Transource Energy

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. Transource Energy’s activities consist of the development, construction and operation of FERC-regulated transmission assets in Missouri, West Virginia, Pennsylvania, Maryland and Oklahoma. Transource Energy has a credit facility agreement where borrowings are loaned through intercompany lending agreements to its subsidiaries. The creditor to the agreement has no recourse to the general credit of AEP. Transource Energy’s credit facility agreement contains certain covenants and require it to maintain a percentage of debt-to-total capitalization at a level that does not exceed 67.5%. See the tables below for the classification of Transource Energy’s assets and liabilities on the balance sheets.

Desert Sky Wind Farm LLC and Trent Wind Farm LLC

Desert Sky Wind Farm LLC and Trent Wind Farm LLC (collectively the LLCs) were established for the purpose of repowering, owning and operating wind-powered electric energy generation facilities in Texas. In January 2018, AEP admitted a nonaffiliate as a member of the LLCs to own and repower Desert Sky and Trent. The nonaffiliate contributed full turbine sets to each project in exchange for a 20.1% interest in the LLCs. The nonaffiliates’ contribution of $84 million was recorded as Net Property, Plant and Equipment on the balance sheets, which was the fair value as of the contribution date determined based on key input assumptions of the original cost of the full turbine sets and the discounted cash flow benefit associated with the production tax credits available from repowering Desert Sky and Trent based on their expected net capacity, capacity factor and the operational availability. From January 2018 through July 2020, AEP owned 79.9% of the LLCs. As a result, management concluded that the LLCs were VIEs and that AEP was the primary beneficiary based on its power to direct the activities that most significantly impact their economic performance. Also in January 2018, the LLCs entered into a forward PPA for the sale of power to AEPEP related to deliveries of electricity beginning January 1, 2021 for a 12 year period. Prior to the effective date of the PPA, the LLCs sold power at market rates into ERCOT. AEP and the nonaffiliate shared tax attributes including PTC and cash distributions from the operation of the LLCs generally consistent with the ownership percentages. See the tables below for the classification of the LLCs’ assets and liabilities on the balance sheets.

In August 2020, AEP exercised its call right which required the nonaffiliate to sell its noncontrolling interest in the LLCs to AEP. The nonaffiliates’ interest in the LLCs was presented as Redeemable Noncontrolling Interest on the balance sheets. The exercise price for the call right was determined using a discounted cash flow model with agreed input assumptions as well as updates to certain assumptions reasonably expected based on the actual results of the LLCs. As a result, the LLCs are wholly-owned by AEP and management has concluded that the LLCs are no longer VIEs. As of December 31, 2020 and 2019, AEP recorded $0 and $66 million, respectively, of Redeemable Noncontrolling Interest in Mezzanine Equity on the balance sheets.