess disproportionate voting rights in relation to the economic interest in the legal entity), or the equity owners lack the obligation to absorb the legal entity’s expected losses or the right to receive the legal entity’s expected residual returns. Entities are required to consolidate a VIE when it is determined that they have a controlling financial interest in a VIE and therefore, are the primary beneficiary of that VIE, as defined by the accounting guidance for “Variable Interest Entities.” In determining whether AEP is the primary beneficiary of a VIE, management considers whether AEP has the power to direct the most significant activities of the VIE and is obligated to absorb losses or receive the expected residual returns that are significant to the VIE. Management believes that significant assumptions and judgments were applied consistently.

AEP is the primary beneficiary of Sabine, DCC Fuel, Transition Funding, Ohio Phase-in-Recovery Funding, Appalachian Consumer Rate Relief Funding, AEP Credit, a protected cell of EIS and Transource Energy. In addition, AEP has not provided material financial or other support to any of these entities that was not previously contractually required. AEP holds a significant variable interest in DHLC, OVEC and Potomac-Appalachian Transmission Highline, LLC West Virginia Series (West Virginia Series).

Consolidated Variable Interests Entities (Applies to all Registrants except AEPTCo and PSO)

Sabine is a mining operator providing mining services to SWEPCo. SWEPCo has no equity investment in Sabine but is Sabine’s only customer. SWEPCo guarantees the debt obligations and lease obligations of Sabine. Under the terms of the note agreements, substantially all assets are pledged and all rights under the lignite mining agreement are assigned to SWEPCo. The creditors of Sabine have no recourse to any AEP entity other than SWEPCo. Under the provisions of the mining agreement, SWEPCo is required to pay, as a part of the cost of lignite delivered, an amount equal to mining costs plus a management fee. In addition, SWEPCo determines how much coal will be mined each year. Based on these facts, management concluded that SWEPCo is the primary beneficiary and is required to consolidate Sabine. SWEPCo’s total billings from Sabine for the years ended December 31, 2017, 2016 and 2015 were \$137 million, \$162 million and \$152 million, respectively. See the tables below for the classification of Sabine’s assets and liabilities on SWEPCo’s balance sheets.

I&M has nuclear fuel lease agreements with DCC Fuel, which was formed for the purpose of acquiring, owning and leasing nuclear fuel to I&M. DCC Fuel purchased the nuclear fuel from I&M with funds received from the issuance of notes to financial institutions. Each DCC Fuel entity is a single-lessee leasing arrangement with only one asset and is capitalized with all debt. Each is a separate legal entity from I&M, the assets of which are not available to satisfy the debts of I&M. Payments on the leases for the years ended December 31, 2017, 2016 and 2015 were \$136 million, \$101 million and \$115 million, respectively. The leases were recorded as capital leases on I&M’s balance sheet as title to the nuclear fuel transfers to I&M at the end of the respective lease terms, which do not exceed 54 months. Based on I&M’s control of DCC Fuel, management concluded that I&M is the primary beneficiary and is required to consolidate DCC Fuel. The capital leases are eliminated upon consolidation. See the tables below for the classification of DCC Fuel’s assets and liabilities on I&M’s balance sheets.

Transition Funding was formed for the sole purpose of issuing and servicing securitization bonds related to Texas Restructuring Legislation. Management has concluded that AEP Texas is the primary beneficiary of Transition Funding because AEP Texas has the power to direct the most significant activities of the VIE and AEP Texas’ equity interest could potentially be significant. Therefore, AEP Texas is required to consolidate Transition Funding. The securitized bonds totaled \$1 billion and \$1.2 billion as of December 31, 2017 and 2016, respectively, and are included in Long-term Debt Due Within One Year - Nonaffiliated and Long-term Debt - Nonaffiliated on the balance sheets. Transition

Funding has securitized transition assets of \$870 million and \$1.1 billion as of December 31, 2017 and 2016, respectively, which are presented separately on the face of the balance sheets. The securitized transition assets represent the right to impose and collect Texas true-up costs from customers receiving electric transmission or distribution service from AEP Texas under recovery mechanisms approved by the PUCT. The securitization bonds are payable only from and secured by the securitized transition assets. The bondholders have no recourse to AEP Texas or any other AEP entity. AEP Texas acts as the servicer for Transition Funding's securitized transition assets and remits all related amounts collected from customers to Transition Funding for interest and principal payments on the securitization bonds and related costs. See the tables below for the classification of Transition Funding's assets and liabilities on the balance sheets.

Ohio Phase-in-Recovery Funding was formed for the sole purpose of issuing and servicing securitization bonds related to phase-in recovery property. Management has concluded that OPCo is the primary beneficiary of Ohio Phase-in-Recovery Funding because OPCo has the power to direct the most significant activities of the VIE and OPCo's equity interest could potentially be significant. Therefore, OPCo is required to consolidate Ohio Phase-in-Recovery Funding. The securitized bonds totaled \$95 million and \$140 million as of December 31, 2017 and 2016, respectively, and are included in Long-term Debt Due Within One Year - Nonaffiliated and Long-term Debt - Nonaffiliated on the balance sheets. Ohio Phase-in-Recovery Funding has securitized assets of \$38 million and \$62 million as of December 31, 2017 and 2016, respectively, which are presented separately on the face of the balance sheets. The phase-in recovery property represents the right to impose and collect Ohio deferred distribution charges from customers receiving electric transmission and distribution service from OPCo under a recovery mechanism approved by the PUCO. In August 2013, securitization bonds were issued. The securitization bonds are payable only from and secured by the securitized assets. The bondholders have no recourse to OPCo or any other AEP entity. OPCo acts as the servicer for Ohio Phase-in-Recovery Funding's securitized assets and remits all related amounts collected from customers to Ohio Phase-in-Recovery Funding for interest and principal payments on the securitization bonds and related costs. See the tables below for the classification of Ohio Phase-in-Recovery Funding's assets and liabilities on OPCo's balance sheets.

Appalachian Consumer Rate Relief Funding was formed for the sole purpose of issuing and servicing securitization bonds related to APCo's under-recovered ENEC deferral balance. Management has concluded that APCo is the primary beneficiary of Appalachian Consumer Rate Relief Funding because APCo has the power to direct the most significant activities of the VIE and APCo's equity interest could potentially be significant. Therefore, APCo is required to consolidate Appalachian Consumer Rate Relief Funding. The securitized bonds totaled \$296 million and \$319 million as of December 31, 2017 and 2016, respectively, and are included in Long-term Debt Due Within One Year - Nonaffiliated and Long-term Debt - Nonaffiliated on the balance sheets. Appalachian Consumer Rate Relief Funding has securitized assets of \$282 million and \$305 million as of December 31, 2017 and 2016, respectively, which are presented separately on the face of the balance sheets. The phase-in recovery property represents the right to impose and collect West Virginia deferred generation charges from customers receiving electric transmission, distribution and generation service from APCo under a recovery mechanism approved by the WVPSC. In November 2013, securitization bonds were issued. The securitization bonds are payable only from and secured by the securitized assets. The bondholders have no recourse to APCo or any other AEP entity. APCo acts as the servicer for Appalachian Consumer Rate Relief Funding's securitized assets and remits all related amounts collected from customers to Appalachian Consumer Rate Relief Funding for interest and principal payments on the securitization bonds and related costs. See the tables below for the classification of Appalachian Consumer Rate Relief Funding's assets and liabilities on APCo's balance sheets.

AEP Credit is a wholly-owned subsidiary of Parent. AEP Credit purchases, without recourse, accounts receivable from certain utility subsidiaries of AEP to reduce working capital requirements. AEP provides a minimum of 5% equity and up to 20% of AEP Credit's short-term borrowing needs in excess of third party financings. Any third party financing of AEP Credit only has recourse to the receivables securitized for such financing. Based on AEP's control of AEP Credit, management concluded that AEP is the primary beneficiary and is required to consolidate AEP Credit. See the tables below for the classification of AEP Credit's assets and liabilities on the balance sheets. See "Securitized Accounts Receivables - AEP Credit" section of Note 14.

AEP's subsidiaries participate in one protected cell of EIS for approximately six lines of insurance. EIS has multiple protected cells. Neither AEP nor its subsidiaries have an equity investment in EIS. The AEP System is essentially this EIS cell's only participant, but allows certain third parties access to this insurance. AEP's subsidiaries and any allowed third parties share in the insurance coverage, premiums and risk of loss from claims. Based on AEP's control and the structure of the protected cell of EIS, management concluded that AEP is the primary beneficiary of the protected cell and is required to consolidate the protected cell of EIS. The insurance premium expense to the protected cell for the years ended December 31, 2017, 2016 and 2015 was \$29 million, \$28 million and \$29 million, respectively. See the tables below for the classification of the protected cell's assets and liabilities on the balance sheets. The amount reported as equity is the protected cell's policy holders' surplus.

Transource Energy was formed for the purpose of investing in utilities which develop, acquire, construct, own and operate transmission facilities in accordance with FERC-approved rates. AEP has equity and voting ownership of 86.5% with the other owner having 13.5% interest. Management has concluded that Transource Energy is a VIE and that AEP is the primary beneficiary because AEP has the power to direct the most significant activities of the entity and AEP's equity interest could potentially be significant. Therefore, AEP is required to consolidate Transource Energy. In January 2014, Transource Missouri (a wholly-owned subsidiary of Transource Energy) acquired transmission assets from the non-controlling owner and issued debt and received a capital contribution to fund the acquisition. The majority of Transource Energy's activity resulted from the asset acquisition, construction projects, debt issuance and capital contribution. AEP has provided capital contributions to Transource Energy of \$5 million and \$45 million, in 2017 and 2016, respectively. AEP and the other owner of Transource Energy are required to ensure a specific equity level in Transource Missouri upon completion of projects or if a project is abandoned by the RTO. See the tables below for the classification of Transource Energy's assets and liabilities on the balance sheets.

AEP Renewables, a wholly-owned subsidiary of Energy Supply, was formed to provide utility scale wind and solar projects whose power output is sold via long-term power purchase agreements to other utilities, cities and corporations. In 2016, AEP Renewables acquired solar projects that were funded only through participation in the AEP corporate borrowing program. As a result, management concluded that AEP Renewables was a VIE and that Energy Supply was the primary beneficiary due to its capacity to direct the most significant activities of the entity and its equity interest could potentially be significant. In the first quarter of 2017, AEP Renewables received a capital contribution of \$140 million from Energy Supply. The capital contribution gave AEP Renewables sufficient equity at risk, which resulted in the definition of a VIE no longer being met. Energy Supply continues to consolidate AEP Renewables in accordance with other applicable accounting guidance for "Consolidation" due to its controlling financial interest as the owner of AEP Renewables. See the tables below for the classification of AEP Renewables' assets and liabilities on the December 31, 2016 balance sheet.

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

American Electric Power Company, Inc. and Subsidiary Companies
Variable Interest Entities
December 31, 2017

	Registrant Subsidiaries				
	SWEPCo Sabine	I&M DCC Fuel	AEP Texas Transition Funding	OPCo Ohio Phase-in- Recovery Funding	APCo Appalachian Consumer Rate Relief Funding
			(in millions)		
ASSETS					
Current Assets	\$ 56.3	\$ 102.5	\$ 191.7	\$ 28.7	\$ 22.3
Net Property, Plant and Equipment	113.2	179.9	—	—	—
Other Noncurrent Assets	90.2	86.3	923.5 (a)	71.0 (b)	285.6 (c)
Total Assets	<u>\$ 259.7</u>	<u>\$ 368.7</u>	<u>\$ 1,115.2</u>	<u>\$ 99.7</u>	<u>\$ 307.9</u>
LIABILITIES AND EQUITY					
Current Liabilities	\$ 49.1	\$ 96.5	\$ 260.9	\$ 47.9	\$ 27.6
Noncurrent Liabilities	211.0	272.2	836.1	50.5	278.4
Equity	(0.4)	—	18.2	1.3	1.9
Total Liabilities and Equity	<u>\$ 259.7</u>	<u>\$ 368.7</u>	<u>\$ 1,115.2</u>	<u>\$ 99.7</u>	<u>\$ 307.9</u>

(a) Includes an intercompany item eliminated in consolidation of \$53.9 million.

(b) Includes an intercompany item eliminated in consolidation of \$33.3 million.

(c) Includes an intercompany item eliminated in consolidation of \$3.4 million.

American Electric Power Company, Inc. and Subsidiary Companies
Variable Interest Entities
December 31, 2017

	Other Consolidated VIEs		
	AEP Credit	Protected Cell of EIS	Transource Energy
		(in millions)	
ASSETS			
Current Assets	\$ 926.3	\$ 178.7	\$ 17.4
Net Property, Plant and Equipment	—	—	323.9
Other Noncurrent Assets	6.4	—	3.1
Total Assets	<u>\$ 932.7</u>	<u>\$ 178.7</u>	<u>\$ 344.4</u>
LIABILITIES AND EQUITY			
Current Liabilities	\$ 872.0	\$ 36.4	\$ 12.4
Noncurrent Liabilities	0.7	95.2	132.0
Equity	60.0	47.1	200.0
Total Liabilities and Equity	<u>\$ 932.7</u>	<u>\$ 178.7</u>	<u>\$ 344.4</u>

American Electric Power Company, Inc. and Subsidiary Companies
Variable Interest Entities
December 31, 2016

	Registrant Subsidiaries				
	SWEPCo Sabine	I&M DCC Fuel	AEP Texas Transition Funding	OPCo Ohio Phase-in- Recovery Funding	APCo Appalachian Consumer Rate Relief Funding
			(in millions)		
ASSETS					
Current Assets	\$ 60.2	\$ 135.5	\$ 184.8	\$ 30.3	\$ 20.2
Net Property, Plant and Equipment	112.0	233.9	—	—	—
Other Noncurrent Assets	89.8	116.2	1,149.4 (a)	117.1 (b)	309.0 (c)
Total Assets	\$ 262.0	\$ 485.6	\$ 1,334.2	\$ 147.4	\$ 329.2
LIABILITIES AND EQUITY					
Current Liabilities	\$ 26.3	\$ 131.3	\$ 251.9	\$ 47.5	\$ 27.3
Noncurrent Liabilities	235.3	354.3	1,064.2	98.6	300.6
Equity	0.4	—	18.1	1.3	1.3
Total Liabilities and Equity	\$ 262.0	\$ 485.6	\$ 1,334.2	\$ 147.4	\$ 329.2

(a) Includes an intercompany item eliminated in consolidation of \$61.1 million.

(b) Includes an intercompany item eliminated in consolidation of \$55 million.

(c) Includes an intercompany item eliminated in consolidation of \$3.7 million.

American Electric Power Company, Inc. and Subsidiary Companies
Variable Interest Entities
December 31, 2016

	Other Consolidated VIEs			
	AEP Credit	Protected Cell of EIS	Transource Energy	AEP Renewables
		(in millions)		
ASSETS				
Current Assets	\$ 945.7	\$ 170.6	\$ 16.3	\$ —
Net Property, Plant and Equipment	—	—	313.0	130.4
Other Noncurrent Assets	10.3	1.1	5.4	9.0
Total Assets	\$ 956.0	\$ 171.7	\$ 334.7	\$ 139.4
LIABILITIES AND EQUITY				
Current Liabilities	\$ 877.4	\$ 31.8	\$ 31.7	\$ 126.7
Noncurrent Liabilities	0.6	97.3	134.4	11.3
Equity	78.0	42.6	168.6	1.4
Total Liabilities and Equity	\$ 956.0	\$ 171.7	\$ 334.7	\$ 139.4

Non-Consolidated Significant Variable Interests

DHLC is a mining operator which sells 50% of the lignite produced to SWEPCo and 50% to CLECO. The operations of DHLC are governed by the lignite mining agreement among SWEPCo, CLECO and DHLC. SWEPCo and CLECO share the executive board seats and voting rights equally. In accordance with the lignite mining agreement, each entity is responsible for 50% of DHLC's obligations, including debt. SWEPCo and CLECO equally approve DHLC's annual budget. The creditors of DHLC have no recourse to any AEP entity other than SWEPCo. As SWEPCo is the sole equity owner of DHLC, it receives 100% of the management fee. SWEPCo's total billings from DHLC for the years ended December 31, 2017, 2016 and 2015 were \$61 million, \$65 million and \$93 million, respectively. SWEPCo is not required to consolidate DHLC as it is not the primary beneficiary, although SWEPCo holds a significant variable interest in DHLC. SWEPCo's equity investment in DHLC is included in Deferred Charges and Other Noncurrent Assets on SWEPCo's balance sheets.

SWEPCo's investment in DHLC was:

	December 31,			
	2017		2016	
	<u>As Reported on the Balance Sheet</u>	<u>Maximum Exposure</u>	<u>As Reported on the Balance Sheet</u>	<u>Maximum Exposure</u>
	(in millions)			
Capital Contribution from SWEPCo	\$ 7.6	\$ 7.6	\$ 7.6	\$ 7.6
Retained Earnings	11.8	11.8	15.7	15.7
SWEPCo's Share of Obligations	—	144.3	—	91.3
Total Investment in DHLC	<u>\$ 19.4</u>	<u>\$ 163.7</u>	<u>\$ 23.3</u>	<u>\$ 114.6</u>

AEP and several nonaffiliated utility companies jointly own OVEC. As of December 31, 2017, AEP's ownership in OVEC was 43.47%. Parent owns 39.17% and OPCo owns 4.3%. APCo, I&M and OPCo are members to an intercompany power agreement. The Registrants' power participation ratios are 15.69% for APCo, 7.85% for I&M and 19.93% for OPCo. Participants of this agreement are entitled to receive and obligated to pay for all OVEC generating capacity, approximately 2,400 MWs, in proportion to their respective power participation ratios. The aggregate power participation ratio of certain AEP utility subsidiaries is 43.47%. The proceeds from the sale of power by OVEC are designed to be sufficient for OVEC to meet its operating expenses and fixed costs, including outstanding indebtedness, and provide a return on capital. The intercompany power agreement ends in June 2040.

AEP and other nonaffiliated owners authorized environmental investments related to their ownership interests. OVEC financed capital expenditures in connection with the engineering and construction of FGD projects and the associated waste disposal landfills at its two generation plants. These environmental projects were funded through debt issuances. As of December 31, 2017, OVEC's outstanding indebtedness is approximately \$1.4 billion. Although they are not an obligor or guarantor, the Registrants' are responsible for their respective ratio of OVEC's outstanding debt through the intercompany power agreement. Principal and interest payments related to OVEC's outstanding indebtedness are disclosed in accordance with the accounting guidance for "Commitments." See the "Commitments" section of Note 6.

AEP is not required to consolidate OVEC as it is not the primary beneficiary, although AEP and its subsidiaries hold a significant variable interest in OVEC. Power to control decision making that significantly impact the economic performance of OVEC is shared amongst the owners through their representation on the Board of Directors and Operating Committee of OVEC.

AEP's investment in OVEC was:

	December 31,			
	2017		2016	
	As Reported on the Balance Sheet	Maximum Exposure	As Reported on the Balance Sheet	Maximum Exposure
	(in millions)			
Capital Contribution from AEP	\$ 4.4	\$ 4.4	\$ 4.4	\$ 4.4
AEP's Ratio of OVEC Debt (a)	—	626.3	—	658.3
Total Investment in OVEC	\$ 4.4	\$ 630.7	\$ 4.4	\$ 662.7

- (a) Based on the Registrants' power participation ratios APCo, I&M and OPCo's share of OVEC debt is \$226 million, \$113.1 million and \$287.2 million for the year ended December 31, 2017 and \$237.6 million, \$118.9 million and \$301.8 million for the year-ended December 31, 2016, respectively.

The amounts of power purchased by the Registrant Subsidiaries from OVEC for the years ended December 31, 2017, 2016 and 2015 were:

Company	Years Ended December 31,		
	2017	2016	2015
	(in millions)		
APCo	\$ 101.0	\$ 88.0	\$ 87.2
I&M	50.5	44.0	43.7
OPCo	128.2	111.7	110.8

The amounts above are included in Purchased Electricity for Resale on the statements of income.

AEP and FirstEnergy Corp. (FirstEnergy) have a joint venture in Potomac-Appalachian Transmission Highline, LLC (PATH). PATH is a series limited liability company and was created to construct, through its operating companies, a high-voltage transmission line project in the PJM region. PATH consists of the "West Virginia Series (PATH-WV)," owned equally by subsidiaries of FirstEnergy and AEP, and the "Allegheny Series" which is 100% owned by a subsidiary of FirstEnergy. Provisions exist within the PATH-WV agreement that make it a VIE. AEP has no interest or control in the "Allegheny Series." AEP is not required to consolidate PATH-WV as AEP is not the primary beneficiary, although AEP holds a significant variable interest in PATH-WV. AEP's equity investment in PATH-WV is included in Deferred Charges and Other Noncurrent Assets on the balance sheets. AEP and FirstEnergy share the returns and losses equally in PATH-WV. AEP's subsidiaries and FirstEnergy's subsidiaries provide services to the PATH companies through service agreements. The entities recover costs through regulated rates.

In August 2012, the PJM board cancelled the PATH Project, the transmission project that PATH was intended to develop and removed it from the 2012 Regional Transmission Expansion Plan. In September 2012, the PATH Project companies submitted an application to the FERC requesting authority to recover prudently-incurred costs associated with the PATH Project. In November 2012, the FERC issued an order accepting the PATH Project's abandonment cost recovery application, subject to settlement procedures and hearing. The parties to the case were unable to reach a settlement agreement and in March 2014, settlement judge procedures were terminated. Hearings at the FERC were held in March and April 2015. In April 2015, PATH filed a stipulation agreement with the FERC that agreed to a 50% debt and 50% equity capital structure and a 4.7% cost of long-term debt for the entire amortization period. In September 2015, the ALJ issued an advisory Initial Decision. Additional briefing was submitted during the fourth quarter of 2015. In January 2017, the FERC issued its order on Initial Decision, adopting in part and rejecting in part the ALJ's recommendations. The FERC order included (a) a finding that the PATH Project's abandonment costs were prudently incurred, (b) a finding that the disposition of certain assets was prudent, (c) guidance regarding the future disposition of assets, (d) a reduction of PATH WV's authorized return on equity (ROE) to 8.11% prospectively only after the date of the order, (e) an adjustment of the amortization period to end December 2017, and (f) a credit for certain amounts that were deemed to be not includable in PATH-WV's formula rates.

In February 2017, the PATH Companies filed a request for rehearing of two adverse rulings in the January 2017 FERC order. The request seeks the FERC to reverse its reduction of the PATH Companies 10.4% ROE for the period after January 19, 2017 and to allow the recovery of certain education and outreach costs disallowed by the order. In February 2017, the Edison Electric Institute (“EEI”) also filed a request for rehearing recommending reversal of the January 2017 FERC ordered ROE reduction and cost disallowance. The requests for rehearing by the PATH Companies and EEI are currently pending before the FERC. The requests for rehearing do not impact the recovery of costs by the PATH Companies under their formula rates or the timing of the compliance filing required by the order, which was filed in March 2017, and updated in May 2017 and August 2017. As a result of the January 2017 FERC order, PATH-WV is required to refund certain amounts that have been collected under its formula rate in its 2018 Projected Transmission Revenue Requirement. PATH-WV will refund \$11.4 million, including carrying charges, related to the January 2017 order in its 2018 Projected Transmission Revenue Requirement.

AEP’s investment in PATH-WV was:

	December 31,			
	2017		2016	
	As Reported on the Balance Sheet	Maximum Exposure	As Reported on the Balance Sheet	Maximum Exposure
	(in millions)			
Capital Contribution from Parent	\$ 18.8	\$ 18.8	\$ 18.8	\$ 18.8
Retained Earnings	(2.0)	(2.0)	(2.3)	(2.3)
Total Investment in PATH-WV	\$ 16.8	\$ 16.8	\$ 16.5	\$ 16.5

As of December 31, 2017, AEP’s \$17 million investment in PATH-WV was included in Deferred Charges and Other Noncurrent Assets on the balance sheet. If AEP cannot ultimately recover the investment related to PATH-WV, it could reduce future net income and cash flows.

AEPSC provides certain managerial and professional services to AEP’s subsidiaries. Parent is the sole equity owner of AEPSC. AEP management controls the activities of AEPSC. The costs of the services are based on a direct charge or on a prorated basis and billed to the AEP subsidiary companies at AEPSC’s cost. AEP subsidiaries have not provided financial or other support outside of the reimbursement of costs for services rendered. AEPSC finances its operations through cost reimbursement from other AEP subsidiaries. There are no other terms or arrangements between AEPSC and any of the AEP subsidiaries that could require additional financial support from an AEP subsidiary or expose them to losses outside of the normal course of business. AEPSC and its billings are subject to regulation by the FERC. AEP subsidiaries are exposed to losses to the extent they cannot recover the costs of AEPSC through their normal business operations. AEP subsidiaries are considered to have a significant interest in AEPSC due to their activity in AEPSC’s cost reimbursement structure. However, AEP subsidiaries do not have control over AEPSC. AEPSC is consolidated by AEP. In the event AEPSC would require financing or other support outside the cost reimbursement billings, this financing would be provided by AEP.

Total AEPSC billings to the Registrant Subsidiaries were as follows:

Company	Years Ended December 31,		
	2017	2016	2015
	(in millions)		
AEP Texas	\$ 152.6	\$ 142.3	\$ 132.7
AEPTCo	188.9	131.1	108.4
APCo	268.8	244.2	227.5
I&M	176.0	147.7	139.5
OPCo	195.7	181.1	177.8
PSO	114.7	111.0	107.3
SWEPCo	150.7	147.0	141.4

The carrying amount and classification of variable interest in AEPSC's accounts payable are as follows:

Company	December 31,			
	2017		2016	
	As Reported on the Balance Sheet	Maximum Exposure	As Reported on the Balance Sheet	Maximum Exposure
	(in millions)			
AEP Texas	\$ 24.2	\$ 24.2	\$ 22.9	\$ 22.9
AEPTCo	25.1	25.1	23.0	23.0
APCo	37.0	37.0	36.7	36.7
I&M	26.8	26.8	24.2	24.2
OPCo	27.4	27.4	28.1	28.1
PSO	18.7	18.7	16.0	16.0
SWEPCo	20.8	20.8	21.8	21.8

AEGCo, a wholly-owned subsidiary of Parent, is consolidated by AEP. AEGCo owns a 50% ownership interest in Rockport Plant, Unit 1, leases a 50% interest in Rockport Plant, Unit 2 and owned 100% of the Lawrenceburg Generating Station, which was sold in January 2017. AEGCo sells all the output from the Rockport Plant to I&M and KPCo. AEP has agreed to provide AEGCo with the funds necessary to satisfy all of the debt obligations of AEGCo. I&M is considered to have a significant interest in AEGCo due to these transactions. I&M is exposed to losses to the extent it cannot recover the costs of AEGCo through its normal business operations. In the event AEGCo would require financing or other support outside the billings to I&M and KPCo, this financing would be provided by AEP. Total billings to I&M from AEGCo for the years ended December 31, 2017, 2016 and 2015 were \$224 million, \$229 million and \$232 million. The carrying amount of I&M's liabilities associated with AEGCo as of December 31, 2017 and 2016 was \$23 million and \$22 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability. For additional information regarding AEGCo's lease, see "Rockport Lease" section of Note 13. The assets and liabilities of AEGCo's Lawrenceburg Plant have been recorded as Assets Held for Sale and Liabilities Held for Sale, respectively, on the balance sheet as of December 31, 2016. See "Assets and Liabilities Held for Sale" section of Note 7 for additional information.

18. PROPERTY, PLANT AND EQUIPMENT

The disclosures in this note apply to all Registrants unless indicated otherwise.

Property, Plant and Equipment is shown functionally on the face of the Registrants' balance sheets. The following tables include the Registrants' total plant balances as of December 31, 2017 and 2016:

<u>December 31, 2017</u>	<u>AEP</u>	<u>AEP Texas</u>	<u>AEPTCo</u>	<u>APCo</u>	<u>I&M</u>	<u>OPCo</u>	<u>PSO</u>	<u>SWEPCo</u>
				(in millions)				
Regulated Property, Plant and Equipment								
Generation	\$20,406.5 (a)	\$ —	\$ —	\$ 6,446.9	\$ 4,445.9	\$ —	\$ 1,577.2	\$ 4,624.9 (a)
Transmission	18,942.3	3,053.6	5,336.1	3,019.9	1,504.0	2,419.2	858.8	1,679.8
Distribution	19,865.9	3,718.6	—	3,763.8	2,069.3	4,626.4	2,445.1	2,095.8
Other	3,224.8	457.6	130.0	399.5	552.3	485.5	282.0	416.8
CWIP	3,972.6 (a)	834.4	1,312.7	483.0	460.2	410.1	111.3	220.7 (a)
Less: Accumulated Depreciation	16,906.7	1,399.4	170.4	3,891.1	3,011.7	2,183.9	1,393.6	2,520.5
Total Regulated Property, Plant and Equipment - Net	49,505.4	6,664.8	6,608.4	10,222.0	6,020.0	5,757.3	3,880.8	6,517.5
Nonregulated Property, Plant and Equipment - Net	756.1	160.3	1.4	23.1	30.4	9.5	5.4	114.5
Total Property, Plant and Equipment - Net	\$50,261.5	\$ 6,825.1	\$ 6,609.8	\$ 10,245.1	\$ 6,050.4	\$5,766.8	\$ 3,886.2	\$ 6,632.0
<u>December 31, 2016</u>	<u>AEP</u>	<u>AEP Texas</u>	<u>AEPTCo</u>	<u>APCo</u>	<u>I&M</u>	<u>OPCo</u>	<u>PSO</u>	<u>SWEPCo</u>
				(in millions)				
Regulated Property, Plant and Equipment								
Generation	\$19,703.9 (a)	\$ —	\$ —	\$ 6,332.8	\$ 4,056.1	\$ —	\$ 1,559.3	\$ 4,607.6 (a)
Transmission	16,658.6	2,623.6	3,973.5	2,796.9	1,472.8	2,319.2	832.8	1,584.2
Distribution	18,898.2	3,527.2	—	3,569.1	1,899.3	4,457.2	2,322.4	2,020.6
Other	2,902.0	432.1	98.3	345.1	507.7	433.4	227.3	399.3
CWIP	3,072.2 (a)	385.0	981.3	390.3	654.2	221.5	148.2	113.7 (a)
Less: Accumulated Depreciation	16,101.5	1,354.4	99.6	3,631.5	2,989.9	2,115.1	1,272.7	2,411.5
Total Regulated Property, Plant and Equipment - Net	45,133.4	5,613.5	4,953.5	9,802.7	5,600.2	5,316.2	3,817.3	6,313.9
Nonregulated Property, Plant and Equipment - Net	505.9	167.2	1.1	23.1	27.3	9.4	5.9	115.6
Total Property, Plant and Equipment - Net	\$45,639.3 (b)	\$ 5,780.7	\$ 4,954.6	\$ 9,825.8	\$ 5,627.5	\$5,325.6	\$ 3,823.2	\$ 6,429.5

- (a) AEP and SWEPCo's regulated generation and regulated CWIP include amounts related to SWEPCo's Arkansas jurisdictional share of the Turk Plant.
- (b) Amount excludes \$1.8 billion of Property, Plant and Equipment - Net classified as Assets Held for Sale on the balance sheet. See "Gavin, Waterford, Darby and Lawrenceburg Plants (Generation & Marketing Segment)" section of Note 7 for additional information.

Depreciation, Depletion and Amortization

The Registrants provide for depreciation of Property, Plant and Equipment, excluding coal-mining properties, on a straight-line basis over the estimated useful lives of property, generally using composite rates by functional class. The following tables provide total regulated annual composite depreciation rates and depreciable lives for the Registrants:

AEP

Functional Class of Property	2017		2016		2015	
	Annual Composite Depreciation Rate Ranges	Depreciable Life Ranges	Annual Composite Depreciation Rate Ranges	Depreciable Life Ranges	Annual Composite Depreciation Rate Ranges	Depreciable Life Ranges
		(in years)		(in years)		(in years)
Generation	2.3% - 3.7%	20 - 132	2.1% - 4.0%	35 - 132	0.4% - 3.1%	35 - 132
Transmission	1.6% - 2.7%	15 - 100	1.5% - 2.7%	15 - 100	1.4% - 2.7%	15 - 81
Distribution	2.7% - 3.7%	5 - 156	2.6% - 3.7%	7 - 156	2.5% - 3.7%	7 - 75
Other	2.3% - 9.2%	5 - 84	3.1% - 8.6%	5 - 84	2.9% - 11.8%	5 - 75

AEP Texas

Functional Class of Property	2017		2016		2015	
	Annual Composite Depreciation Rate	Depreciable Life Ranges	Annual Composite Depreciation Rate	Depreciable Life Ranges	Annual Composite Depreciation Rate	Depreciable Life Ranges
		(in years)		(in years)		(in years)
Transmission	1.7%	45 - 81	1.8%	45 - 81	1.8%	45 - 81
Distribution	3.6%	7 - 70	3.3%	7 - 70	3.3%	7 - 70
Other	8.7%	5 - 50	8.3%	5 - 50	9.7%	5 - 50

AEPTCo

Functional Class of Property	2017		2016		2015	
	Annual Composite Depreciation Rate	Depreciable Life Ranges	Annual Composite Depreciation Rate	Depreciable Life Ranges	Annual Composite Depreciation Rate	Depreciable Life Ranges
		(in years)		(in years)		(in years)
Transmission	1.7%	20 - 100	1.6%	20 - 100	1.4%	20 - 75

APCo

Functional Class of Property	2017		2016		2015	
	Annual Composite Depreciation Rate	Depreciable Life Ranges	Annual Composite Depreciation Rate	Depreciable Life Ranges	Annual Composite Depreciation Rate	Depreciable Life Ranges
		(in years)		(in years)		(in years)
Generation	3.1%	35 - 112	3.1%	35 - 121	3.1%	35 - 121
Transmission	1.6%	15 - 68	1.5%	15 - 68	1.6%	15 - 68
Distribution	3.7%	10 - 57	3.7%	10 - 57	3.6%	10 - 57
Other	6.5%	5 - 55	6.0%	5 - 55	8.3%	5 - 55

I&M

Functional Class of Property	2017		2016		2015	
	Annual Composite Depreciation Rate	Depreciable Life Ranges	Annual Composite Depreciation Rate	Depreciable Life Ranges	Annual Composite Depreciation Rate	Depreciable Life Ranges
		(in years)		(in years)		(in years)
Generation	2.4%	20 - 132	2.4%	59 - 132	2.5%	59 - 132
Transmission	1.7%	50 - 75	1.7%	50 - 75	1.7%	50 - 75
Distribution	2.7%	10 - 70	2.8%	10 - 70	2.8%	10 - 70
Other	8.4%	5 - 45	8.6%	5 - 45	11.8%	5 - 45

OPCo

Functional Class of Property	2017		2016		2015	
	Annual Composite Depreciation Rate	Depreciable Life Ranges	Annual Composite Depreciation Rate	Depreciable Life Ranges	Annual Composite Depreciation Rate	Depreciable Life Ranges
		(in years)		(in years)		(in years)
Transmission	2.3%	39 - 60	2.3%	39 - 60	2.3%	39 - 60
Distribution	2.8%	5 - 57	2.8%	7 - 57	2.8%	7 - 57
Other	6.2%	5 - 50	5.9%	5 - 50	7.2%	5 - 50

PSO

Functional Class of Property	2017		2016		2015	
	Annual Composite Depreciation Rate	Depreciable Life Ranges	Annual Composite Depreciation Rate	Depreciable Life Ranges	Annual Composite Depreciation Rate	Depreciable Life Ranges
		(in years)		(in years)		(in years)
Generation	2.4%	35 - 85	2.4%	35 - 85	1.7%	35 - 70
Transmission	2.2%	45 - 100	2.2%	45 - 100	1.9%	40 - 75
Distribution	2.7%	27 - 156	2.7%	27 - 156	2.5%	7 - 65
Other	7.4%	5 - 84	6.4%	5 - 84	4.6%	5 - 40

SWEPCo

Functional Class of Property	2017		2016		2015	
	Annual Composite Depreciation Rate	Depreciable Life Ranges	Annual Composite Depreciation Rate	Depreciable Life Ranges	Annual Composite Depreciation Rate	Depreciable Life Ranges
		(in years)		(in years)		(in years)
Generation	2.3%	40 - 70	2.1%	40 - 70	2.2%	40 - 70
Transmission	2.3%	50 - 73	2.2%	50 - 70	2.3%	50 - 70
Distribution	2.7%	25 - 70	2.6%	25 - 65	2.6%	25 - 65
Other	7.2%	5 - 55	6.8%	5 - 51	5.5%	5 - 51

The following table includes the nonregulated annual composite depreciation rate ranges and nonregulated depreciable life ranges for AEP, AEP Texas and SWEPCo. Depreciation rate ranges and depreciable life ranges are not meaningful for nonregulated property of AEPTCo, APCo, I&M, OPCo and PSO for 2017, 2016 and 2015.

Functional Class of Property	2017		2016		2015	
	Annual Composite Depreciation Rate Ranges	Depreciable Life Ranges	Annual Composite Depreciation Rate Ranges	Depreciable Life Ranges	Annual Composite Depreciation Rate Ranges	Depreciable Life Ranges
		(in years)		(in years)		(in years)
Generation	2.4% - 5.1%	15 - 66	2.8% - 17.2%	40 - 66	2.5% - 3.4%	35 - 66
Transmission	0.2%	40	2.3%	43 - 55	2.3%	43 - 55
Distribution	2.3%	40	1.3%	40 - 50	—%	0 - 0
Other	12.1%	5 - 50 (a)	9.1%	5 - 50 (a)	2.7%	5 - 50 (a)

(a) SWEPCo's nonregulated property, plant and equipment is depreciated using the straight-line method over a range of 3 to 20 years.

SWEPCo provides for depreciation, depletion and amortization of coal-mining assets over each asset's estimated useful life or the estimated life of each mine, whichever is shorter, using the straight-line method for mining structures and equipment. SWEPCo uses either the straight-line method or the units-of-production method to amortize mine development costs and deplete coal rights based on estimated recoverable tonnages. SWEPCo includes these costs in fuel expense.

For regulated operations, the composite depreciation rate generally includes a component for non-asset retirement obligation (non-ARO) removal costs, which is credited to Accumulated Depreciation and Amortization on the balance sheets. Actual removal costs incurred are charged to Accumulated Depreciation and Amortization. Any excess of accrued non-ARO removal costs over actual removal costs incurred is reclassified from Accumulated Depreciation and Amortization and reflected as a regulatory liability. For nonregulated operations, non-ARO removal costs are expensed as incurred.

Asset Retirement Obligations (ARO) (Applies to all Registrants except AEPTCo)

The Registrants record ARO in accordance with the accounting guidance for "Asset Retirement and Environmental Obligations" for legal obligations for asbestos removal and for the retirement of certain ash disposal facilities, closure and monitoring of underground carbon storage facilities at Mountaineer Plant, wind farms and certain coal mining facilities. I&M records ARO for the decommissioning of the Cook Plant. The Registrants have identified, but not recognized, ARO liabilities related to electric transmission and distribution assets as a result of certain easements on property on which assets are owned. Generally, such easements are perpetual and require only the retirement and removal of assets upon the cessation of the property's use. The retirement obligation is not estimable for such easements

since the Registrants plan to use their facilities indefinitely. The retirement obligation would only be recognized if and when the Registrants abandon or cease the use of specific easements, which is not expected.

As of December 31, 2017 and 2016, I&M's ARO liability for nuclear decommissioning of the Cook Plant was \$1.30 billion and \$1.24 billion, respectively. These liabilities are reflected in Asset Retirement Obligations on I&M's balance sheets. As of December 31, 2017 and 2016, the fair value of I&M's assets that are legally restricted for purposes of settling decommissioning liabilities totaled \$2.22 billion and \$1.95 billion, respectively. These assets are included in Spent Nuclear Fuel and Decommissioning Trusts on I&M's balance sheets.

The following is a reconciliation of the 2017 and 2016 aggregate carrying amounts of ARO by Registrant:

Company	ARO as of December 31, 2016	Accretion Expense	Liabilities Incurred	Liabilities Settled	Revisions in Cash Flow Estimates	ARO as of December 31, 2017
(in millions)						
AEP (a)(b)(c)(d)	\$ 1,934.9	\$ 90.9	\$ 2.4	\$ (104.5)	\$ 82.0	\$ 2,005.7
AEP Texas (a)(d)	25.5	1.2	—	(0.1)	0.1	26.7
APCo (a)(d)	127.1	7.0	—	(21.7)	12.6	125.0
I&M (a)(b)(d)	1,258.1	55.9	—	(0.1)	7.9	1,321.8
OPCo (d)	1.7	0.1	—	(0.1)	—	1.7
PSO (a)(d)	53.4	3.1	—	(0.5)	(2.0)	54.0
SWEPCo (a)(c)(d)	156.5	8.3	—	(0.3)	4.7	169.2

Company	ARO as of December 31, 2015	Accretion Expense	Liabilities Incurred	Liabilities Settled	Revisions in Cash Flow Estimates	ARO as of December 31, 2016
(in millions)						
AEP (a)(b)(c)(d)	\$ 1,916.3	\$ 91.3	\$ 0.8	\$ (139.9) (e)	\$ 66.4	\$ 1,934.9
AEP Texas (a)(d)	24.0	1.1	—	(0.1)	0.5	25.5
APCo (a)(d)	140.2	7.6	—	(35.3)	14.6	127.1
I&M (a)(b)(d)	1,253.8	55.6	—	(62.6) (e)	11.3	1,258.1
OPCo (d)	1.4	0.1	0.2	—	—	1.7
PSO (a)(d)	47.8	3.0	0.1	(1.0)	3.5	53.4
SWEPCo (a)(c)(d)	125.4	7.0	0.2	(8.3)	32.2	156.5

- (a) Includes ARO related to ash disposal facilities.
- (b) Includes ARO related to nuclear decommissioning costs for the Cook Plant of \$1.30 billion and \$1.24 billion as of December 31, 2017 and 2016, respectively.
- (c) Includes ARO related to Sabine and DHLIC.
- (d) Includes ARO related to asbestos removal.
- (e) Amount includes settlement of liabilities of \$61 million associated with the sale of the Tanners Creek Plant site. See the "Tanners Creek" section of Note 7.

Allowance for Funds Used During Construction and Interest Capitalization

The Registrants' amounts of Allowance for Equity Funds Used During Construction are summarized in the following table:

Company	Years Ended December 31,		
	2017	2016	2015
	(in millions)		
AEP	\$ 93.7	\$ 113.2	\$ 131.9
AEP Texas	6.8	9.2	6.7
AEPTCo	52.3	52.3	53.0
APCo	9.2	11.7	13.8
I&M	11.1	15.3	11.6
OPCo	6.4	6.0	8.8
PSO	0.5	6.2	8.8
SWEPCo	2.4	11.0	26.4

The Registrants' amounts of allowance for borrowed funds used during construction, including capitalized interest, are summarized in the following table:

Company	Years Ended December 31,		
	2017	2016	2015
	(in millions)		
AEP	\$ 48.6	\$ 51.7	\$ 61.3
AEP Texas	6.8	5.9	4.5
AEPTCo	20.2	15.6	17.7
APCo	5.3	6.3	6.9
I&M	6.7	7.2	5.0
OPCo	3.8	3.3	4.8
PSO	1.1	3.4	5.0
SWEPCo	2.1	6.9	14.8

Jointly-owned Electric Facilities (Applies to AEP, AEP Texas, I&M, PSO and SWEPCo)

The Registrants have electric facilities that are jointly-owned with affiliated and non-affiliated companies. Using its own financing, each participating company is obligated to pay its share of the costs of these jointly-owned facilities in the same proportion as its ownership interest. Each Registrant's proportionate share of the operating costs associated with these facilities is included in its statements of income and the investments and accumulated depreciation are reflected in its balance sheets under Property, Plant and Equipment as follows:

			Registrant's Share as of December 31, 2017		
	Fuel Type	Percent of Ownership	Utility Plant in Service	Construction Work in Progress (in millions)	Accumulated Depreciation
<u>AEP</u>					
Conesville Generating Station, Unit 4 (a)(k)(l)	Coal	83.5%	\$ 2.1	\$ 4.2	\$ 0.1
J.M. Stuart Generating Station (b)(k)	Coal	26.0%	—	—	—
Dolet Hills Generating Station, Unit 1 (i)	Lignite	40.2%	343.1	5.3	214.2
Flint Creek Generating Station, Unit 1 (j)	Coal	50.0%	364.8	8.9	81.6
Pirkey Generating Station, Unit 1 (j)	Lignite	85.9%	589.8	7.8	406.3
Oklaunion Generating Station, Unit 1 (h)	Coal	70.3%	456.4	1.9	254.6
Turk Generating Plant (j)(n)	Coal	73.3%	1,580.4	3.2	166.6
Transmission	NA	(d)	62.7	0.3	46.1
Total			<u>\$ 3,399.3</u>	<u>\$ 31.6</u>	<u>\$ 1,169.5</u>
<u>AEP Texas</u>					
Oklaunion Generating Station, Unit 1 (h)	Coal	54.7%	<u>\$ 350.7</u>	<u>\$ 1.3</u>	<u>\$ 194.1</u>
<u>I&M</u>					
Rockport Generating Plant (e)(f)(g)	Coal	50.0%	<u>\$ 1,093.9</u>	<u>\$ 28.2</u>	<u>\$ 562.6</u>
<u>PSO</u>					
Oklaunion Generating Station, Unit 1 (h)	Coal	15.6%	<u>\$ 105.7</u>	<u>\$ 0.6</u>	<u>\$ 60.5</u>
<u>SWEPCo</u>					
Dolet Hills Generating Station, Unit 1 (i)	Lignite	40.2%	\$ 343.1	\$ 5.3	\$ 214.2
Flint Creek Generating Station, Unit 1 (j)	Coal	50.0%	364.8	8.9	81.6
Pirkey Generating Station, Unit 1 (j)	Lignite	85.9%	589.8	7.8	406.3
Turk Generating Plant (j)(n)	Coal	73.3%	1,580.4	3.2	166.6
Total			<u>\$ 2,878.1</u>	<u>\$ 25.2</u>	<u>\$ 868.7</u>

Registrant's Share as of December 31, 2016					
	Fuel Type	Percent of Ownership	Utility Plant in Service	Construction Work in Progress (in millions)	Accumulated Depreciation
AEP					
Conesville Generating Station, Unit 4 (a)(k)(l)	Coal	43.5%	\$ 0.1	\$ 1.3	\$ —
J.M. Stuart Generating Station (b)(k)	Coal	26.0%	—	0.8	—
Wm. H. Zimmer Generating Station (c)(k)(m)	Coal	25.4%	—	0.3	—
Dolet Hills Generating Station, Unit 1 (i)	Lignite	40.2%	334.8	5.0	207.5
Flint Creek Generating Station, Unit 1 (j)	Coal	50.0%	362.4	3.7	73.5
Pirkey Generating Station, Unit 1 (j)	Lignite	85.9%	586.4	5.7	399.5
Oklunion Generating Station, Unit 1 (h)	Coal	70.3%	454.8	1.3	246.0
Turk Generating Plant (j)	Coal	73.3%	1,657.3	0.2	138.5
Transmission	NA	(d)	62.4	0.5	45.1
Total			\$ 3,458.2	\$ 18.8	\$ 1,110.1
AEP Texas					
Oklunion Generating Station, Unit 1 (h)	Coal	54.7%	\$ 349.6	\$ 0.9	\$ 186.5
I&M					
Rockport Generating Plant (e)(f)(g)	Coal	50.0%	\$ 936.1	\$ 125.8	\$ 535.1
PSO					
Oklunion Generating Station, Unit 1 (h)	Coal	15.6%	\$ 105.2	\$ 0.5	\$ 59.4
SWEPCo					
Dolet Hills Generating Station, Unit 1 (i)	Lignite	40.2%	\$ 334.8	\$ 5.0	\$ 207.5
Flint Creek Generating Station, Unit 1 (j)	Coal	50.0%	362.4	3.7	73.5
Pirkey Generating Station, Unit 1 (j)	Lignite	85.9%	586.4	5.7	399.5
Turk Generating Plant (j)	Coal	73.3%	1,657.3	0.2	138.5
Total			\$ 2,940.9	\$ 14.6	\$ 819.0

- (a) Operated by AGR.
- (b) Operated by Dayton Power & Light Company, a non-affiliated company.
- (c) Operated by Dynegy Corporation, a non-affiliated company.
- (d) Varying percentages of ownership.
- (e) Operated by I&M.
- (f) Amounts include I&M's 50% ownership of both Unit 1 and capital additions for Unit 2. Unit 2 is subject to an operating lease with a non-affiliated company. See the "Rockport Lease" section of Note 13.
- (g) AEGCo owns 50% of Unit 1 with I&M and 50% of capital additions for Unit 2.
- (h) Operated by PSO, which owns 15.6%. Also jointly-owned (54.7%) by AEP Texas and various non-affiliated companies. See the "Impairments" section of Note 7.
- (i) Operated by CLECO, a non-affiliated company.
- (j) Operated by SWEPCo.
- (k) Conesville Generating Station, Unit 4 was impaired as of September 30, 2016. J.M. Stuart Generating Station and Wm. H. Zimmer Generating Station were impaired as of November 30, 2016. See the "Impairments" section of Note 7.
- (l) In accordance with the Asset Purchase Agreement between AGR and Dynegy Corporation dated February 2017, AGR acquired Dynegy Corporation's 40% ownership interest in Conesville Generating Station, Unit 4. Subsequent to this transaction, AGR's ownership percentage in Conesville Generating Station, Unit 4 is 83.5%.
- (m) In accordance with the Asset Purchase Agreement between AGR and Dynegy Corporation dated February 2017, Dynegy Corporation acquired AGR's 25.4% ownership interest in Wm. H. Zimmer Generating Station. Subsequent to this transaction, AGR has no ownership interest in Wm. H. Zimmer Generating Station. See the "Dispositions" section of Note 7.
- (n) In December 2017, SWEPCo recorded a \$15 million pretax impairment related to the Louisiana jurisdictional share of Turk Plant. Amount reflects the impact of the impairment. See the "Impairments" section of Note 7.
- NA Not applicable.

19. UNAUDITED QUARTERLY FINANCIAL INFORMATION

The disclosures in this note apply to all Registrants unless indicated otherwise.

In management's opinion, the unaudited quarterly information reflects all normal and recurring accruals and adjustments necessary for a fair presentation of the results of operations for interim periods. Quarterly results are not necessarily indicative of a full year's operations because of various factors. The unaudited quarterly financial information for each Registrant is as follows:

Quarterly Periods Ended:	AEP	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
	(in millions)							
March 31, 2017								
Total Revenues	\$ 3,933.3	\$ 343.6	\$ 152.7	\$ 792.8	\$ 560.5	\$ 746.1	\$ 304.1	\$ 401.3
Operating Income	1,097.1	83.2	90.4	220.2	118.7	150.7	20.8	53.7
Net Income	594.2	33.3	57.0	110.6	68.4	86.2	4.8	17.3
Earnings Attributable to Common Shareholders	592.2	NA	NA	NA	NA	NA	NA	16.3
June 30, 2017								
Total Revenues	\$ 3,576.5	\$ 389.5	\$ 229.4	\$ 675.3	\$ 467.3	\$ 663.9	\$ 344.7	\$ 424.7
Operating Income	744.7	109.7	165.4	127.4	35.2	119.6	46.1	75.0
Net Income	376.2	49.0	107.4	52.1	10.5	62.3	20.4	25.1
Earnings Attributable to Common Shareholders	375.0	NA	NA	NA	NA	NA	NA	24.5
September 30, 2017								
Total Revenues	\$ 4,104.7	\$ 431.2	\$ 167.3	\$ 719.3	\$ 557.7	\$ 742.0	\$ 442.8	\$ 517.6
Operating Income	986.5	129.7	95.1	173.0	115.1	154.5	86.8	137.0
Net Income	556.7	64.3	59.9	86.0	64.9	82.6	46.2	84.1
Earnings Attributable to Common Shareholders	544.7	NA	NA	NA	NA	NA	NA	73.1
December 31, 2017								
Total Revenues	\$ 3,810.4	\$ 374.1	\$ 173.8	\$ 746.8	\$ 535.7	\$ 731.9	\$ 335.6	\$ 436.3
Operating Income	742.2	97.1	96.9	174.9	84.3	145.4	21.2	42.0
Net Income	401.8	163.9	61.8	82.6	42.9	92.8	0.6	11.0
Earnings Attributable to Common Shareholders	400.7	NA	NA	NA	NA	NA	NA	10.8

NA Not applicable.

Quarterly Periods Ended:	AEP	AEP Texas	AEPTCo	APCo	I&M	OPCo	PSO	SWEPCo
	(in millions)							
March 31, 2016								
Total Revenues	\$ 4,044.9	\$ 330.5	\$ 79.6	\$ 820.0	\$ 532.7	\$ 763.6	\$ 274.3	\$ 379.0
Operating Income	892.9	82.4	34.8	244.4	115.8	134.0	35.8	51.4
Income from Continuing Operations	503.1	35.0	—	—	—	—	—	—
Income (Loss) from Discontinued Operations, Net of Tax	—	(1.3) (c)	—	—	—	—	—	—
Net Income	503.1	33.7	25.8	126.3	74.7	70.2	15.7	24.5
June 30, 2016								
Total Revenues	\$ 3,892.9	\$ 365.0	\$ 153.1	\$ 673.5	\$ 522.4	\$ 730.8	\$ 300.2	\$ 427.0
Operating Income	866.2	103.4	108.1	158.3	94.8	138.6	59.0	85.9
Income from Continuing Operations	506.4	49.7	—	—	—	—	—	—
Income (Loss) from Discontinued Operations, Net of Tax	(2.5) (a)	(0.7) (c)	—	—	—	—	—	—
Net Income	503.9	49.0	74.8	73.4	51.3	74.6	28.9	44.3
September 30, 2016								
Total Revenues	\$ 4,652.2	\$ 403.9	\$ 125.3	\$ 778.2	\$ 597.6	\$ 871.3	\$ 401.7	\$ 539.7
Operating Income (Loss)	(1,127.9) (b)	112.4	76.4	204.4	131.4	171.6	98.4	147.4
Income (Loss) from Continuing Operations	(764.2) (b)	55.5	—	—	—	—	—	—
Income (Loss) from Discontinued Operations, Net of Tax	—	(47.4) (c)	—	—	—	—	—	—
Net Income (Loss)	(764.2) (b)	8.1	52.4	104.1	75.4	99.9	52.8	84.4
December 31, 2016								
Total Revenues	\$ 3,790.1	\$ 362.0	\$ 120.0	\$ 729.5	\$ 514.9	\$ 588.2	\$ 273.6	\$ 402.3
Operating Income	575.9	81.4	60.8	136.2	39.6	64.3	5.5	36.4
Income from Continuing Operations	375.2	55.2	—	—	—	—	—	—
Income from Discontinued Operations, Net of Tax	—	0.6 (c)	—	—	—	—	—	—
Net Income	375.2	55.8	39.7	65.3	38.5	37.5	2.6	16.5

(a) Includes final accounting adjustment for sale of AEPRO (see Note 7).

(b) Includes impairments for certain merchant generation assets (see Note 7).

(c) Includes the transfer of the Wind Farms (see Note 7).

AEP

The unaudited quarterly financial information relating to Common Shareholders is as follows:

	<u>March 31</u>	<u>2017 Quarterly Periods Ended</u>		<u>December 31</u>
		<u>June 30</u>	<u>September 30</u>	
Earnings Attributable to AEP Common Shareholders	\$ 592.2	\$ 375.0	\$ 544.7	\$ 400.7
Basic Earnings per Share Attributable to AEP Common Shareholders from Continuing Operations (b)	1.20	0.76	1.11	0.81
Diluted Earnings per Share Attributable to AEP Common Shareholders from Continuing Operations (b)	1.20	0.76	1.10	0.81
	<u>March 31</u>	<u>2016 Quarterly Periods Ended</u>		<u>December 31</u>
		<u>June 30</u>	<u>September 30</u>	
Earnings (Loss) Attributable to AEP Common Shareholders	\$ 501.2	\$ 502.1	\$ (765.8) (a)	\$ 373.4
Basic Earnings (Loss) per Share Attributable to AEP Common Shareholders from Continuing Operations (b)	1.02	1.03	(1.56) (a)	0.76
Basic Earnings (Loss) per Share Attributable to AEP Common Shareholders from Discontinued Operations (c)	—	(0.01)	—	—
Total Basic Earnings (Loss) per Share Attributable to AEP Common Shareholders (b)	1.02	1.02	(1.56) (a)	0.76
Diluted Earnings (Loss) per Share Attributable to AEP Common Shareholders from Continuing Operations (b)	1.02	1.03	(1.56) (a)	0.76
Diluted Earnings (Loss) per Share Attributable to AEP Common Shareholders from Discontinued Operations (c)	—	(0.01)	—	—
Total Diluted Earnings (Loss) per Share Attributable to AEP Common Shareholders (b)	1.02	1.02	(1.56) (a)	0.76

(a) Relates to impairments for certain merchant generation assets (see Note 7).

(b) Quarterly Earnings per Share amounts are intended to be stand-alone calculations and are not always additive to full-year amount due to rounding.

(c) Relates to final accounting adjustment for sale of AEPRO (see Note 7).

20. GOODWILL AND OTHER INTANGIBLE ASSETS

The disclosures in this note apply to AEP only.

Goodwill

The changes in AEP's carrying amount of goodwill for the years ended December 31, 2017 and 2016 by operating segment are as follows:

	Corporate and Other	Generation & Marketing (in millions)	AEP Consolidated
Balance as of December 31, 2015	\$ 37.1	\$ 15.4	\$ 52.5
Impairment Losses	—	—	—
Balance as of December 31, 2016	37.1	15.4	52.5
Impairment Losses	—	—	—
Balance as of December 31, 2017	<u>\$ 37.1</u>	<u>\$ 15.4</u>	<u>\$ 52.5</u>

In the fourth quarters of 2017 and 2016, annual impairment tests were performed. The fair values of the reporting units with goodwill were estimated using cash flow projections and other market value indicators. There were no goodwill impairment losses. AEP does not have any accumulated impairment on existing goodwill.

Other Intangible Assets

Amortization of intangible assets was \$2 million and \$3 million for the years ended December 31, 2016 and 2015, respectively. Acquired intangible assets were fully amortized as of December 31, 2016. The amortization life, gross carrying amount and accumulated amortization by major asset class are as follows:

	Amortization Life	December 31, 2016	
		Gross Carrying Amount	Accumulated Amortization
	(in years)	(in millions)	
Acquired Customer Contracts	5	\$ 58.3	\$ 58.3

CORPORATE AND SHAREHOLDER INFORMATION

Corporate Headquarters

1 Riverside Plaza
Columbus, OH 43215-2373
614-716-1000
AEP is incorporated in the State of New York.

Stock Exchange Listing - The Company's common stock is traded principally on the New York Stock Exchange under the ticker symbol AEP.

Internet Home Page - Information about AEP, including financial documents, Securities and Exchange Commission (SEC) filings, news releases, investor presentations, shareholder information and customer service information, is available on the Company's home page on the Internet at www.AEP.com/investors.

Inquiries Regarding Your Stock Holdings - Registered shareholders (shares that you own, in your name) should contact the Company's transfer agent, listed below, if you have questions about your account, address changes, stock transfer, lost certificates, direct deposits, dividend checks and other administrative matters. You should have your Social Security number or account number ready; the transfer agent will not speak to third parties about an account without the shareholder's approval or appropriate documents.

Transfer Agent & Registrar

Computershare Trust Company, N.A.
P.O. Box 43078
Providence, RI 02940-3078
For overnight deliveries:
Computershare Trust Company, N.A.
250 Royall Street
Canton, MA 02021-1011
Telephone Response Group: 1-800-328-6955
Internet address: www.computershare.com/investor
Hearing Impaired #: TDD: 1-800-952-9245

Beneficial Holders - (Stock held in a bank or brokerage account) - When you purchase stock and it is held for you by your broker, it is listed with the Company in the broker's name, and this is sometimes referred to as "street name" or a "beneficial owner." AEP does not know the identity of individual shareholders who hold their shares in this manner; we simply know that a broker holds a certain number of shares which may be for any number of customers. If you hold your stock in street name, you receive all dividend payments, annual reports and proxy materials through your broker. Therefore, questions about your account should be directed to your broker.

Dividend Reinvestment and Direct Stock Purchase Plan - A Dividend Reinvestment and Direct Stock Purchase Plan is available to all investors. It is an economical and convenient method of purchasing shares of AEP common stock, through initial cash investments, cash dividends and/or additional optional cash purchases. You may obtain the Plan prospectus and enrollment authorization form by contacting the transfer agent or by visiting www.AEP.com/investors/buyandmanagestock.

Financial Community Inquiries - Institutional investors or securities analysts who have questions about the Company should direct inquiries to Bette Jo Rozsa, 614-716-2840, bjrozsa@AEP.com; Individual shareholders should contact Kathleen Kozero, 614-716-2819, klkozero@AEP.com.

Number of Shareholders - As of February 26, 2018, there were approximately 63,000 registered shareholders and approximately 649,000 shareholders holding stock in street name through a bank or broker. There were 492,294,027 shares outstanding as of February 26, 2018.

Form 10-K - Upon request, we will provide without charge a copy of our Form 10-K for the fiscal year ended December 31, 2017. A copy can be obtained via mail with a written request to AEP Investor Relations, by telephone at 1-800-237-2667 or electronically at klkozero@AEP.com.

Executive Leadership Team

Name	Age	Office
Nicholas K. Akins	57	Chairman of the Board, President and Chief Executive Officer
Lisa M. Barton	52	Executive Vice President - Transmission
Paul Chodak, III	54	Executive Vice President - Utilities
David M. Feinberg	48	Executive Vice President, General Counsel and Secretary
Lana L. Hillebrand	57	Executive Vice President and Chief Administrative Officer
Mark C. McCullough	58	Executive Vice President - Generation
Charles R. Patton	58	Executive Vice President - External Affairs
Brian X. Tierney	50	Executive Vice President and Chief Financial Officer
Charles E. Zebula	57	Executive Vice President - Energy Supply

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