

2016 and 2017 Employee Incentive Plans

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American Electric Power

Annual Incentive Compensation Plan

AEP Utilities

Introduction

The objectives of AEP's Annual Incentive Compensation Plan (the Plan) are to:

- Attract, retain, engage and motivate employees to further the objectives of the company, its customers and the communities it serves;
- Enable high performance by communicating and aligning employee efforts with the Plan's performance objectives; and
- Foster the creation of sustainable shareholder value through achievement of AEP's goals.

2016 Overview

For 2016 the Executive Council, each Operating Company, Customer and Distribution Services (C&DS), Regulated Generation, Competitive Generation, Transmission, Nuclear Generation, and Energy Supply (non-generation), have an annual incentive compensation plan (ICP) with separate goals. The goals for Customer & Distribution Services (C&DS) will be a roll-up of the Operating Company goals for 75% of the plan, while 25% will be comprised of C&DS-specific measures. All staff groups participate in the ICP program based on the funding measures described below and do not have separate function level incentive goals. As a result, the overall score for all staff groups will be the average overall score¹ for all of the Business Units and Operating Companies, except to the extent that the overall score for one or more Business Units or Operating Companies is capped at the 200% of target maximum score. The staff groups that share the funding measure score are Audit, Executive Administration, Regulatory Services, Safety and Health, Aviation and Security, Infrastructure and Business Continuity, Environmental Services and all employees reporting to the Chief Administrative Officer, the Chief Financial Officer and the General Counsel.

The Plan provides annual incentive compensation to motivate and reward employees based on AEP's performance, business unit performance (if applicable) and, for employees whose payout is discretionary, their individual performance. Annual incentive funding for all plans is tied to AEP's Operating Earnings per Share (75% weight), safety (10% weight) and strategic initiatives (15% weight).

Linking annual incentive compensation to AEP's earnings aligns it with the value created for AEP's shareholders and ensures that AEP meets its shareholder commitments before setting aside dollars for employee rewards. Relative individual performance is reflected in managers' discretionary allocations from their award pool for all employees in positions in the new 20 grade salary plan (SP20) and all employees in positions in the exempt, administrative, technical, customer solutions center and non-exempt supervisory salary plans. Group or team performance

¹ Weighted by the aggregate target award for all employees in each group

may also be reflected through discretionary adjustments in the allocation of funding from the annual incentive pool at higher organizational levels.

Each ICP has separate strategic and operational performance measures that provide a balanced scorecard of financial, customer experience, employee experience (includes safety) and other (includes environmental and compliance) objectives. The Plan is intended to drive the achievement of these objectives by clearly communicating them, conveying their importance, aligning employee efforts toward their achievement and further motivating employees to achieve them. This balanced scorecard encourages the achievement of all types of objectives, rather than the achievement of some objectives, such as earnings, at the expense of others, such as customer service, reliability safety or compliance.

Performance measures are selected, whenever practical, to provide a “line of sight” that enables employees to see how the work they perform affects annual incentive awards. Objective and quantifiable performance measures are used whenever they are available but the Plan also includes subjective assessments of performance in less quantifiable areas and for individual performance assessments.

Safety remains the first priority irrespective of the ICP goals and other objectives the Company establishes. To help ensure that all employees have a personal stake in maintaining safe work practices, particularly those that could prevent severe accidents, a company-wide Fatality Measure is included in the Plan with a 2.5% weight. The score for this measure will be 0% for 2016 due to the fatal employee incident that occurred in early 2016. The Fatality Measure serves as a constant reminder to work safely at all times and recognizes all employees for working a full year without a fatal work related employee incident. A target score (100%) requires the calendar year to be completed without a fatal work related employee incident, while a 200% score requires two or more calendar years to be completed without such an incident.

Operating Performance Measures and Weights

The specific performance measures vary by business unit. The score for each operating unit performance objective may range from 0% to 200% of target for that component.

Refer to Appendix A

2016 Funding Measures

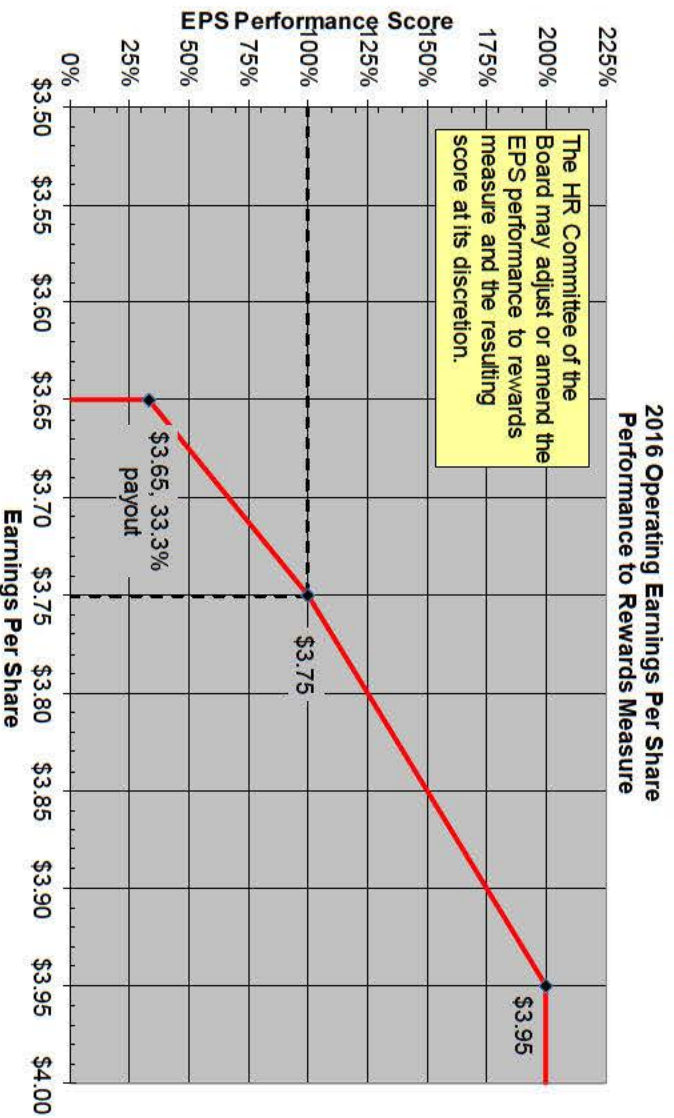
The 2016 funding measures were established by the HR Committee of the Board early in the year. The maximum funding available for 2016 is 200% of target funding². As in past years, the CEO and HR Committee of the Board have discretion to adjust annual incentive funding. All incentive plan funding is contingent on AEP achieving operating earnings of at least \$3.65 per share for 2016.

² Given the fatal employee incident, the maximum potential funding score for 2016 is 195% of target.

Operating Earnings per Share – 75%

AEP is committed to generating sustainable value for its shareholders through its earnings and growth. Therefore 75% of annual incentive funding is tied to AEP's Operating Earnings per Share. This ensures that funding is commensurate with the Company's operating earnings and the extent to which the company can afford to pay annual incentive compensation while also serving the interests of its shareholders, customers and other stakeholders. It also:

- Further aligns the financial interests of all AEP employees with those of AEP's shareholders;
- Ensures that adequate earnings are generated for AEP's shareholders and continued investment in AEP's business before employees are rewarded with annual incentive compensation; and
- Aligns employee interests with those of regulated and other customers by strongly encouraging expense discipline.



Safety – 10% Weight

AEP is undertaking a long-term, 5-year effort to transform our safety culture from “Good to Great”. To accomplish this we will be transforming our approach to safety and building the systems and culture needed to support and sustain world-class safety performance. This includes building a proactive safety culture based on proactive measures and continuous improvement.

For 2016 the employee and contractor recordable case rate ICP measures, as well as the incident severity rate measure, will be replaced with DART rate improvement to focus our attention on incidents with potentially serious consequences. DART stand for Days Away, Restricted or job Transfer and is an industry accepted measure that allows companies to focus on more serious events.

DART Rate Improvement for Employees and Contractors (7.5% weight)

- DART Rate = (Total Number of DART incidents x 200,000) ÷ Total Hours Worked
 - Threshold (0% payout) – 0% improvement vs. three-year average
 - Target (100% payout) – 10% Improvement vs. three-year average
 - Maximum (200% payout) – 20% Improvement vs. three-year average

Fatality Measure (2.5% weight)

- 0% payout – Any fatal work related employee incident
- 100% payout – No fatal work related employee incident
- 200% payout – No fatal work related employee incident for at least two (2) years

At the business unit and Operating Company level we will also be establishing more proactive measures,

2016 Strategic Initiatives (15% weight)

There are three areas of focus for AEP's 2016 strategic initiatives, which reflect the major areas on which AEP needs to make progress in order to enable our future success:

- Business Transformation
- Customer Experience
- Culture and Employee Engagement

Each of these focus areas includes several performance measures (shown in the table below) that reflect some of the many transformative initiatives the company is undertaking.

2016 Strategic Initiatives		Weight
Business Transformation		6%
Competitive Business Assessment of Non-PPA Plants	2%	
AEP OnSite Partners and AEP Renewables Start-ups	2%	
Transmission Business Expansion	2%	
Customer Experience		5%
Quality of Service: SAIDI	2%	
Quality of Service: J.D. Power Residential Overall Customer Satisfaction Index	2%	
Network Remediation		1%
Culture & Employee Engagement		4%
Power Up & Lead	1%	
Gallup Pulse Survey	1%	
Diversity	1%	
Lean Management Sustainability	1%	
Total Strategic Initiative Weight		15%

Business Transformation (6% total weight)

Competitive Business Assessment for Non-PPA Plants (2% weight)

- Conclude strategic review process for non-PPA generation units by the end of 2016 to achieve the strategic goal of reducing exposure to unregulated generation (2% weight)
 - Threshold (0% payout) – if the strategic review is not completed and no recommendation is made to the Board to retain or sell the assets
 - Target (100% payout) – if bids are solicited and firm, and either:
 - Valuation results in a recommendation to retain these assets; OR
 - The strategic process results in a signed contract for the sale of these assets
 - Maximum (200% payout) – The strategic process results in a signed contract for the sale of these assets and a plan for the use of proceeds is completed and approved by the Board

AEP OnSite Partners and AEP Renewables Start-ups (2% weight)

- Enable start-up of AEP OnSite Partners and AEP Renewables by successfully building and starting-up initial projects (substation, solar, etc.), closing the talent gap through recruiting and training and preparing entities for Clean Power Plan (CPP) opportunities
 - Threshold (0% payout) – no progress made or failure to execute projects currently under way
 - Target (100% payout) – modest backlog of \$20M in the letter of intent (LOI) phase projects
 - Maximum (200% payout) – significant backlog of projects developed with a minimum of \$50M in LOI phase

Transmission Business Expansion (2% weight)

- Achieve AEP Transmission Holdco business expansion by capturing long-term capex investment opportunities³ through a portfolio of activities, including:
 - Approval and identification of projects through Tennessee Transco and Telecom fiber build out through Transcos
 - RTO awarded projects to Transource
 - Direct investment in, or licensing fees received by BOLD Transmission, LLC
 - Threshold (0% payout) – \$100M
 - Target (100% payout) – \$200M
 - Maximum (200% payout) – \$300M

Customer Experience (5% total weight)

Quality of Service - SAIDI (System Average Interruption Duration Index) – (2% Weight)

- SAIDI represents the total number of minutes the average customer has experienced interruption over a 12 month time period excluding major events. Major event exclusions and targets vary by Operating Company or jurisdiction due to PUC preference and regional differences.
 - OpCo Thresholds (0% payout) – 80% of target or 75% of target for KY Power due to historic volatility

³ Capex captured in 2016 for investment in 2016 and future years

- OpCo Targets (100% payout) – Regulatory targets where applicable or a 10 year glide path to the regional peer group average or, if the average has already been achieved, maintain this average
- OpCo Maximums (200% payout) – 120% of target or 125% of target for KY Power due to historic volatility
- Overall AEP performance will be determined based on a customer weighted average of Operating Company performance scores

Quality of Service - J.D. Power and Associates (JDDPA) Residential Overall Customer Satisfaction Index (CSI) – (2% Weight)

- The overall CSI represents the aggregate score of numerous questions included in JDDPA's annual residential customer satisfaction study. Operating Company ICP measures and targets are based on the four waves of the study conducted during the calendar year; not JDDPA's survey publication timeline.
 - OpCo Thresholds (0% payout) – Current performance
 - OpCo Targets (100% payout) – Improve performance on pace with peer group improvement trend (1.5% - 2.4% depending on the OpCo)
 - OpCo Maximums (200% payout) – the higher of 3% improvement or a 3-year trajectory to achieve the regional peer average
 - Overall AEP performance will be determined based on a customer weighted average of Operating Company performance scores

Network Remediation (1% weight)

- Achieve the 2016 baseline replacement schedule, which is 32% of total 5 year plan.
 - 0% – (75% of target) 286,931 circuit feet replaced (primary and secondary)
 - 100% – (100% of target) 382,575 circuit feet replaced (primary and secondary)
 - 200% – (125% of target) 478,218 circuit feet replaced (primary and secondary)

Culture & Employee Engagement (4% total weight)

Gallup Pulse Survey (1% weight)

- Achieve year over year improvement in our culture and engagement as demonstrated by Gallup Survey Results (Overall Company* Grand Mean). The 2016 survey will be conducted as a pulse survey, meaning that a sample of the population will be invited to participate in the survey, not all employees. AEP's 2015 Grand Mean score of 3.96 was at the 39th percentile.
 - Thresholds (0% payout) - 0.07 improvement, which would bring AEP's scores to approximately the survey median
 - A score increase of 0.07 is the average improvement seen from the second to third year of participation in the Gallup survey
 - Target (100% payout) - 0.10 improvement
 - Maximum (200% payout) - 0.20 improvement

Diversity (1% weight)

- AEP's diversity goal is to increase the representation of women and minorities to ultimately achieve parity between internal representation and external availability for all AEP positions. To achieve this goal AEP will need to improve hiring rates for women and minorities for all open positions and take steps to reduce attrition from these groups.
- The diversity measure is based on an employee weighted average of female and minority representation rates for all Equal Employment Opportunity (EEO) categories, except Officials and Managers, which are double weighted, with threshold, target and maximum levels that are no lower than current representation rates
 - Threshold (0% payout): AEP's current representation rates + placement at 80% of the hiring availability⁶ rates for the positions AEP expects to recruit - attrition at AEP's current representation rates
 - Target (100% payout): AEP's current representation rates + placement at 100% of the hiring availability rates for the positions AEP expects to recruit - attrition at AEP's current representation rates
 - Maximum (200% payout): AEP's current representation rates + placement at 120% of the hiring availability rates for the positions AEP expects to recruit - attrition at AEP's current representation rates

Power Up and Lead (1% weight)

- Support our overall culture improvement efforts through Power up & Lead. This objective will be measured by the number of employees that participate in Power up & Lead workshops in 2016.
 - Threshold (0% payout) - 3,900 participants
 - Target (100% payout) - 5,200 participants
 - Maximum (200% payout) - 6,500 participants

Phase 1 Lean Management System (LMS) Deployment (1% weight)

- Continue the emphasis on Lean in both pilot and non-pilot areas.
- Pilot areas include:
 - Development of a Change Management and Communication strategy
 - Development of a plan to align people systems and technology with lean strategy to enable continuous improvement
 - Utilization of lean tools, visual management, standard work, lean leader standard work (defining what a leader does on a daily, weekly, monthly basis to enable problem solving at all levels of the organization), and creating accountability
- Non-pilot areas include implementation of basic lean leader standard work and solidify understanding of lean concepts, tools, and metrics
- Threshold (0% payout) - 1 pilot area⁷ and 30 non-pilot areas complete

⁶ Hiring availability is the weighted internal and external availability for the historical mix of internal and external candidates selected for each opportunity. External availability is based on census data for the local, regional or national area from which AEP expects to select for each position. Internal availability is based on AEP's representation rates for the internal positions from which AEP historically recruits for each opportunity.

⁷ Areas are generation plants, transmission areas, distribution districts, and other groups

- Target (100% payout) - 3 pilot areas and 40 non-pilot areas complete
- Maximum (200% payout) - 3 pilot areas and 50 non-pilot areas complete plus pilots initiated in 3 other areas

Modifier

The Modifier is a normalizing function that allocates the available funding to each business unit and operating company based on the group's relative performance score. After the modifier is applied, the weighted average overall final score for all groups, before the overall 200% maximum is applied, is equal to the funding score. This insures that the sum of all awards equals the funding available based on the funding scores.

The modifier is calculated as the Weighted Average Funding Score, divided by the Average Operating Performance Score (AOPS)⁸ for all incentive plans as shown below:

$$\frac{\textit{Weighted Avg. Funding Score}}{\textit{AOPS}} = \textit{Modifier}$$

CEO Performance Adjustment

The CEO Adjustment may be used to increase or decrease the Overall Score⁹ for the Plan to the extent that the CEO or Plan Compensation Committee determines that the Overall Score does not appropriately reflect the group's performance for the year. Such adjustments may be used to capture those aspects of a group's performance that are difficult to quantify or that were not adequately included in the performance measures established at the beginning of the year. For example, the CEO Performance Adjustment might be used to reward a group for successfully completing an important project that was not anticipated at the time the ICP goals were established.

Individual Performance Factor

Management determines individual awards for all employees in positions in the new SP20 salary plan as well as those in exempt, nonexempt supervisor, administrative, technical, and customer solutions center salary plan positions. These determinations are based on an assessment of each employee's relative individual performance, the value of their contribution to AEP, business unit, department and individual goals and other business factors, potentially including recent and pending employment changes. The Individual Performance Factor has a lower limit of 0% and no upper limit. However, the approval of a member of the Executive Council is required for individual awards in excess of a participant's maximum award opportunity (see the Target and Maximum Awards section below). In addition managers cannot exceed their award pool.

In determining Individual Performance Factors, managers are expected to assess employee performance and contribution relative to other employees in the same position and the performance expectations for that position, to avoid a bias in favor of positions at both higher

⁸ AOPS is the average of the Composite Scores for all incentive groups weighted by the aggregate target incentive award for all participants in each incentive group (see attached scorecard for an example).

⁹ See Sample Scorecard for the definition and an example of the calculation of the Overall Score.

and lower reporting and grade levels in the organization.

Eligible Earnings

ICP Eligible Earnings include the following:

1. Regular Earnings – Straight Rate
2. Paid Vacation
3. Paid Holidays
4. Paid Personal Days Off
5. Sick Pay (Non-occupational & Occupational)
6. Paid Jury Duty
7. Paid Death in Family
8. Paid Rest Period
9. Inclement Weather Pay
10. Lump Sum Merit Increase
11. Lump Sum General Increase
12. Grievance Settlement for Wages
13. Overtime – Nonexempt and Exempt
14. Shift Premium
15. Sunday Premium
16. Military Pay
17. Trip Pay (River)

Earnings not classified as one of the above types in AEP’s payroll system are not considered for award calculation purposes.

Target and Maximum Award Opportunity

A participant’s target award percent is based on the salary grade for his/her position **as of the last day of the last full pay period of the year**, as shown in the chart below, except as discussed below for employees in positions at or above SP20 salary plan grade 12 or EXEM salary plan grade 30 who change jobs during the year:

New Grade Structure		
Salary Plan	Grade	Target %*
SP20 (includes non-exempt administrative, technical and non-exempt supervisor positions moved to the new SP20 grade structure)	1	50%
	2	50%
	3	50%
	4	60%
	5	80%
	6	90%
	7	100%
	8	100%
	9	150%
	10	200%
	11	250%

New Grade Structure		
Salary Plan	Grade	Target %*
	12	30%
	13	35%
	14	40%
	15	45%
	16	50%
	17	55%
	18	60%
	19	80%
	20 (CEO)	125%

* As a percent of eligible earnings.

Old Grade Structures		
Salary Plan	Grade	Target %*
NESU (nonexempt supervisors)	05N	7%
All nonexempt salary structures and wage schedules except SP20 and NESU	All grades	5%
	1 - 6	5%
	7 - 12	7%
	13 - 20	10%
	21 - 24	15%
	25 - 26	17%
	27	20%
	28	22%
	29	25%
	30 - 32	27%
	33	30%
	34-35	35%
	36	40%
	38	45%
	40	50%

* As a percent of eligible earnings.

A participant's maximum individual award percent is the greater of two times his or her target award percent or the Overall Score for the Plan plus 50% of the target score. This feature enables managers to positively differentiate awards by up to 50% of an employee's target award to reflect strong individual performance even if the Overall Score for the Plan is between 150% and the 200% of target maximum score. A participant's target and maximum

award opportunity is their target or maximum award percent multiplied by their eligible earnings. The approval of a member of AEP's Executive Council in the participant's chain of command is required for awards in excess of a participant's maximum award opportunity.

The award opportunity for employees in SP20 salary plan grade 12 or EXEM salary plan grade 30 and higher positions at any point during the plan year who change jobs during the Plan Year will be prorated and calculated as the total of the independently calculated award opportunities for each position held during the Plan Year, including the earnings, target award percent, and Overall Score for each such position. This calculation will be performed as shown in the example below:

$$\begin{aligned} \text{Position 1: Earnings} & * \text{Target Award \%} * \text{Overall Score} = \$ \text{Pos 1} \\ \text{Position 2: Earnings} & * \text{Target Award \%} * \text{Overall Score} = \$ \text{Pos 2} \\ \text{Position 3: Earnings} & * \text{Target Award \%} * \text{Overall Score} = \$ \text{Pos 3} \\ & = \text{Total Award Opportunity} \end{aligned}$$

The target awards for employees in positions below salary grade 30 for the entire Plan Year will be calculated based on the target percent and Overall Score for the position held as of the last day of the last full pay period of the Plan Year.

Award Calculation

Because the Plan includes several discretionary factors, attainment of performance objectives does not guarantee the payment of awards. An award pool will be calculated for each group based on the scores for each performance measure as soon as practical after the conclusion of the Plan Year. The final score for each performance objective is rounded to three decimal places.

The Modifier is computed as follows:

- AEP's funding measures are compared to their performance targets to determine their performance scores, which are rounded to three decimal places (e.g., 105.5% or 1.055). The Weighted Average Score is then calculated based on the weight assigned to each funding measure.
- The Average Operating Performance Score (AOPS) is the average of the Composite Scores for all annual incentive plans (each of which is rounded to three decimal places) weighted by the sum of the incentive targets for all participants in each plan. AOPS is then rounded to three decimal places (e.g., 125.7% or 1.257).
- The Modifier is the Weighted Average Score for the Funding Measures divided by AOPS, the result of which is rounded to three decimal places (e.g., 1.055 / 1.257 = .839)

Board Policy on Recouping Executive Compensation from LTIP Participants

This policy applies to employees who participate in the Company's Long Term Incentive Compensation Plan (LTIP) and relates to incentive compensation paid or payable to such employees, whether under the LTIP, this Plan, or otherwise.

The Board of Directors believes that incentive compensation provided by the Company should be reimbursed to the Company if, in the Board's determination:

- Such incentive compensation was predicated upon the achievement of financial or other results that were subsequently materially restated or corrected,
- The employee from whom such reimbursement is sought engaged in misconduct that caused or partially caused the need for the restatement or correction, and
- A lower payment would have been made to the employee based upon the restated or corrected financial results.

Therefore, if and to the extent that, in the Board's view, the above conditions have been met and such reimbursement is warranted by the facts and circumstances of the particular case or if the applicable legal requirements impose more stringent requirements on AEP to obtain reimbursement of such compensation, then you will be required to reimburse AEP for the value of such compensation paid to you. AEP also may retain any deferred compensation previously credited to you and not paid, provided that AEP will retain such deferred compensation only if, when and to the extent that it otherwise becomes payable to you.

This right to reimbursement is in addition to, and not in substitution for, any and all other rights AEP might have to pursue reimbursement or such other remedies against an employee for misconduct in the course of employment by AEP or otherwise based on applicable legal considerations, all of which are expressly retained by AEP.

Administration

Plan Compensation Committee

The Plan is administered by the HR Committee of the Board of Directors with respect to executives in the HR Committee Review Group and a Plan Compensation Committee consisting of AEP's CEO, COO, CFO, General Counsel, Chief Administrative Officer and Top Human Resources officer with respect to all other employees, in either case ("the Committee"). The CEO of American Electric Power Company, Inc. may change the composition and number of members of the Plan Compensation Committee at any time for any reason. The Committee may delegate day-to-day authority to administer the Plan, as they deem appropriate. In lieu of an official meeting, the Committee may act by written or electronic consent of a majority of its members. The Committee's interpretations of the Plan provisions are conclusive and binding on all Participants.

The Committee has sole authority to amend or terminate the Plan and may do so at any time, for any reason, either with or without notice. The Committee may adopt, delete, modify or adjust performance objectives, metrics and weights at any time, including after the conclusion of a Plan Year, should the Committee determine that changes in AEP's structure or other significant business situations would produce Overall Scores or awards for a Plan Year that are not reflective of the underlying economics and profitability of the business. The Committee may also modify the eligibility criteria for the Plan and add or delete individual participants or groups of participants.

Executive Council members with management responsibility for a business unit or staff function served by the Plan have the authority to increase or decrease the award pool for any group under their purview, provided that such adjustments do not increase the total of all award pools under

their purview.

Plan Year

A “Plan Year” begins on January 1st and ends on December 31st of each year for which the Plan is in effect.

Participation

All full-time and regular part-time AEP employees who are actively employed during the Plan Year will be “Participants” in the Plan for such Plan Year except:

1. Employees participating in any other **annual** AEP incentive plan,
2. Employees participating in any other plan or agreement that explicitly excludes their participation in the Plan or annual incentive compensation plans in general,
3. Employees represented by unions that decline the opportunity to participate in the Plan or all similar incentive plans,
4. Temporary employees and contract workers, and
5. Employees hired by AEP on or after December 1 of such Plan Year.

Participation in an incentive compensation plan in any Plan Year shall not confer any right to continued employment or to continued participation in the Plan for any subsequent Plan Year.

Participant Responsibility

Plan Participants are expected to comply with all applicable Company policies and directives as well as all applicable laws and regulations. Failure to do so may have many serious consequences, including but not limited to forfeiture of Plan eligibility in the current and future Plan Years.

Award Eligibility

Participants must be **actively** employed on the last day of such Plan Year to be eligible to receive an award for that Plan Year, except as otherwise noted below.

If a Participant transfers during the Plan Year to a position that is ineligible to participate in the Plan, then such Participant will be ineligible to receive an award for such Plan Year from the Plan, unless the participant was a salary grade 30 or higher employee during the Plan Year as specified in the “Target and Maximum Award Opportunity” section above.

If a participant is on Leave of Absence status as of the last day of the Plan Year, the Participant will be eligible to receive an award for the Plan Year to the extent that they have eligible earnings for the Plan Year.

Employees who become inactive during the Plan Year due to participation in an AEP long-term disability plan will be eligible to receive an award for that Plan Year to the extent that they have eligible earnings for the Plan Year, although long-term disability benefits are not ICP eligible earnings.

Participants forfeit their incentive plan eligibility if they are discharged for cause or resign in lieu of being “discharged for cause” at any time prior to the award payment date, unless the Plan

Compensation Committee approves an award payment to such employee.

Satisfaction of eligibility criteria does not guarantee the payment of any awards.

Termination Due to Death or Retirement

Participants remain **eligible** for an award, based on their eligible earnings for a Plan Year, if their employment with AEP is terminated during the Plan Year due to their death or retirement. In the event of a Participant's death, any award to which they would otherwise be entitled will become payable to the Participant's estate. For the purposes of the Plan, "retirement" is defined as termination of employment for any reason other than for cause or as part of a voluntary or involuntary severance or layoff, after the Participant attains at least age 55 and five years of AEP service.

Termination Due to Voluntary and Involuntary Severance and Layoffs

Due to the severe financial constraints that generally give rise to the need for employee severances and layoffs, Participants with both discretionary and non-discretionary award opportunities are **ineligible** for an award if they would have a separation from service with AEP during the Plan Year as part of a voluntary or involuntary severance program or a layoff as defined under a collective bargaining agreement or the Supplemental Handbook and they are not rehired during the Plan Year. Severed employees are ineligible for an award even if, in connection with their severance, they are (a) placed on a Leave of Absence or (b) offered, but fail to meet the qualifications to be paid a severance benefit (e.g., if they would fail to timely sign and return, a Severance and Release of All Claims Agreement). In the event a severed employee is rehired during the Plan Year, such Participant will be eligible for an award only to the extent of their earnings for the period after they were rehired.

Resignations after the Plan Year

Participants who are **actively** employed on the last day of a Plan Year but who subsequently voluntarily resign their employment remain eligible for an award. However, for discretionary participants, their actual or pending voluntary resignation is a business factor that management may consider in determining their award payment, if any.

Award Payment

Award payment will be made within 2-1/2 months after the end of the year or as soon as practical thereafter if it is impractical, either administratively or economically, to make payments within this time period.

The Plan is hereby approved by:

EVP or Higher Name	Date
EVP Title	



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We **power** life's possibilitiesSM

Appendix A 2016 Operating Company ICP Details

August 25, 2016

Corporate Multiplier

75% - Earnings per Share

10% - Safety

- 7.5% - DART Rate
- 2.5% - Fatality Measure

15% - Strategic Initiatives

- 6% - Business Transformation
- 2% - Competitive Business Strategic Assessment: Non-PPA Plant Assessment
- 2% - Competitive Business Strategic Assessment: AEP OnSite Partners and AEP Renewables Start-Ups
- 2% - Transmission Business Expansion
- 5% - Customer Experience
- 1% - Quality of Service: SAIDI
- 3% - Quality of Service: J.D. Power Residential Overall Customer Satisfaction Index
- 1% - Network Remediation
- 4% - Culture and Employee Engagement
- 1% - Power Up & Lead
- 1% - Gallup Pulse Survey
- 1% - Diversity
- 1% - Lean Management Sustainability

2016 Opco ICP Framework



KIUC's First Set of Data Requests Dated August 14th, 2017

Opco ICP plans are subject to executive leadership discretion



2016 Tier 1 Targets

Tier 1 Measures

Infrastructure Development		Goals		Kentucky					
OpCo Net Income (vs. Control budget)									
Efficiency and Effectiveness - Tot Dist Cost Per ASB		\$400.60							
Efficiency and Effectiveness - MRO Cost Per Order		\$27.80							
Efficiency and Effectiveness - ASB Hour Per FTE		38.0							
Economic & Business Development Revenue (\$M)		\$2.80							
Economic & Business Development Work Plan		1.00							
Customer Experience									
SAIDI (12M Ending)		451.9							
Reliability Work Plan		1.00							
OpCo Customer Work Plan Execution		1.00							
Systemwide Customer Work Plan Execution		1.00							
Risk Mitigation Work Plan Execution		1.00							
Regulatory Execution		1.00							
Customer Satisfaction Performance (JDKA - 6 OpCos, Multiple Measures - AEP-TX)		638							
Emergency Restoration Planning Execution		1.00							
Customer Effort Score		NA							
Employee Experience									
Employee Culture Work Plan Execution		1.00							
Combined Employee/Contractor DART Rate		0.62							
Pro-Active Employee Safety Measure		1.00							
Lean Training and VSM Analyses		NA							



KIPUC's First Period Data requests Dated August 14th, 2017

Revised Net Income Targets / Bandwidths (15%)

2016 Earnings

Curves		Earnings Ranges (\$M)			Earnings (% Δ vs. Budget)	
Budget	ROE	0.0	1.0	2.0	0.0	1.0
					0.0	1.0
					0.0	2.0

Higher Earnings Curves (>10.5%)

Middle Earnings Curves (>9.5% & <10.5%)

Lower Earnings Curves (<9.5%)

KPCo	7.7%	46.1	51.3	66.7	-10%	-	30%
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Operating Company Efficiency and Effectiveness Measures

Goal – Achieve improvement in efficiency and effectiveness continuous improvements efforts in both OpCo performance and culture

100% - Performance Based Metrics: Achieve OpCo-specific targets on three high-level metrics for all districts

- Total district cost/ASB Hour
- MRO cost/order completed
- ASB Hours/FTE

Performance
1.0 Target – achieve 3% improvement target over 2015
2.0 Target – achieve 5% improvement target over 2015
0.0 Target – achieve 1% improvement target over 2015



Customer Experience JD Power Metric and Work Plan Execution

- **5% - JD Power Residential Overall Customer Satisfaction Index**

- **5% - System-wide Customer Experience Work Plan**

Execution

- **Outage Mapping Project Completion**

- 1.0 Payout – Outage Maps delivered to the OpCos by the end of September
- 2.0 Payout – OpCos have tested, accepted and placed Outage Maps into production OR have documented system concerns keeping them from production, by year end

- **Data Analytics**

- **5% - Opco-Specific Customer Experience Work Plan**

Execution

- **Mobile Alerts (Minimum 25% of Opco Work Plan)**

- The achievement will be measured by the total number of unique accounts enrolled in alerts divided by the total number of accounts

- 0.0 Payout – 8%
- 1.0 Payout – 10.5%
- 2.0 Payout – 15%

- **Remainder of Plan Submitted by Opco**



Risk Mitigation Work Plan Execution

- **Pole Inspection & Mitigation**
 - 0.0 >80% of inspections
 - 1.0 100% of inspections
 - 2.0 No priority poles older than 12 mo*
- **Circuit Inspection & Mitigation**
 - 0.0 >80% of inspections
 - 1.0 100% of inspections
 - 2.0 No priority repairs older than 12 mo*
- **Underground Facilities Inspection & Mitigation**
 - 0.0 >80% of inspections
 - 1.0 100% of inspections
 - 2.0 No priority repairs older than 12 mo*
- **Contact Voltage Survey**
 - 0.0 Inspection not complete
 - 1.0 100% of Inspections
 - 2.0 Mitigation of all inspection findings complete



Emergency Restoration Planning Execution

Action Items:

- (50%) Implement WebEOC by December 15, 2016, Participate in design and development of WebEOC, Assign and enter user roles, Complete end-user training for key personnel
- 2.0 - meets ICP goal, plus conducts additional WebEOC training for remaining OPCCO employees.
- 1.0 - meets ICP goal.
- 0.0 - does not complete any aspect of goal.

- (25%) Utilize the Incident Command System (ICS) per the Emergency Response Plan (ERP) during a level III or greater storm events by December 31, 2016 and Conduct After Action Reviews following storm events
- 2.0 - meets ICP goal plus conduct a Full Functional ICS training Exercise for a Level I or Level II event that includes participation by all districts.
- 1.0 - meets ICP goal.
- 0.0 - does not complete any aspect of goal.

- (25%) Conduct at least one Damage Assessment exercise using Asset Scout or the Spectrum Damage Assessment Tab for damage assessors by December 31, 2016.
- 2.0 - meets ICP goal plus utilizes damage assessment tool during a Level III or greater storm event
- 1.0 - meets ICP goal.
- 0.0 - does not complete any aspect of goal.

Note: If an OPCCO does not experience an appropriate level storm during 2016, the ICP measure impacted will go up equitably to the other goal(s).



Employee Experience Work Plan Execution

Action Items to be Considered System-Wide:

OpCo-Specific plans to be outlined by each Operating Company

2016 Safety Measures

DART Rate Improvement for Employees and Contractors - 10% weight

Use of DART rate is aligned with OSHA and industry practice

- Will enable AEP to focus on injury events with more serious consequences while maintaining our focus on other recordable events
- DART stands for Days Away, Restricted or Job Transfer and is an industry-accepted measure that allows companies to focus on more serious events

DART RATE TARGETS:

- The DART rate is a single employee and contractor DART rate goal. Employee and contractor performance will be combined and count for the 10% goal. Performance will be measured against the historic three year average performance.
- DART rates will continue to be tracked separately also for both employees and contractors by business unit to allow for monitoring performance in the individual areas.
- DART Rate Metric: No Improvement=0.0 10% Improvement = 1.0 20% Improvement= 2.0

Business Unit/OPCO Proactive Performance Metrics - establish leading indicators-20% weight

Engage employees to identify and address top five high-risk activities - 5% weight

- Teams to identify gaps in procedures, develop processes and standardized work processes
 - five completed = 1.0
 - five completed and two implemented = 2.0

All OPCos will share in the same performance factor on this metric

Due to changes in methodology, we will no longer differentiate among local work groups



2016 Safety Measures (cont'd)

Business Unit/OPCO Proactive Performance Metrics - establish indicators - 20% weight

- Good Catch Program - 5% weight
- Establish a program to proactively share information and reduce/eliminate potential incidents
- 2016 vs 2015 - Improvement in number submitted: 0% = 0.0 10% = 1.0 20% = 2.0 (max)

- (2%) Increase in number Good Catches reported in 2016 based on baselines from 2015
- (3%) Measure of quality of good catches based on criteria below

Quality Good Catches

- Recognizing, correcting, and reporting a situation or condition that appears to have the potential to cause harm or damage.
- Good Catches will be documented in SHEMS
- In Q2, a short on-line video will be launched in Key Learning to explain the Good Catch program and to demonstrate the quality of the information sought.

Random sampling of good catches will be pulled for each business unit. Scores will be evaluated compared

Due to changes in methodology, we will no longer differentiate among local work groups

GOOD CATCH ICP TARGETS

2015 Actual	2016 Actual	2017 Actual	2018 Actual
+20%	+10%	Target 0.0	Target 1.0 Target 2.0
Kentucky			
		19	21 23



2016 Safety Measures (cont'd)

Business Unit/OPCO Proactive Performance Metrics - establish leading indicators-20%

weight

Job Site Observations - 5% weight

- Leadership Engagement - Observations/Shadow of a Leader Training
- Create consistent documents, tracking and training
- 2016 4th quarter improvement post training vs 2015 4th quarter actuals (5%)

➤ No improvement= 0.0 10% improvement = 1.0 20% improvement = 2.0

➤ Evaluation of Quality of Observations

- 2016 Shadow of the Leader Safety Observation Training, launched early Q3, will educate employees on how safety observations should be completed. Random sampling of observations post training will be pulled by business unit. Scores will be evaluated compared to a grading system outlined in the training program.
- Total of 340 Leaders trained, expectation of 1 CORE visit assessment measured against standard, random sample will be pulled for each Operating Company to measure quality
- 60% of CORE visits expected to be completed
- 60% random sample of total leaders trained to be pulled for evaluation
- Evaluation to be completed by the Safety Team

Due to changes in methodology, we will no longer differentiate among local work groups

2016 Safety Measures (cont'd)

Business Unit/OPCO Proactive Performance Metrics - establish leading indicators - 20% weight

Site Inspection Program - 5% weight

- Begin a multi-year effort to evaluate and mitigate high risk hazards across the system.
- Review all laydown yards, substations, generating plants, storerooms and fleet locations, service centers and office buildings
- In 2016 inspect, prioritize and develop mitigation plans.

Railway Private Crossing Risk Mitigation Program

- Evaluate all private rail crossings to AEP properties across AEP system to evaluate risk to employees and public

➤ Inspections not completed = 0.0

➤ 100% inspections complete in Q4 = 1.0

➤ 100% inspections complete identified and prioritization Q4 = 2.0

Site Inspection Program

- For Ingress/Egress hazards

- Of AEP generating plants for "high risk" hazards

- Of AEP substations for "high risk" hazards

➤ Inspections not completed = 0.0

➤ 100% inspections complete in Q4 = 1.0

➤ 100% inspections complete identified and prioritization Q4 = 2.0

All OpCos will share in the same performance factor on this metric

Due to changes in methodology, we will no longer differentiate among local work groups

2016 C&DS ICP Framework



All ICP plans are subject to executive leadership discretion

2016 C&DS ICP Plan

- C&DS ICP will rely on Operating Company performance (75%), as they have in the past, however in 2016, will add a C&DS-specific portion of the plan (25%) based on business unit-specific objectives and performance
- C&DS-specific performance will be based on the following measures:
 - Employee Experience Plan – Lean Leader Training and VSA Objectives (5%)
 - Customer Effort Score (5%)
 - Target – (0.0=55.0%, 1.0=57.9%, 2.0=60.8%), based on 2-yr historic average of phone-based transactions, scored against only phone-based transactions for 2016
 - C&DS Pro-Active Employee Safety Measures (7.5%)
 - C&DS Employee & Transmission Forestry Contractor DART Rate (7.5%)

2016 ICP Evaluation Process & Principles

Consistent with the review process change that occurred in late 2015, ICP scores will be evaluated collectively rather than individually

- This does not seek to replace each OpCo Presidents' ICP review with the COO if desired, but formally puts in place a review of all scores

In order to facilitate evaluation consistently, we are seeking greater structure in the development of work plan measures:

- Reliability Work Plan Execution – should follow structure communicated by Distribution Engineering Services (Chuck Talley's team) to Reliability Managers, including clear 0.0, 1.0, and 2.0 targets

- Customer Experience Work Plan Execution – both system-wide and OpCo-specific components should be concise (3-5 major actions), measurable (0.0, 1.0, 2.0 targets), and clearly tie/drive customer satisfaction performance (data previously shared by Performance Management)

- Emergency Restoration Planning Execution – consistent structure and targets developed by ERP team (shared upon completion)

- Employee Culture / Experience Work Plan Execution – to be fully developed by OpCo based on cultural gaps/objectives. Recommend 0.0, 1.0, 2.0 targets where applicable.

2016 Metrics Definitions

Infrastructure Development

• Operating Company Net Income

- Measure: Ongoing OpCo earnings
- Target: Based on 2016 control budget / modeling
- Bandwidth Varies based on 2015 ROE

• Economic Development

- Measure: Based on performance relative to OpCo net revenue target (40%), AEP System net revenue target (20%), and OpCo-specific plan of work relative to expectations (40%)
- Target: 40% - OpCo net revenue target (defined); 40% - assessment of performance vs. OpCo-specific work plan; 20% - assessment of performance vs. AEP System revenue target (defined)

• Efficiency & Effectiveness Measures

- Measure: Based on performance vs. established targets on a defined set of corporate-wide macro and monetization measures for districts who have fully deployed Lean. Targets: Determined by OpCo based on 2015 historical performance

2016 Metrics Definitions

Customer Experience

- **SAIDI**
 - Measure: Number of customer minutes interrupted divided by total customers; exclusions of major events differ based on regulatory definition
 - Target: Based either on established jurisdictional regulatory targets, maintenance of three year average (if performance is favorable to regulatory peers), or placement along 10-year glide path to achieve regulatory peer average

- **Reliability Work Plan Execution**
 - Measure: Performance on specific action items relative to reliability work plan developed and executed individually by each OpCo and reviewed by Distribution Engineering Services group on quarterly basis. Action items must adhere to framework provided by Distribution Engineering Services including risk mitigation activities (pole inspections, etc.)
 - Target: Achievement of specific work plan objectives

- **JD Power and Associates Residential Overall Customer Satisfaction Index (CSI)**
 - Measure: Overall Residential CSI index for the 4 waves conducted during the 2016 calendar year.
 - Targets: Target index determined by maintaining improved 2014 performance levels
 - AEP-TX will utilize MSI / RFP surveys in absence of JDPA study

2016 Metrics Definitions

Customer Experience (continued)

- **Risk mitigation Work Plan Execution**
 - Measure: Execution of Risk Mitigation plans (5 Components – Network, Poles, Overhead, Underground Transformer, Contact Voltage)
 - Target: Achievement of plan objectives
- **Regulatory Execution**
 - Measure: Completion or work towards Regulatory actions to improve the customer experience within each local jurisdiction
 - Target: Achievement of planned objectives
- **Emergency Restoration Planning Execution**
 - Measure: Completion of specific action items related to deployment of Incident Command System (ICS) and the Emergency Restoration Planning team. See slide with details.
 - Target: Achievement of specific work plan objectives
- **Customer Experience Work Plan Execution**
 - Measure: Completion of specific strategic and tactical efforts aimed at improving the customer experience. 50% of the plan is shared system-wide; 50% is OpCo-specific action items. All action items should tie as drivers of customer satisfaction performance. See slide with details.
 - Target: Achievement of specific work plan objectives

2016 Metrics Definitions

Employee Experience

- **Employee Experience Work Plan Execution**
 - Measure: Development and execution of an employee experience / culture work plan through Q4 2016
 - Target: Achievement of specific work plan objectives

• DART Rates

- Measure: This rate is calculated by adding up the number of events that had one or more lost days, (includes fatalities), one or more restricted days or that resulted in an employee transferring to a different job within the company, and multiplying that number by 200,000, then dividing that number by the number of employee hours worked
- Target: Based on OpCo adjusted glide paths to excellence; bandwidths set by Safety

- **Proactive Safety Measure** – Targets and activities will be implemented by the Safety Organization, in addition to local objectives that may vary by OpCo.



**AEP COMMERCIAL OPERATIONS
TRADING AND MARKETING
INCENTIVE COMPENSATION PLAN
Effective as of January 1, 2016**

Article 1

Establishment, Purpose and Effective Date

1.1 The Company hereby establishes the AEP Commercial Operations Trading and Marketing Incentive Compensation Plan (the "Plan").

1.2 The purposes of the Plan are to improve corporate performance, enhance shareholder value and reduce risk by providing Plan Participants with an incentive to promote the financial success of the Company.

1.3 The Plan is effective as of January 1, 2016 and shall terminate on December 31, 2016, except with respect to the payment of Incentive Awards.

Article 2
Definitions

2.1 "Annual Bonus Pool" means the lower of (i) 12.5% of the Eligible Earnings for a Plan Year plus the amount of any "Discretionary Funding" or (ii) \$1.5 million.; plus the amount of any Fatality Adjustment.

2.2 "Company" means American Electric Power Company, Inc. and its subsidiaries and affiliates.

2.3 "Cover" means the daily profit and loss statement.

2.4 "Discretionary Funding" means any amount that the Plan Compensation Committee may make available for Incentive Awards as part of the Annual Bonus Pool, provided that the total value of the Annual Bonus Pool does not exceed the limits of Article 2.1 (ii).

2.5 "Eligible Earnings" are those described in Schedule A.

2.6 "Employee" means an employee of the Company.

2.7 "Fatality Adjustments" means the sum of the individual fatality adjustments for all plan Participants, calculated based on the percentages shown in the table below. The Fatality Adjustment will apply to the Plan only in the event that the company earns at least \$3,00 per share and does not experience a fatal employee illness or injury that is determined to be work related.

Salary Grade	Individual Fatality Adder as a % of Year End Base Salary
6-7	1.0%
8-10	1.5%
11	1.75%
12+	2.0%

2.8 “Incentive Award” means the amount of incentive compensation, as determined by the Plan Compensation Committee, payable to a Participant for a Plan Year.

2.9 “Participant” means an Employee approved by the Plan Compensation Committee as eligible for an Incentive Award, if any, under the terms of this Plan. Participants will generally be those employees of the Company whose duties involve wholesale trading and marketing.

2.10 “Plan Year” means January 1, 2016 to December 31, 2016.

2.11 “Plan Compensation Committee” will consist of AEP’s CEO, CFO, Top Shared Services Executive, Top Human Resources Executive, all members of AEP’s Executive Council in the Commercial Operations chain of command, which is currently AEP’s COO, EVP of Generation and SVP Commercial Operations. The CEO may change the composition of this committee at any time for any reason. The Plan Compensation Committee may delegate authority for the day-to-day administration of the Plan as it deems necessary or appropriate.

2.12 “Qualifying Termination” means a termination of employment with the Company due to death or Retirement.

2.13 “Retirement” means the termination of an Employee’s employment with the Company for any reason other than for cause or as part of a voluntary or involuntary severance, after the Employee attains age 55 and completes five years of Company service. “Retirement” shall not include the circumstance in which the Company has determined that a Participant has elected retirement so as to avoid termination by the Company.

2.14 A “Transfer” occurs when, during a Plan Year, a Participant begins a new job with the Company, in a position for which the incumbent is generally not eligible to participate in this Plan.

Article 3
Plan Participant

3.1 Employees selected to participate in the Plan shall not be eligible to participate in any other annual incentive plan except that prorated participation in more than one annual incentive plan will be provided to Participants who Transfer during the Plan Year.

3.2 Participation in the Plan shall not guarantee participation in any future Plan or in any other incentive compensation plans that may be adopted by the Company.

Article 4
Determination of Awards

4.1 In the event of a Qualifying Termination or Transfer, the Participant's Award will typically be reduced by the portion of the Plan Year for which they were not actively employed in a position that generally participates in the Plan. The amount of any prorated Incentive Award for such participant will be determined at the sole discretion of the Plan Compensation Committee.

4.2 After the end of the Plan Year, the Senior Vice President of Commercial Operations shall make a recommendation to the Plan Compensation Committee as to the amount of each Participant's Incentive Award for the Plan Year, subject to the limitations of the Plan as set forth herein. The Senior Vice President of Commercial Operations may consider individual contributions to Eligible Earnings, compliance with good energy industry practice, corporate stewardship, staff development, and compliance with and support of AEP's Code of Ethics and other policies and other factors in such determination. The Plan Compensation Committee may approve, modify or eliminate any Incentive Award recommendation. Any and all Incentive Awards are made, amended, or eliminated at the discretion of the Plan Compensation Committee.

4.3 If the Annual Bonus Pool for the Plan Year is less than or equal to the total amount of guaranteed bonuses of Participants for that year, Participants in the Plan shall receive an Incentive Award only to the extent of their guaranteed bonuses. All sign-on bonuses, retention awards and other bonuses paid to Participants during the respective Plan Year will be deducted from the Annual Bonus Pool for such Plan Year unless the Plan Compensation Committee, in its sole discretion, determines that a portion or all such bonuses shall not be deducted from the Annual Bonus Pool.

4.4 The amount of the Annual Bonus Pool remaining, after the deductions referenced in Article 4.3, is available for discretionary allocation as Incentive Awards for the Plan Year. In no event shall the sum of all Incentive Awards exceed the Annual Bonus Pool, less the deductions referenced in Article 4.3, for such Plan Year. The Plan Compensation Committee may, in its sole discretion, determine that the circumstances warrant the allocation of less than the full remaining value of the Annual Bonus Pool as

Incentive Awards for any Plan Year and may determine that no Incentive Awards shall be paid with respect to any Plan Year.

Article 5
Payment of Incentive Awards

5.1 One-hundred percent (100%) of Incentive Awards shall be paid in cash or credited in accordance with the terms of all applicable savings and deferred compensation programs for which the Participant has made a timely and valid deferral election. All Incentive Awards shall be paid or credited as soon as practical after performance results are certified and Incentive Awards are approved using the normal payroll process for the payment of annual incentive awards. Payment made in cash under this Section 5.1 (as applicable) shall be made no later than such date as will qualify such payment as a short-term deferral described in Section 1.409A-1(b)(4) of the federal income tax regulations.

5.2 Except for a Participant whose termination is a Qualifying Termination, a Participant must be an employee of the Company on the last day of the Plan Year to be eligible for an Incentive Award for such Plan Year.

5.3 Participants forfeit their eligibility for an Incentive Award if they are discharged for cause or resign in lieu of being "discharged for cause" at any time prior to the award payment date, unless the Plan Compensation Committee approves an award payment to such Participant.

5.4 All payments shall be subject to the applicable tax withholdings, including, but not limited to, those for federal, state and local and employment taxes.

Article 6
Administration

6.1 The Plan Compensation Committee shall administer the Plan. The Plan Compensation Committee shall have the authority to interpret the Plan and to prescribe, amend and rescind rules and regulations relating to the administration of the Plan, and all such interpretations, rules and regulations shall be conclusive and binding on all Participants.

6.2 The Plan Compensation Committee may employ agents, attorneys, accountants, or other persons and allocate or delegate to them powers, rights, and duties as the Plan Compensation Committee considers necessary or advisable to properly carry out the administration of the Plan. The Plan Compensation Committee may also delegate responsibility for administering aspects of the Plan to individual members of the Plan Compensation Committee. Any action taken by the Plan Compensation Committee shall be final.

Article 7 Miscellaneous

7.1 The Plan Compensation Committee shall have the right, authority and power to alter, amend, modify, revoke or terminate the Plan at any time and for any reason that it deems appropriate. Under such circumstances, the Plan Compensation Committee may, in its sole discretion, determine and approve the early payment of some or all Incentive Awards prior to the end of a Plan Year. Any Incentive Awards approved for payment under such circumstance will be paid to Plan Participants 100% in cash at such time as determined by the Plan Compensation Committee or credited in accordance with the terms of all applicable savings and deferred compensation programs for which the Participant has made a timely and valid deferral election.

7.2 The Plan Compensation Committee will periodically review the terms and conditions of this Plan with the Human Resource Committee of the Board of Directors of the American Electric Power Company, Inc.

7.3 No compensation or benefits at any time payable under this Plan to a Participant or a Participant's estate shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, attachment, garnishment, levy, execution, or other legal or equitable process, or encumbrance of any kind except to the extent otherwise required by applicable law.

7.4 Nothing in this Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment at any time, or confer upon a Participant any right to continue in the employ of the Company.

7.5 The Plan shall be construed and administered according to the laws of the State of Ohio. In the event a Participant or alleged Participant initiates any legal action relating to the Plan, that action shall be brought in the Franklin County, Ohio Court of Common Pleas (subject to the Company's right to remove the action to federal district court if allowed by law) or the United States District Court for the Southern District of Ohio, Eastern Division in Columbus, Ohio.

7.6 In the event the Plan Compensation Committee shall find that a Participant is unable to care for his or her affairs because of illness or accident, the Plan Compensation Committee may direct that any payment due the Participant be paid to the Participant's duly appointed legal representative, and any such payment so made shall be a complete discharge of the liabilities of the Plan.

7.7 Each Participant who is granted an Incentive Award shall reimburse Company or its Subsidiaries, as applicable, for the amount awarded, earned, received or paid under such Incentive Award if the Human Resources Committee of the Company's Board of Directors, in its discretion, determines that:

- (i) the Award or any compensation resulting from it was predicated upon the achievement of financial or other results that were subsequently materially restated or corrected, and
- (ii) the Participant engaged in misconduct that caused or partially caused the need for the restatement or correction, and
- (iii) a lower payment would have been made to the Participant based upon the restated or corrected financial results.

If and to the extent that the Committee, in its sole discretion, determines that the conditions set forth in (i) through (iii) have been met and such reimbursement is warranted by the facts and circumstances of the particular case or if the applicable legal requirements impose more stringent requirements on the Company or any of its Subsidiaries to obtain reimbursement of such compensation, then the Participant will be required to reimburse Company or its Subsidiaries, as applicable, for the value of such compensation paid to that Participant. The Company or its Subsidiaries, as applicable, also may retain any deferred compensation previously credited to the Participant and not paid, provided that the Company or its Subsidiaries, as applicable, will retain such deferred compensation only if, when and to the extent that it otherwise becomes payable to the Participant. This right to reimbursement is in addition to, and not in substitution for, any and all other rights the Company and its Subsidiaries might have to pursue reimbursement or such other remedies against an employee for misconduct in the course of employment or otherwise based on applicable legal considerations, all of which are expressly retained by the Company and its Subsidiaries.

7.8 The design and administration of the Plan are intended to comply with an exception to the requirements of Section 409A of the Code, or if an exception is not available, to comply with an exception to the requirements of Section 409A of the Code to the extent such section is effective and applicable to amounts to be paid or credited hereunder. However, no Participant, beneficiary or any other person shall have any recourse against the Company, the Plan Compensation Committee or any of their affiliates, employees, agents, successors, assigns or other representatives, if any of those conditions are determined not to be satisfied.

Article 8 Confidentiality

8.1 The Plan is confidential and proprietary, and neither the Plan document nor its contents shall be disclosed to persons other than the Plan Compensation Committee, Plan Participants, and those individuals administering the Plan. At the request of a Participant, the Plan Compensation Committee may approve the disclosure of the relevant contents of the plan and potential or actual award values to specific third parties engaged in the provision of legal or financial services to the Participant, provided that such third party agrees to keep such information strictly confidential.

Article 9
Participant Responsibility

9.1 Plan Participants are expected to comply with all applicable Company policies and directives as well as all applicable laws and regulations.

The AEP Commercial Operations Trading and Marketing Incentive Compensation Plan is hereby approved by the members of the Plan Compensation Committee:

Nick Akins President & CEO	date
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Brian X. Tierney EVP - CFO	date
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Tracy A. Elich VP Human Resources	date
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Lana L. Hillebrand SVP & Chief Administrative Officer	date
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Robert Powers Chief Operating Officer	date
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Mark C. McCullough EVP Generation	date
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Tim K. Light SVP - Commercial Operations	date
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Schedule A

Eligible Earnings Definition

Basis for Regulated Mark-to Market Risk Management and Trading Transactions

1. Gross margin from designated trading and marketing activities (see Schedule B for designated books) of the wholesale electricity business, emissions trading activity and coal trading business activities as set forth on the Cover, excluding interest associated with the discounting of the books that is listed in the Cover under “Interest Rate” and “Interest Rate Hedge.” The Plan Compensation Committee may add, delete, adjust, and modify the list of designated books at any time, including after the conclusion of the plan year, and for any reason.
2. Plus or minus year on year changes in Credit Reserve (excluding the current year initial impacts of any changes in credit reserve calculation methodology).
3. Plus or minus year on year changes in Liquidity Reserve.
4. Less Plan Participant base salaries and benefits.
5. Adjusted for Interest and Capital Costs, calculated as follows:
 - a. Interest income or expense for the Plan Year for cash flows generated or used in regulated trading activities calculated at the money pool rate multiplied by:
 - i. The monthly average realized margins/losses less direct salaries, benefits and expenses as determined in 4. above, and
 - ii. The monthly average net outstanding option premiums received / (paid);
 - b. The cost of letters of credit and 3rd party credit guarantees (if any) utilized to support regulated trading activities during the plan year;
 - c. A capital charge for all net margins posted/held with/from counter parties, brokers and exchanges utilized to support regulated trading activities during the plan year, calculated at the company’s weighted average cost of capital. If AEP receives interest on posted credit, this should be netted against the charge to the plan.

Designated Books

<u>Commodity</u>	<u>Book Name</u>	<u>Description</u>
Power	MMSO	MISO Auction Sales with Respective Physical Hedges
Power	PBAS	PJM Spread Trade Book (including FTRs)
Power	PHET	East Hourly Swaps (including FTRs)
Power	PHRE	East Hourly Trades
Power	PHRS	AEP West Hourly Trades
Power	PMWE	Midwest Main Trading Book (including FTRs)
Power	PPTP	Secondary East FTR Strategy Book
Power	HPJM	Financial Hedge for PJM Power Sales
Power	NPJM	PJM Auction Sales with Respective Physical Hedges
Power	PHSP	Dealing Activity as Classified Under Dodd Frank Act (Hourly)
Power	PHRD	Non-Direct Optimization Trading of PJM/MISO Hourly Power Transactions including Futures
Power	PHRT	Non-Direct Optimization Trading of PJM/MISO/TVA Bal Day
Power	PHRW	West Hourly Trades
Power	PHWT	Physically tagged block imports/exports, Bal day trading, non-standard hourly profiles for West activity
Power	PICT	MTM Book for PCA East Term spec trades
Power	PSHD	Non-hourly physically tagged block imports/exports, bilaterally scheduled block power, cleared FIN-FUT (including FTRs)
Power	PSWH	Non-Direct Optimization Trading of PJM/MISO Hourly Power Swap
Power	PSWT	Non-Direct Optimization Trading of PJM/MISO Term Power Swap
Power	PMAC	Energy and SOCO Cash and Hourly
Power	PHAW	SPP Cash and Hourly
Power	PMWS	Energy and SOCO Cash and Hourly
Gas	KBAS	Gas Spread Trade book – Gas Book for PBAS
Gas	KSHD	Non-Direct Optimization Trading of NG transactions
Gas-Spark	KCP	Midwest Gas Spark Spread Book
Gas-Spark	KEP	AEP-West Gas Spark Spread Book
Gas	KHRS	Gas book for Non-Dedicated SPP Transactions
Coal	SC MGMT	Coal Trades Greater than 1 to 2 Prompt Quarters
Emissions	Em Comp MTM	Service Corp SO2 and NOx Compliance Trades
Emissions	CCX MGMT	Service Corp CCX Trades
Emissions	SOx MGMT	Service Corp SO2 Trades
Emissions	NOx MGMT	Service Corp NOx Trades
Emissions	REC Comp	Renewable Energy Certificate compliance book *

*plan to include 50 percent of book activity designated as non-RPS, not to exceed activity designated as RPS



2016 Performance Measures and Weights

- Continue the balanced scorecard of earnings, safety and strategic measures
- Eliminate the Extra Credit Measures (and drop 150% of target cap on the aggregate score for all Strategic, Operating and Safety Goals)

Performance Category	2016	2015	2014	2013	2012
Funding Measures					
Operating Earnings Per Shares	75%	75%	75%	75%	100%
Safety	10%	10%	10%	10%	-
Strategic Initiatives	15%	15%	15%	15%	-
Funding Adjustments					
Zero Fatality Extra Credit	-	+7.5%	+7.5%	+7.5%	+/- 10%
Culture and Engagement Extra Credit	-	+5%	+5%	+5%	-
Allocation Measures					
Safety & Health	-	-	-	-	25%
Operations	-	-	-	-	25%
Strategic Initiatives	-	-	-	-	50%

The funding measures above establish the aggregate funding available for all annual incentive groups



2016 Operating Earnings Per Share Measure (75% weight)

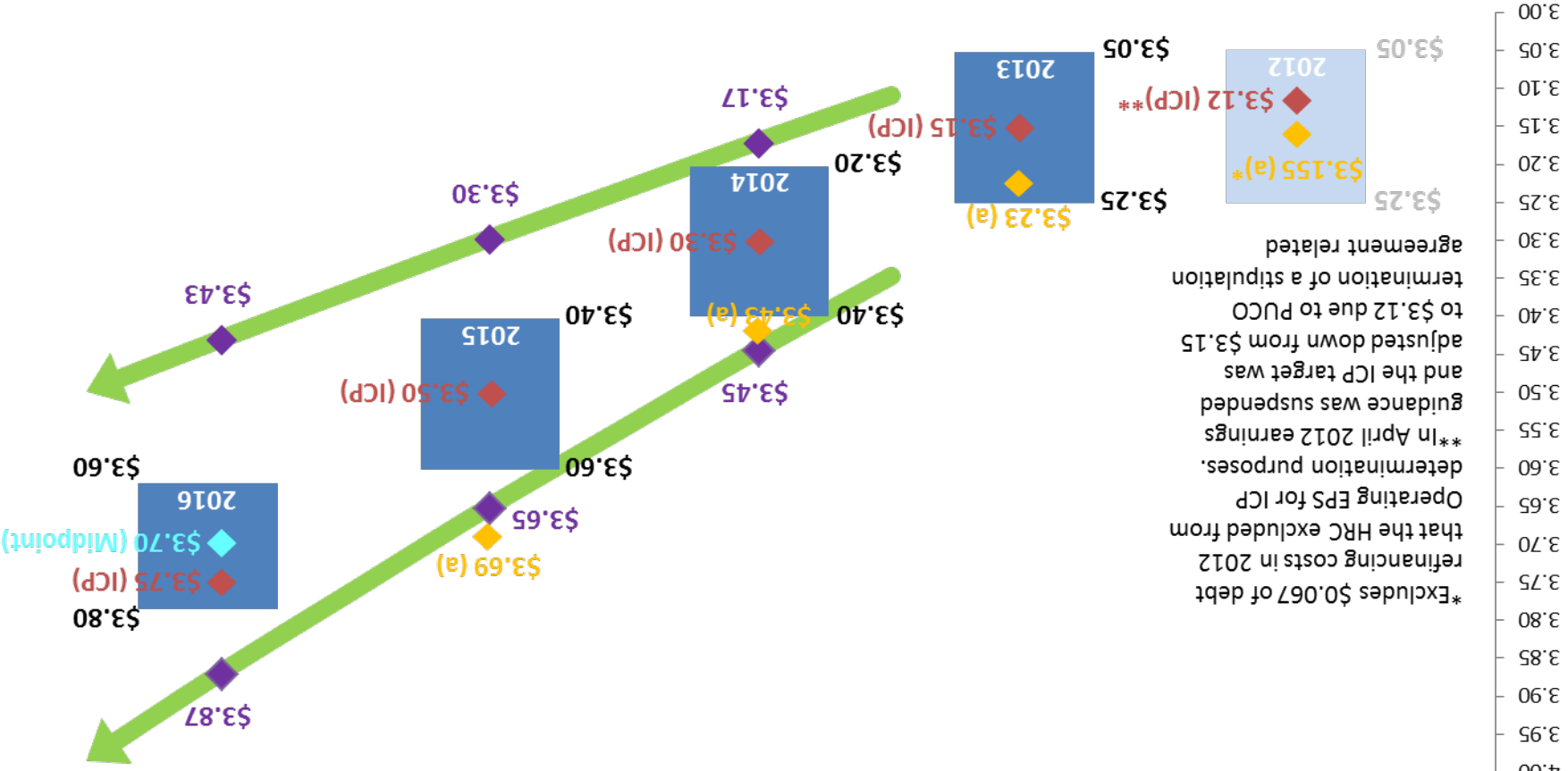
- The threshold operating earnings for STI is set at \$0.10 or 2.7% less than targeted earnings (\$3.75) with a 33.3% payout for achieving threshold
- No payout if EPS is less than threshold (\$3.65 for 2016)
- The maximum operating earnings for the ICP is set at \$0.200 or 5% above target (see table below)

	Operating Earnings Per Share	Award Score	Growth*
Maximum Award	≥ \$3.95 (\$0.200 or 5.3%)	200%	8.9%
Target	= \$3.750	100%	3.3%
Threshold	= \$3.650 (-\$0.100 or -2.7%)	33.3%	0.6%
Below Threshold	> \$3.650	0%	>.06%

*Excludes 2015 River Operation earnings of \$0.058 to calculate 2015 to 2016 growth on an equivalent (same store sales) basis.

Executing On Plan Forecasted 4-6% EPS Growth Rate Reaffirmed

◆ 4%-6% Growth Cone ◆ Actual Operating EPS ◆ 2016 Earnings Guidance Midpoint ◆ ICP Target





2016 Safety Goals (10% total weight)

- **DART Rate Improvement for Employees and Contractors (7.5% weight)**
 - DART stand for Days Away, Restricted or Job Transfer and is an industry accepted measure that allows companies to focus on more serious events
 - $\text{DART Rate} = (\text{Total Number of DART incidents} \times 200,000) \div \text{Total Hours Worked}$
 - Threshold (0% payout) – 0% improvement vs. three-year average
 - Target (100% payout) – 10% improvement vs. three-year average
 - Maximum (200% payout) – 20% improvement vs. three-year average
- **Fatality Measure (2.5% weight)**
 - 0% payout – Any fatal work related employee incident
 - 100% payout – No fatal work related employee incident
 - 200% payout – No fatal work related employee incident for more than one year



Strategic Initiatives (15% Weight)

2016 Strategic Initiatives		Weight
<u>Business Transformation</u>		6%
Competitive Business Assessment: Non-PPA Plant Assessment		2%
Competitive Business Assessment: AEP OnSite Partners and AEP Renewables Start-ups		2%
Transmission Business Expansion		2%
<u>Customer Experience</u>		5%
Quality of Service: SAIDI		2%
Quality of Service: J.D. Power Residential Overall Customer Satisfaction Index		2%
Network Remediation		1%
<u>Culture & Employee Engagement</u>		4%
Power Up & Lead		1%
Gallup Pulse Survey		1%
Diversity		1%
Lean Management Sustainability		1%
Total Strategic Initiative Weight		15%



Strategic Initiatives (15% Weight)

Business Transformation (6% total weight)

- Competitive Business (4% total weight, 2% each)
 - Conclude strategic review process for non-PA generation units by the end of 2016 to achieve the strategic goal of reducing exposure to unregulated generation (2% weight)
 - Threshold (0% payout) – if the strategic review is not completed and no recommendation is made to the Board to retain or sell the assets
 - Target (100% payout) – if bids are solicited and firm, and either:
 - Valuation results in a recommendation to retain these assets; OR
 - The strategic process results in a signed contract for the sale of these assets
 - Maximum (200% payout) – The strategic process results in a signed contract for the sale of these assets and a plan for the use of proceeds is completed and approved by the board



Strategic Initiatives (15% Weight)

Business Transformation (6% total weight)

- **Competitive Business (continued)**
 - **Enable start-up of AEP OnSite Partners and AEP Renewables by successfully building and starting-up initial projects (substation, solar, etc.), closing the talent gap through recruiting and training, preparing entities for Clean Power Plan (CPP) opportunities (2% weight)**
 - **0% – no progress made or failure to execute projects currently under way**
 - **100% – modest backlog of \$20M in the letter of intent (LOI) phase**
 - **200% – significant backlog of projects developed with a minimum of \$50M in LOI phase**



Strategic Initiatives (15% Weight)

Business Transformation (Continued)

- **Transmission Business Expansion (2% weight)**
 - **Achieve AEP Transmission Holdco business expansion by capturing long-term capex investment opportunities (0=\$100M*, 1=\$200M*, 2=\$300M*) through a portfolio of activities, including:**
 - **Approval and identification of projects through Tennessee Transco and Telecom fiber build out through TransCos**
 - **RTO awarded projects to TransSource**
 - **Direct investment in, or licensing fees received by BOLD**

*Capex captured in 2016 for investment in 2016 and future years

Strategic Initiatives (15% Weight)

Customer Experience (5% total weight)

Quality of Service (4% total weight)

- SAIDI (System Average Interruption Duration Index) – (2% Weight)
- Represents the total number of minutes the average customer has experienced interruption over a 12 month time period excluding major events
- The SAIDI measure definition, major event exclusions, and targets vary by Operating Company/Jurisdiction due to PLC preference and regional differences
- OpCo Thresholds (0% payout) – 80% of target or 75% of target for KY Power due to historic volatility
- OpCo Targets (100% payout) – Regulatory targets where applicable or a 10 year glide path to the regional peer group average or, if the average has already been achieved, maintain this average
- OpCo Maximums (200% payout) – 120% of target or 125% of target for KY Power due to historic volatility
- AEP performance will be determined based on a customer weighted average of Operating Company performance scores
- See additional detail in appendix (pp. 31-32)



Strategic Initiatives (15% Weight)

Customer Experience (continued)

Quality of Service (continued)

- J.D. Power and Associates (JDPA) Residential Overall Customer Satisfaction Index (CSI) – (2% Weight)
 - The overall CSI represents the aggregate score of numerous questions included in JDPA's annual residential customer satisfaction study
 - The results of the study are publicly published on an annual basis in July of each year and include six* of AEP's seven Operating Companies
 - *AEP Texas is excluded because Texas is a full choice retail state and AEP does not bill customers directly so customer interaction is reduced.
 - Operating Company ICP measures and targets are aligned to the four waves of the study conducted during the calendar year, not JDPA's survey timeline
 - OpCo Thresholds (0% payout) – Current performance
 - OpCo Targets (100% payout) – Improve performance on pace with peer group improvement trend (1.5% - 2.4%)
 - OpCo Maximums (200% payout) – the higher of 3% improvement or a 3-year trajectory to achieve the regional peer average
 - AEP performance will be determined based on a customer weighted average of Operating Company performance scores



Strategic Initiatives (15% Weight)

Customer Experience (continued)

- Network Remediation (1% weight) – Achieve 2016 baseline replacement schedule, which is 32% of total 5 year plan

- 0% – (75% of target) 286,931 circuit feet replaced (primary and secondary)
- 100% – (100% of target) 382,575 circuit feet replaced (primary and secondary)
- 200% – (125% of target) 478,218 circuit feet replaced (primary and secondary)



Strategic Initiatives (15% Weight)

Culture & Employee Engagement (4% total weight)

- Gallup Pulse Survey (1% weight) - Achieve a year over year improvement in our culture and engagement as demonstrated by Gallup Survey Results (Overall Company* Grand Mean)

- The 2016 survey will be conducted as a pulse survey, meaning that a sample of the population will be invited to participate in the survey, not all employees
- Analysis from Gallup shows that companies, on average, achieve a .07 improvement in Overall Company Grand Mean between their second and third administration of the survey
- Additionally, only 25% of companies achieve a .08 improvement

■ Current mean: 3.89*

- 3.96* Threshold (.07 improvement) - 0% of target payout
- 3.99* Target (.10 improvement) - 100% of target payout
- 4.09* Maximum (.20 improvement) - 200% of target payout

- Currently AEP is at the 39th percentile*. Based on 2015 Gallup Database comparisons, a 3.96 grand mean* (our proposed threshold) is at the 50th percentile.

*These numbers reflect AEP total but businesses under strategic review (AEP Energy Partners, AEP Energy, Gavin plant, Lawrenceburg plant, Waterford plant and Darby plant) will be excluded from both target and actual results. (Gallup data is not yet available for this subset.)



Strategic Initiatives (15% Weight)

Culture & Employee Engagement (continued)

- Diversity (1% weight) – Increase the representation of women and minorities to ultimately achieve parity between internal representation and external availability for all AEP positions
- Diversity Metric is based on an employee weighted average of female and minority representation rates for all EEO categories, except Officials and Managers, which are double weighted

- Threshold, target and maximum levels no lower than current representation rates

- Threshold (0% payout): AEP's current representation rates + placement at 80% of the availability* rates for the positions AEP expects to recruit - attrition at AEP's current representation rates

- Target (100% payout): AEP's current representation rates + placement at 100% of the availability* rates for the positions AEP expects to recruit - attrition at AEP's current representation rates

- Maximum (200% payout): AEP's current representation rates + placement at 120% of the availability* rates for the positions AEP expects to recruit - attrition at AEP's current representation rates

*Availability is the weighted internal and external availability for the historical mix of internal and external candidates selected for each opportunity. External availability is based on census data for the local, regional or national area from which AEP expects to select for each position. Internal availability is based on AEP's representation rates for the internal positions from which AEP historically recruits for each opportunity.



Strategic Initiatives (15% Weight)

Culture & Employee Engagement (continued)

- Power Up and Lead (1% weight) - Ensure continued focus on employee participation in Power up & Lead to support our overall culture improvement efforts as measured by the number of employees that participate in Power up & Lead unfreezing workshops in 2016

- 3,900 participants – Threshold - 0% of target payout
- 5,200 participants - Target - 100% of target payout
- 6,500 participants - Maximum - 200% of target payout



Strategic Initiatives (15% Weight)

Culture & Employee Engagement (continued)

- Phase 1 Lean Management System (LMS) Deployment (1% weight)
 - Pilot areas include:
 - Development of a Change Management and Communication strategy
 - Development of a plan to align people systems and technology with lean strategy to enable continuous improvement
 - Utilization of lean tools, visual management, standard work, lean leader standard work (defining what a leader does on a daily, weekly, monthly basis to enable problem solving at all levels of the organization), and creating accountability
 - Non-pilot areas include implementation of basic lean leader standard work and solidify understanding of lean concepts, tools, and metrics
 - Threshold (0% payout) - 1 pilot area* and 30 non-pilot areas complete
 - Target (100% payout) - 3 pilot areas and 40 non-pilot areas complete
 - Maximum (200% payout) - 3 pilot areas and 50 non-pilot areas complete plus pilots initiated in 3 other areas

*Areas are generation plants, transmission areas, distribution districts, and other groups

American Electric Power

Annual Incentive Compensation Plan

Generation – Shared and Regulated Employees

Introduction

The objectives of AEP's Annual Incentive Compensation Plan (the Plan) are to:

- Attract, retain, engage and motivate employees to further the objectives of the company, its customers and the communities it serves;
- Enable high performance by communicating and aligning employee efforts with the Plan's performance objectives; and
- Foster the creation of sustainable shareholder value through achievement of AEP's goals.

2016 Overview

For 2016 the Executive Council, each Operating Company, Customer and Distribution Services (C&DS), Regulated Generation, Competitive Generation, Transmission, Nuclear Generation, and Energy Supply (non-generation), have an annual incentive compensation plan (ICP) with separate goals. All staff groups participate in the ICP program based on the funding measures described below and do not have separate function level incentive goals. As a result, the overall score for all staff groups will be the average overall score¹ for all of the Business Units and Operating Companies, except to the extent that the overall score for one or more Business Units or Operating Companies is capped at the 200% of target maximum score. The staff groups that share the funding measure score are Audit, Executive Administration, Regulatory Services, Safety and Health, Aviation and Security, Infrastructure and Business Continuity, Environmental Services and all employees reporting to the Chief Administrative Officer, the Chief Financial Officer and the General Counsel.

The Plan provides annual incentive compensation to motivate and reward employees based on AEP's performance, business unit performance (if applicable) and, for employees whose payout is discretionary, their individual performance. Annual incentive funding for all plans is tied to AEP's Operating Earnings per Share (75% weight), safety (10% weight) and strategic initiatives (15% weight).

Linking annual incentive compensation to AEP's earnings aligns it with the value created for AEP's shareholders and ensures that AEP meets its shareholder commitments before setting aside dollars for employee rewards. Relative individual performance is reflected in managers' discretionary allocations from their award pool for all employees in positions in the new 20 grade salary plan (SP20) and all employees in positions in the exempt, administrative, technical, customer solutions center and non-exempt supervisory salary plans. Group or team performance may also be reflected through discretionary adjustments in the allocation of funding from the annual incentive pool at higher organizational levels.

¹ Weighted by the aggregate target award for all employees in each group

Each ICP has separate strategic and operational performance measures that provide a balanced scorecard of financial, customer experience, employee experience (includes safety) and other (includes environmental and compliance) objectives. The Plan is intended to drive the achievement of these objectives by clearly communicating them, conveying their importance, aligning employee efforts toward their achievement and further motivating employees to achieve them. This balanced scorecard encourages the achievement of all types of objectives, rather than the achievement of some objectives, such as earnings, at the expense of others, such as customer service, reliability safety or compliance.

Performance measures are selected, whenever practical, to provide a “line of sight” that enables employees to see how the work they perform affects annual incentive awards. Objective and quantifiable performance measures are used whenever they are available but the Plan also includes subjective assessments of performance in less quantifiable areas and for individual performance assessments.

Safety remains the first priority irrespective of the ICP goals and other objectives the Company establishes. To help ensure that all employees have a personal stake in maintaining safe work practices, particularly those that could prevent severe accidents, a company-wide Fatality Measure is included in the Plan with a 2.5% weight. The score for this measure will be 0% for 2016 due to the fatal employee incident that occurred in early 2016. The Fatality Measure serves as a constant reminder to work safely at all times and recognizes all employees for working a full year without a fatal work related employee incident. A target score (100%) requires the calendar year to be completed without a fatal work related employee incident, while a 200% score requires two or more calendar years to be completed without such an incident.

Operating Performance Measures and Weights

The specific performance measures vary by business unit. The score for each operating unit performance objective may range from 0% to 200% of target for that component.

Refer to Appendix A

2016 Funding Measures

The 2016 funding measures were established by the HR Committee of the Board early in the year. The maximum funding available for 2016 is 200% of target funding². As in past years, the CEO and HR Committee of the Board have discretion to adjust annual incentive funding. All incentive plan funding is contingent on AEP achieving operating earnings of at least \$3.65 per share for 2016.

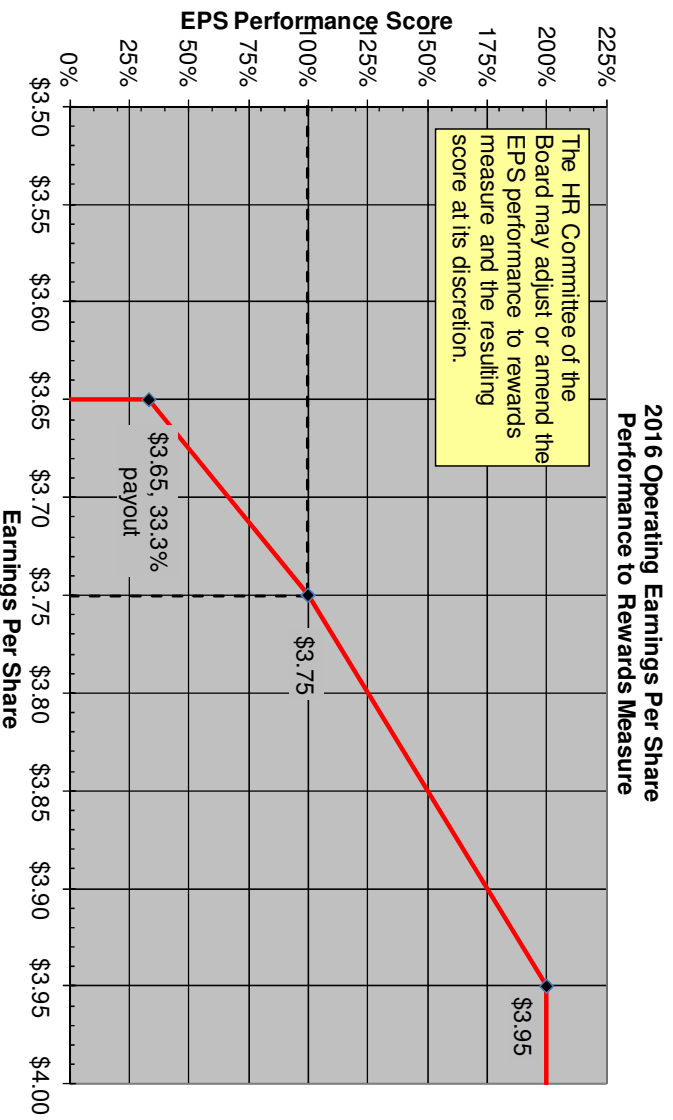
Operating Earnings per Share – 75%

AEP is committed to generating sustainable value for its shareholders through its earnings and

² Given the fatal employee incident, the maximum potential funding score for 2016 is 195% of target.

growth. Therefore 75% of annual incentive funding is tied to AEP's Operating Earnings per Share. This ensures that funding is commensurate with the Company's operating earnings and the extent to which the company can afford to pay annual incentive compensation while also serving the interests of its shareholders, customers and other stakeholders. It also:

- Further aligns the financial interests of all AEP employees with those of AEP's shareholders;
- Ensures that adequate earnings are generated for AEP's shareholders and continued investment in AEP's business before employees are rewarded with annual incentive compensation; and
- Aligns employee interests with those of regulated and other customers by strongly encouraging expense discipline.



Safety – 10% Weight

AEP is undertaking a long-term, 5-year effort to transform our safety culture from “Good to Great”. To accomplish this we will be transforming our approach to safety and building the systems and culture needed to support and sustain world-class safety performance. This includes building a proactive safety culture based on proactive measures and continuous improvement.

For 2016 the employee and contractor recordable case rate ICP measures, as well as the incident severity rate measure, will be replaced with DART rate improvement to focus our attention on incidents with potentially serious consequences. DART stand for Days Away, Restricted or job Transfer and is an industry accepted measure that allows companies to focus on more serious events.

DART Rate Improvement for Employees and Contractors (7.5% weight)

- DART Rate = (Total Number of DART incidents x 200,000) ÷ Total Hours Worked
 - Threshold (0% payout) – 0% improvement vs. three-year average
 - Target (100% payout) – 10% Improvement vs. three-year average
 - Maximum (200% payout) – 20% Improvement vs. three-year average

Fatality Measure (2.5% weight)

- 0% payout – Any fatal work related employee incident
- 100% payout – No fatal work related employee incident
- 200% payout – No fatal work related employee incident for at least two (2) years

At the business unit and Operating Company level we will also be establishing more proactive measures,

2016 Strategic Initiatives (15% weight)

There are three areas of focus for AEP's 2016 strategic initiatives, which reflect the major areas on which AEP needs to make progress in order to enable our future success:

- Business Transformation
- Customer Experience
- Culture and Employee Engagement

Each of these focus areas includes several performance measures (shown in the table below) that reflect some of the many transformative initiatives the company is undertaking.

2016 Strategic Initiatives		Weight
Business Transformation		6%
Competitive Business Assessment of Non-PPA Plants		2%
AEP OnSite Partners and AEP Renewables Start-ups		2%
Transmission Business Expansion		2%
Customer Experience		5%
Quality of Service: SAIDI		2%
Quality of Service: J.D. Power Residential Overall Customer Satisfaction Index		2%
Network Remediation		1%
Culture & Employee Engagement		4%
Power Up & Lead		1%
Gallup Pulse Survey		1%
Diversity		1%
Lean Management Sustainability		1%
Total Strategic Initiative Weight		15%

Business Transformation (6% total weight)

Competitive Business Assessment for Non-PPA Plants (2% weight)

- Conclude strategic review process for non-PPA generation units by the end of 2016 to achieve the strategic goal of reducing exposure to unregulated generation (2% weight)
 - Threshold (0% payout) – if the strategic review is not completed and no recommendation is made to the Board to retain or sell the assets
 - Target (100% payout) – if bids are solicited and firm, and either:
 - Valuation results in a recommendation to retain these assets; OR
 - The strategic process results in a signed contract for the sale of these assets
 - Maximum (200% payout) – The strategic process results in a signed contract for the sale of these assets and a plan for the use of proceeds is completed and approved by the Board

AEP OnSite Partners and AEP Renewables Start-ups (2% weight)

- Enable start-up of AEP OnSite Partners and AEP Renewables by successfully building and starting-up initial projects (substation, solar, etc.), closing the talent gap through recruiting and training and preparing entities for Clean Power Plan (CPP) opportunities
 - Threshold (0% payout) – no progress made or failure to execute projects currently under way
 - Target (100% payout) – modest backlog of \$20M in the letter of intent (LOI) phase projects
 - Maximum (200% payout) – significant backlog of projects developed with a minimum of \$50M in LOI phase

Transmission Business Expansion (2% weight)

- Achieve AEP Transmission Holdco business expansion by capturing long-term capex investment opportunities³ through a portfolio of activities, including:
 - Approval and identification of projects through Tennessee Transco and Telecom fiber build out through Transcos
 - RTO awarded projects to Transource
 - Direct investment in, or licensing fees received by BOLD Transmission, LLC
 - Threshold (0% payout) – \$100M
 - Target (100% payout) – \$200M
 - Maximum (200% payout) – \$300M

Customer Experience (5% total weight)

Quality of Service - SAIDI (System Average Interruption Duration Index) – (2% Weight)

- SAIDI represents the total number of minutes the average customer has experienced interruption over a 12 month time period excluding major events. Major event exclusions and targets vary by Operating Company or jurisdiction due to PUC preference and regional differences.
 - OpCo Thresholds (0% payout) – 80% of target or 75% of target for KY Power

³ Capex captured in 2016 for investment in 2016 and future years

- due to historic volatility
- OpCo Targets (100% payout) – Regulatory targets where applicable or a 10 year glide path to the regional peer group average or, if the average has already been achieved, maintain this average
- OpCo Maximums (200% payout) – 120% of target or 125% of target for KY Power due to historic volatility
- Overall AEP performance will be determined based on a customer weighted average of Operating Company performance scores

Quality of Service - J.D. Power and Associates (JDPA) Residential Overall Customer Satisfaction Index (CSI) – (2% Weight)

- The overall CSI represents the aggregate score of numerous questions included in JDPA's annual residential customer satisfaction study. Operating Company⁴ ICP measures and targets are based on the four waves of the study conducted during the calendar year, not JDPA's survey publication timeline.
 - OpCo Thresholds (0% payout) – Current performance
 - OpCo Targets (100% payout) – Improve performance on pace with peer group improvement trend (1.5% - 2.4% depending on the OpCo)
 - OpCo Maximums (200% payout) – the higher of 3% improvement or a 3-year trajectory to achieve the regional peer average
 - Overall AEP performance will be determined based on a customer weighted average of Operating Company performance scores

Network Remediation (1% weight)

- Achieve the 2016 baseline replacement schedule, which is 32% of total 5 year plan.
 - 0% – (75% of target) 286,931 circuit feet replaced (primary and secondary)
 - 100% – (100% of target) 382,575 circuit feet replaced (primary and secondary)
 - 200% – (125% of target) 478,218 circuit feet replaced (primary and secondary)

Culture & Employee Engagement (4% total weight)

Gallup Pulse Survey (1% weight)

- Achieve year over year improvement in our culture and engagement as demonstrated by Gallup Survey Results (Overall Company* Grand Mean). The 2016 survey will be conducted as a pulse survey, meaning that a sample of the population will be invited to participate in the survey, not all employees. AEP's 2015 Grand Mean score of 3.96 was at the 39th percentile.⁵
 - Thresholds (0% payout) - 0.07 improvement, which would bring AEP's scores to approximately the survey median
 - A score increase of 0.07 is the average improvement seen from the second to third year of participation in the Gallup survey
 - Target (100% payout) - 0.10 improvement

⁴ Excludes AEP Texas because Texas is a full choice retail state and AEP does not bill customers directly, which reduces customer interaction.

⁵ This reflects AEP in total but businesses under strategic review (AEP Energy Partners, AEP Energy, Gavin Plant, Lawrenceburg Plant, Waterford Plant and Darby Plant) will be excluded from both target and actual results.

- Maximum (200% payout) - 0.20 improvement

Diversity (1% weight)

- AEP's diversity goal is to increase the representation of women and minorities to ultimately achieve parity between internal representation and external availability for all AEP positions. To achieve this goal AEP will need to improve hiring rates for women and minorities for all open positions and take steps to reduce attrition from these groups.
- The diversity measure is based on an employee weighted average of female and minority representation rates for all Equal Employment Opportunity (EEO) categories, except Officials and Managers, which are double weighted, with threshold, target and maximum levels that are no lower than current representation rates
 - Threshold (0% payout): AEP's current representation rates + placement at 80% of the hiring availability⁶ rates for the positions AEP expects to recruit - attrition at AEP's current representation rates
 - Target (100% payout): AEP's current representation rates + placement at 100% of the hiring availability rates for the positions AEP expects to recruit - attrition at AEP's current representation rates
 - Maximum (200% payout): AEP's current representation rates + placement at 120% of the hiring availability rates for the positions AEP expects to recruit - attrition at AEP's current representation rates

Power Up and Lead (1% weight)

- Support our overall culture improvement efforts through Power up & Lead. This objective will be measured by the number of employees that participate in Power up & Lead workshops in 2016.
 - Threshold (0% payout) - 3,900 participants
 - Target (100% payout) - 5,200 participants
 - Maximum (200% payout) - 6,500 participants

Phase I Lean Management System (LMS) Deployment (1% weight)

- Continue the emphasis on Lean in both pilot and non-pilot areas.
- Pilot areas include:
 - Development of a Change Management and Communication strategy
 - Development of a plan to align people systems and technology with lean strategy to enable continuous improvement
 - Utilization of lean tools, visual management, standard work, lean leader standard work (defining what a leader does on a daily, weekly, monthly basis to enable problem solving at all levels of the organization), and creating accountability
- Non-pilot areas include implementation of basic lean leader standard work and solidify understanding of lean concepts, tools, and metrics

⁶ Hiring availability is the weighted internal and external availability for the historical mix of internal and external candidates selected for each opportunity. External availability is based on census data for the local, regional or national area from which AEP expects to select for each position. Internal availability is based on AEP's representation rates for the internal positions from which AEP historically recruits for each opportunity.

- Threshold (0% payout) - 1 pilot area⁷ and 30 non-pilot areas complete
- Target (100% payout) - 3 pilot areas and 40 non-pilot areas complete
- Maximum (200% payout) - 3 pilot areas and 50 non-pilot areas complete plus pilots initiated in 3 other areas

Modifier

The Modifier is a normalizing function that allocates the available funding to each business unit and operating company based on the group's relative performance score. After the modifier is applied, the weighted average overall final score for all groups, before the overall 200% maximum is applied, is equal to the funding score. This insures that the sum of all awards equals the funding available based on the funding scores.

The modifier is calculated as the Weighted Average Funding Score, divided by the Average Operating Performance Score (AOPS)⁸ for all incentive plans as shown below:

$$\frac{\text{Weighted Avg. Funding Score}}{\text{AOPS}} = \text{Modifier}$$

CEO Performance Adjustment

The CEO Adjustment may be used to increase or decrease the Overall Score⁹ for the Plan to the extent that the CEO or Plan Compensation Committee determines that the Overall Score does not appropriately reflect the group's performance for the year. Such adjustments may be used to capture those aspects of a group's performance that are difficult to quantify or that were not adequately included in the performance measures established at the beginning of the year. For example, the CEO Performance Adjustment might be used to reward a group for successfully completing an important project that was not anticipated at the time the ICP goals were established.

Individual Performance Factor

Management determines individual awards for all employees in positions in the new SP20 salary plan as well as those in exempt, nonexempt supervisor, administrative, technical, and customer solutions center salary plan positions. These determinations are based on an assessment of each employee's relative individual performance, the value of their contribution to AEP, business unit, department and individual goals and other business factors, potentially including recent and pending employment changes. The Individual Performance Factor has a lower limit of 0% and no upper limit. However, the approval of a member of the Executive Council is required for individual awards in excess of a participant's maximum award opportunity (see the Target and Maximum Awards section below). In addition managers cannot exceed their award pool.

In determining Individual Performance Factors, managers are expected to assess employee

⁷ Areas are generation plants, transmission areas, distribution districts, and other groups

⁸ AOPS is the average of the Composite Scores for all incentive groups weighted by the aggregate target incentive award for all participants in each incentive group (see attached scorecard for an example).

⁹ See Sample Scorecard for the definition and an example of the calculation of the Overall Score.

performance and contribution relative to other employees in the same position and the performance expectations for that position, to avoid a bias in favor of positions at both higher and lower reporting and grade levels in the organization.

Eligible Earnings

ICP Eligible Earnings include the following:

1. Regular Earnings – Straight Rate
2. Paid Vacation
3. Paid Holidays
4. Paid Personal Days Off
5. Sick Pay (Non-occupational & Occupational)
6. Paid Jury Duty
7. Paid Death in Family
8. Paid Rest Period
9. Inclement Weather Pay
10. Lump Sum Merit Increase
11. Lump Sum General Increase
12. Grievance Settlement for Wages
13. Overtime – Nonexempt and Exempt
14. Shift Premium
15. Sunday Premium
16. Military Pay
17. Trip Pay (River)

Earnings not classified as one of the above types in AEP’s payroll system are not considered for award calculation purposes.

Target and Maximum Award Opportunity

A participant’s target award percent is based on the salary grade for his/her position **as of the last day of the last full pay period of the year**, as shown in the chart below, except as discussed below for employees in positions at or above SP20 salary plan grade 12 or EXEM salary plan grade 30 who change jobs during the year:

New Grade Structure		
Salary Plan	Grade	Target %*
SP20 (includes non-exempt administrative, technical and non-exempt supervisor positions moved to the new SP20 grade structure)	1	5%
	2	5%
	3	5%
	4	6%
	5	8%
	6	9%
	7	10%
	8	10%
	9	15%

New Grade Structure		
Salary Plan	Grade	Target %*
	10	20%
	11	25%
	12	30%
	13	35%
	14	40%
	15	45%
	16	50%
	17	55%
	18	60%
	19	80%
	20 (CEO)	125%

* As a percent of eligible earnings.

Old Grade Structures		
Salary Plan	Grade	Target %*
NESU (nonexempt supervisors)	05N	7%
All nonexempt salary structures and wage schedules except SP20 and NESU	All grades	5%
	1 - 6	5%
	7 - 12	7%
	13 - 20	10%
	21 - 24	15%
	25 - 26	17%
	27	20%
	28	22%
	29	25%
	30 - 32	27%
EXEM (Exempt)	33	30%
	34-35	35%
	36	40%
	38	45%
	40	50%

* As a percent of eligible earnings.

A participant's maximum individual award percent is the greater of two times his or her target award percent or the Overall Score for the Plan plus 50% of the target score. This feature enables managers to positively differentiate awards by up to 50% of an employee's target award

to reflect strong individual employee performance even if the Overall Score for the Plan is between 150% and the 200% of target maximum score. A participant's target and maximum award opportunity is their target or maximum award percent multiplied by their eligible earnings. The approval of a member of AEP's Executive Council in the participant's chain of command is required for awards in excess of a participant's maximum award opportunity.

The award opportunity for employees in SP20 salary plan grade 12 or EXEM salary plan grade 30 and higher positions at any point during the plan year who change jobs during the Plan Year will be prorated and calculated as the total of the independently calculated award opportunities for each position held during the Plan Year, including the earnings, target award percent, and Overall Score for each such position. This calculation will be performed as shown in the example below:

$$\begin{aligned} \text{Position 1: Earnings} & * \text{Target Award \%} * \text{Overall Score} = \$ \text{Pos 1} \\ \text{Position 2: Earnings} & * \text{Target Award \%} * \text{Overall Score} = \$ \text{Pos 2} \\ \text{Position 3: Earnings} & * \text{Target Award \%} * \text{Overall Score} = \$ \text{Pos 3} \\ & = \text{Total Award Opportunity} \end{aligned}$$

The target awards for employees in positions below salary grade 30 for the entire Plan Year will be calculated based on the target percent and Overall Score for the position held as of the last day of the last full pay period of the Plan Year.

Award Calculation

Because the Plan includes several discretionary factors, attainment of performance objectives does not guarantee the payment of awards. An award pool will be calculated for each group based on the scores for each performance measure as soon as practical after the conclusion of the Plan Year. The final score for each performance objective is rounded to three decimal places.

The Modifier is computed as follows:

- AEP's funding measures are compared to their performance targets to determine their performance scores, which are rounded to three decimal places (e.g., 105.5% or 1.055). The Weighted Average Score is then calculated based on the weight assigned to each funding measure.
- The Average Operating Performance Score (AOPS) is the average of the Composite Scores for all annual incentive plans (each of which is rounded to three decimal places) weighted by the sum of the incentive targets for all participants in each plan. AOPS is then rounded to three decimal places (e.g., 125.7% or 1.257).
- The Modifier is the Weighted Average Score for the Funding Measures divided by AOPS, the result of which is rounded to three decimal places (e.g., 1.055 / 1.257 = .839)

Board Policy on Recouping Executive Compensation from LTIP Participants

This policy applies to employees who participate in the Company's Long Term Incentive Compensation Plan (LTIP) and relates to incentive compensation paid or payable to such employees, whether under the LTIP, this Plan, or otherwise.

The Board of Directors believes that incentive compensation provided by the Company should be reimbursed to the Company if, in the Board's determination:

- Such incentive compensation was predicated upon the achievement of financial or other results that were subsequently materially restated or corrected,
- The employee from whom such reimbursement is sought engaged in misconduct that caused or partially caused the need for the restatement or correction, and
- A lower payment would have been made to the employee based upon the restated or corrected financial results.

Therefore, if and to the extent that, in the Board's view, the above conditions have been met and such reimbursement is warranted by the facts and circumstances of the particular case or if the applicable legal requirements impose more stringent requirements on AEP to obtain reimbursement of such compensation, then you will be required to reimburse AEP for the value of such compensation paid to you. AEP also may retain any deferred compensation previously credited to you and not paid, provided that AEP will retain such deferred compensation only if, when and to the extent that it otherwise becomes payable to you.

This right to reimbursement is in addition to, and not in substitution for, any and all other rights AEP might have to pursue reimbursement or such other remedies against an employee for misconduct in the course of employment by AEP or otherwise based on applicable legal considerations, all of which are expressly retained by AEP.

Administration

Plan Compensation Committee

The Plan is administered by the HR Committee of the Board of Directors with respect to executives in the HR Committee Review Group and a Plan Compensation Committee consisting of AEP's CEO, COO, CFO, General Counsel, Chief Administrative Officer and Top Human Resources officer with respect to all other employees, in either case ("the Committee"). The CEO of American Electric Power Company, Inc. may change the composition and number of members of the Plan Compensation Committee at any time for any reason. The Committee may delegate day-to-day authority to administer the Plan, as they deem appropriate. In lieu of an official meeting, the Committee may act by written or electronic consent of a majority of its members. The Committee's interpretations of the Plan provisions are conclusive and binding on all Participants.

The Committee has sole authority to amend or terminate the Plan and may do so at any time, for any reason, either with or without notice. The Committee may adopt, delete, modify or adjust performance objectives, metrics and weights at any time, including after the conclusion of a Plan Year, should the Committee determine that changes in AEP's structure or other significant business situations would produce Overall Scores or awards for a Plan Year that are not reflective of the underlying economics and profitability of the business. The Committee may also modify the eligibility criteria for the Plan, add or delete individual participants or groups of participants and adjust any or all award payouts.

Executive Council members with management responsibility for a business unit or staff function

served by the Plan have the authority to increase or decrease the award pool for any group under their purview, provided that such adjustments do not increase the total of all award pools under their purview.

Plan Year

A "Plan Year" begins on January 1st and ends on December 31st of each year for which the Plan is in effect.

Participation

All full-time and regular part-time AEP employees who are actively employed during the Plan Year will be "Participants" in the Plan for such Plan Year except:

1. Employees participating in any other **annual** AEP incentive plan,
2. Employees participating in any other plan or agreement that explicitly excludes their participation in the Plan or annual incentive compensation plans in general,
3. Employees represented by unions that decline the opportunity to participate in the Plan or all similar incentive plans,
4. Temporary employees and contract workers, and
5. Employees hired by AEP on or after December 1 of such Plan Year.

Participation in an incentive compensation plan in any Plan Year shall not confer any right to continued employment or to continued participation in the Plan for any subsequent Plan Year.

Participant Responsibility

Plan Participants are expected to comply with all applicable Company policies and directives as well as all applicable laws and regulations. Failure to do so may have many serious consequences, including but not limited to forfeiture of Plan eligibility in the current and future Plan Years.

Award Eligibility

Participants must be **actively** employed on the last day of such Plan Year to be eligible to receive an award for that Plan Year, except as otherwise noted below.

If a Participant transfers during the Plan Year to a position that is ineligible to participate in the Plan, then such Participant will be ineligible to receive an award for such Plan Year from the Plan, unless the participant was a salary grade 30 or higher employee during the Plan Year as specified in the "Target and Maximum Award Opportunity" section above.

If a participant is on Leave of Absence status as of the last day of the Plan Year, the Participant will be eligible to receive an award for the Plan Year to the extent that they have eligible earnings for the Plan Year.

Employees who become inactive during the Plan Year due to participation in an AEP long-term disability plan will be eligible to receive an award for that Plan Year to the extent that they have eligible earnings for the Plan Year, although long-term disability benefits are not ICP eligible earnings.

Participants forfeit their incentive plan eligibility if they are discharged for cause or resign in lieu of being "discharged for cause" at any time prior to the award payment date, unless the Plan Compensation Committee approves an award payment to such employee.

Satisfaction of eligibility criteria does not guarantee the payment of any awards.

Termination Due to Death or Retirement

Participants remain **eligible** for an award, based on their eligible earnings for a Plan Year, if their employment with AEP is terminated during the Plan Year due to their death or retirement. In the event of a Participant's death, any award to which they would otherwise be entitled will become payable to the Participant's estate. For the purposes of the Plan, "retirement" is defined as termination of employment for any reason other than for cause or as part of a voluntary or involuntary severance or layoff, after the Participant attains at least age 55 and five years of AEP service.

Termination Due to Voluntary and Involuntary Severance and Layoffs

Due to the severe financial constraints that generally give rise to the need for employee severances and layoffs, Participants with both discretionary and non-discretionary award opportunities are **ineligible** for an award if they would have a separation from service with AEP during the Plan Year as part of a voluntary or involuntary severance program or a layoff as defined under a collective bargaining agreement or the Supplemental Handbook and they are not rehired during the Plan Year. Severed employees are ineligible for an award even if, in connection with their severance, they are (a) placed on a Leave of Absence or (b) offered, but fail to meet the qualifications to be paid a severance benefit (e.g., if they would fail to timely sign and return, a Severance and Release of All Claims Agreement). In the event a severed employee is rehired during the Plan Year, such Participant will be eligible for an award only to the extent of their earnings for the period after they were rehired.


Resignations after the Plan Year

Participants who are **actively** employed on the last day of a Plan Year but who subsequently voluntarily resign their employment remain eligible for an award. However, for discretionary participants, their actual or pending voluntary resignation is a business factor that management may consider in determining their award payment, if any.

Award Payment

Award payment will be made within 2-1/2 months after the end of the year or as soon as practical thereafter if it is impractical, either administratively or economically, to make payments within this time period.

The Plan is hereby approved by:


EVP or Highest Name
Date
4/27/16
EVP Title

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2016 Generation ICP Master Scorecard - Regulated & Shared

STRATEGIC GOALS		ICP METRIC			2016 TARGETS			TARGET EXPLANATIONS				
STATEGIC GOALS	ICP METRIC	WEIGHT	UNITS	2016 TARGETS			TARGET EXPLANATIONS					
				0.00	1.00	2.00						
CULTURAL TRANSFORMATION	Everyone Embraces a Safety Culture with Commitment to Zero Harm	10.0%	Rate	0.41	0.37	0.33	0 = Generation Employee & Contractor 3 Yr Weighted Average 1 = 10% Decrease 2 = 20% Decrease Set per Corporate Guidance & Dupont Survey Recommendations	TBP - To be provided by the Corporate Safety & Health Organization TBP - To be provided by the Corporate Safety & Health Organization TBP - To be provided by the Corporate Safety & Health Organization TBP - To be provided by the Corporate Safety & Health Organization				
		20%										
FINANCIAL PERFORMANCE	Meet or Exceed Asset Performance (Revenue / Cost) Targets Through Innovation and Flexibility	15%	%	7.08%	5.90%	4.72%	See metric definitions for per unit EFOR _v and EFOR _d targets.					
		5%	%	8.92%	7.43%	5.95%						
		5%	%	99.50%	99.75%	100%						
		5%	\$	O&M \$2.0M Cap \$5.0M	O&M \$6.5M Cap \$10.3M	O&M \$7.5M Cap \$11.3M			Moved from Strategic Goals to Financial with Procurement Recommended targets based on 2016 current approved budget.			
SUSTAINABLE VALUE	Maintain our Commitment to Communities and Environmental Stewardship	10%	Count	10	5	0	Set the same as 2015 targets. (Inclusion of River Operations starting in 2016)					
		10%	Count	4	2	0			No change.			
GROUPED STRATEGIC GOALS	Embrace Change in Our Industry through a Learning, Teaching, and Coaching Culture Everyone Understands, Promotes and Owns Our Values Identify and Manage Risk Improve Performance by Identifying and Eliminating Waste Identify, Develop and Deploy New, High-Value Technologies to Support the Utility of the Future Everyone Embraces Key Traits as Defined in Links for Success	15%	Power Up & Lead* Diversity* Compliance Improvements* Lean* Utility of the Future & Customer Experience* Culture Survey Actions & Plans*	* Power Up & Lead supports our overall culture improvement efforts as measured by the number of employees that participate in Power up & Lead unfreezing workshops in 2016. Target is set to support Corporate Plan Goal.	* Work with Human Resources to ensure a diverse slate of candidates.	* Completion and application of CCR Compliance Documentation System * Proactive Expansion of environmental event reviews	* BU Quarterly Report out on progress / success.	* BU Quarterly Report out on activities related to New Technologies, Brand Ambassadors, and individual group impacts on AEP Value Stream	* BU Quarterly Reporting on completion and progress of plans created.			
				* Denotes metrics that are shared between Regulated and Unregulated								
				* Note: Grouped Strategic Goals: All under development and are subject to changes.								
				* Note: Refer to the metric definitions for further details								
				Generation Leadership team will subjectively assess Grouped Strategic Goals. The team performance may be reflected through discretionary adjustments in the allocation of funding from the annual Generation incentive pool*								
				Discretionary Adjustments								
ICP Metric Related KPIs												
Employee Recordables	Monthly								Employee Recordables			
Employee DART	Monthly								Employee DART			
Employee Severity	Monthly								Employee Severity			
Contractor Recordables	Monthly								Contractor Recordables			
Contractor DART	Monthly								Contractor DART			
Off System Sales	Quarterly								Off System Sales			
O&M Budget Accuracy	TBD								O&M Budget Accuracy			



ZEPHAR
HARM

2016 Generation ICP Metric Definition



OSHA DART Rate - Employees & Contractors

<p>Targets: 2.00 – .33 1.00 – .37 0.00 – .41</p>	
<p>Strategic Plan Goal: Cultural Transformation</p>	
<p>Metric Applies to: Shared, Regulated and Unregulated</p>	
<p>Measure Description: This measure will track the rate of DART Incidents for employees (does not include Hearing Loss Cases).</p>	
<p>DART – Days, Away, Restricted, or Transfer</p>	
<p>DART is calculated by adding up the number of incidents that had one or more lost days, (includes fatalities), one or more restricted days or that resulted in an employee or contractor transferring to a different job within the company, and multiplying that number by 200,000, then dividing that number by the number of employee & contractor labor hours at the company.</p>	
<p>Note: In accordance with Corporate guidance the targets for 2016 are set as shown below.</p> <p>2.0 = 20% Decrease 1.0 = 10% Decrease 0.0 = Generation 3 Year average (2013-2015)</p>	
<p>Reporting Frequency: Monthly</p>	<p>Unit Type: YTD Rate</p>
<p>Formula: DART Rate = DART Incidents x 200,000 / Hours Worked</p>	
<p>Hours Worked = Hours worked by all applicable personnel in period</p>	
<p>Data Source: Susan Forsythe & SHEMS</p>	<p>Data Collector: Anthony Gerstenberger</p>

2016 Generation ICP Metric Definition



Proactive Performance Metrics

<p>Total Weight 20% - 5% each</p> <ol style="list-style-type: none"> 1. Quality Assurance on Job Site Observations 2.0 –TBP 1.0 – TBP 0.0 - TBP v 2. ID & Address Top 5 High Risk Activities 2.0 – TBP 1.0 – TBP 0.0 - TBP 3. Good Catch Reporting (formerly Near Miss) 2.0 – TBP 1.0 – TBP 0.0 - TBP 4. Site Inspection Program 2.0- TBP 1.0- TBP 0.0- TBP <p>TBP = To Be Provided by the Corporate Safety & Health Organization</p> <p>Strategic Plan Goal: Cultural Transformation & Sustainable Value</p>	
<p>Metric Applies to: Shared, Regulated, and Competitive</p>	
<p>Measure Description/s: Quality Assurance on Job Site Observations</p> <ul style="list-style-type: none"> • ID & Address Top 5 High Risk Activities • Good Catch Reporting • Site Inspection Program 	
<p>Note: All Generation Business Units have a Safety Leading Indicator in their 2016 business plans.</p> <ul style="list-style-type: none"> • Fossil Hydro (FH Admin, GIOS), APCo, I&M, GenCo, PSO, SWEPco, Field Services, Fuel Operations and Mining, Performance Improvement, Generation Business Services, Commercial Operations, Engineering Services, Project Controls & Construction, River Operations 	
<p>Reporting Frequency: Monthly</p>	<p>Unit Type: TBP</p>
<p>Formula: Quality Assurance on Job Site Observations - ID & Address Top 5 High Risk Activities - Good Catch Reporting - Site Inspection Program -</p>	
<p>Data Source: Corporate Safety & Health, SHEMS, Key Training System</p>	<p>Data Collector: Anthony Gerstenberger</p>

EFORd - Capacity Metric

Targets:

2.00: <=5.95% (Target-20%),
1.00: = 7.43% (Target),
0.00: =>8.92% (Target+20%)
 See table EFORd-1

Strategic Plan Goal: Financial Performance

Metric Applies to: Shared and Regulated

Metric Description: Metric is intended to recognize the value of managing unit level forced outages in relationship to AEP/RTO capacity planning.

- EFORd (Equivalent Forced Outage Rate Demand) is a NERC defined performance metric representing the percentage of time a unit is forced out but in demand by the RTO.
- AEP will utilize NERC methodology for all RTO's (PJM, SPP, and ERCOT) to calculate EFORd utilizing Power GADS data.
- Planned outage and maintenance outages are not factored in the EFORd metric.
- Individual units will be weighted using a NERC methodology (capacity based) to determine fleet ICP result with the following exceptions:
 - Clinch River 1 & 2 will be included upon their respective Commercial Online Date (COD) month.
 - Big Sandy 1 will be included upon their COD month in 2016.
 - Riverside 1 will be excluded until return month from transformer-related outage (estimated Oct. 2016)
 - Northeastern 4 and Welsh 2 are not included because they will not be part of capacity planning due to retirement.
- Variances from the definition or listed exceptions will require Generation EVP approval.

Units Included in Metric

PSO	SWEPSCO	APCO	I&M	KPCO	WPCO
CPS 1-3	ARS 5	AM 1-3	RP 1-2	ML 1-2	ML 1-2
NI21	FLC 1	CE 1-6		BS 1	
NI22	KXL 2-5	CR 1-2		RP 1-2	
N343	LBM 2-4	DR			
OKL 1 - PSO	LNS 1	MT 1			
RVS 1-4	MAT 1-4				
SWS 1-5	PRK 1				
TPS 2 & 4	TURK				
WPS 4-6	WLK 1-3				
	WSH 1 & 3				
	STL				

Reporting Frequency: Monthly

Unit Type: %

Formula: NERC Formula

Forced Outage Rate Demand – FORd

$$\text{FORd} = \frac{\text{FOHD}}{[\text{FOHD} + \text{SH}]} \times 100\%$$

where

$$\text{FOHD} = f \times \text{FOH}$$

$$f = \left(\frac{1}{r} + \frac{1}{T} \right) / \left(\frac{1}{r} + \frac{1}{T} + \frac{1}{D} \right)$$

r=Average Forced outage duration = (FOH) / (# of FO occurrences)

D=Average demand time = (SH) / (# of unit actual starts)

T=Average reserve shutdown time = (RSH) / (# of unit attempted starts)

Data Source: Tony Bender

Data Collector: Anthony Gerstenberger



2016 Generation ICP Metric Definition

Table - EFORd-1

East Units	TARGET	West Units	TARGET	West Units	TARGET
Amos 1	8.00%	Arsenal Hill 5	12.00%	Riverside 1	25.00%
Amos 2	8.20%	Comanche 1	10.00%	Riverside 2	25.00%
Amos 3	7.40%	Flint Creek 1	7.00%	Riverside 3	5.00%
Big Sandy 1	7.00%	Knox Lee 2	9.00%	Riverside 4	5.00%
Ceredo 1	8.00%	Knox Lee 3	9.00%	Southwestern 1	10.00%
Ceredo 2	8.00%	Knox Lee 4	9.00%	Southwestern 2	3.00%
Ceredo 3	8.00%	Knox Lee 5	9.00%	Southwestern 3	5.00%
Ceredo 4	8.00%	Lieberman 2	10.00%	Southwestern 4	10.00%
Ceredo 5	8.00%	Lieberman 3	5.00%	Southwestern 5	10.00%
Ceredo 6	8.00%	Lieberman 4	5.00%	Stall	1.67%
Clinch River	7.00%	Lone Star 1	10.00%	Tulsa 2	5.00%
Clinch River	7.00%	Mattison 1	15.00%	Tulsa 4	3.00%
Dresden 1	3.45%	Mattison 2	15.00%	Turk 1	5.50%
Mountaineer	4.50%	Mattison 3	15.00%	Welleetka 4	25.00%
Rockport 1	5.04%	Mattison 4	15.00%	Welleetka 5	25.00%
Rockport 2	5.03%	Northeastern 1	5.00%	Welleetka 6	25.00%
Mitchell 1	8.50%	Northeastern 2	25.00%	Welsh 1	7.00%
Mitchell 2	8.50%	Northeastern 3	2.50%	Welsh 3	7.00%
East EFORd	5.94%	Oklunion 1	2.50%	Wilkes 1	4.00%
		Pirkey 1	5.00%	Wilkes 2	10.00%
				Wilkes 3	9.00%
				West EFORd	8.68%
				Fleet EFORd	7.43%

EFORd – Capacity Metric

EFOR_v

Targets:

- 2.00:** <= 4.72% (Target-20%),
- 1.00:** = 5.90% (Target),
- 0.00:** => 7.08% (Target+20%)
 (See table EFOR_v-1)

Strategic Plan Goal: Financial Performance

Metric Applies to: Shared and Regulated

Measure Description:

- EFOR_v is an AEP defined metric designed to represent a measure of the value lost due to forced outages.
- EFOR (Equivalent Forced Outage Rate) is a NERC defined performance metric representing the percentage of time a unit is in a Forced Outage state.
 - Neither EFOR nor EFOR_v are impacted by planned and maintenance outages.
- Individual units will be weighted based on generation YTD 2016 plus preceding two calendar years to determine fleet ICP result with the following exceptions:
 - Clinch River 1 & 2 will be included upon their respective Commercial Online Date (COD).
 - Big Sandy 1 will be included upon their COD in 2016.
 - Northeastern 4 and Welsh 2 will remain in metric through 2016. Generation up to the date of retirement will be included.
 - Riverside 1 will be excluded until return date from transformer-related outage (estimated Oct. 2016)
- Variances from the definition or listed exceptions will require Generation EVP approval.

Units Included in Metric

PSO	SWPECO	APCO	I&M	KPCO	WPCO
CPS 1-3	ARS 5	AM 1-3	RP 1-2	ML 1-2	ML 1-2
NI21	FLC 1	CE 1-6		BS 1	
NI22	KXL 2-5	CR 1-2		RP 1-2	
N343	LBM 2-4	DR			
N344	LNS 1	MT 1			
OKL 1 - PSO	MAT 1-4				
RVS 1-4	PRK 1				
SWS 1-5	TURK				
TPS 2 & 4	WLK 1-3				
WPS 4-6	WSH 1-3				
	STL				

Reporting Frequency: Monthly

Unit Type: %

Formula: EFOR_v = 1-Actual Available Revenue Rate/Base Available Revenue Rate

Base		Actual	
Available Revenue Rate		Available Revenue Rate	
Total Hours in Period		Total Hours in Period	
Less		Less	
Planned Outages		Planned Outages	
Less		Less	
Maintenance Outages		Maintenance Outages	
		Less	
		Forced Outages	
Multiplied times		Multiplied times	
LMP Hour/Unit		LMP Hour/Unit	

Data Source: Tony Bender

Data Collector: Anthony Gerstenberger

East Units		West Units		West Units	
TARGE	TARGE	TARGE	TARGET	TARGET	TARGET
Amos 1	8.00%	Arsenal Hill 5	12.00%	Riverside 1	25.00%
Amos 2	8.20%	Comanche 1	10.00%	Riverside 2	25.00%
Amos 3	7.40%	Flint Creek 1	7.00%	Riverside 3	5.00%
Cerodo 1	8.00%	Knox Lee 2	9.00%	Riverside 4	5.00%
Cerodo 2	8.00%	Knox Lee 3	9.00%	Southwestern	10.00%
Cerodo 3	8.00%	Knox Lee 4	9.00%	Southwestern	3.00%
Cerodo 4	8.00%	Knox Lee 5	9.00%	Southwestern	5.00%
Cerodo 5	8.00%	Lieberman 2	10.00%	Southwestern	10.00%
Cerodo 6	8.00%	Lieberman 3	5.00%	Southwestern	10.00%
Dresden 1	3.45%	Lieberman 4	5.00%	Stall	1.67%
Mitchell 1	8.50%	Lone Star 1	10.00%	Tulsa 2	5.00%
Mitchell 2	8.50%	Mattison 1	15.00%	Tulsa 4	3.00%
Mountaineer 1	4.50%	Mattison 2	15.00%	Turk 1	5.50%
Rockport 1	5.04%	Mattison 3	15.00%	Waleetka 4	25.00%
Rockport 2	5.03%	Mattison 4	15.00%	Waleetka 5	25.00%
East EFORV	6.08%	Northeastern 1	5.00%	Waleetka 6	25.00%
		Northeastern 2	25.00%	Welsh 1	7.00%
		Northeastern 3	2.50%	Welsh 2	7.00%
		Northeastern 4	5.00%	Welsh 3	7.00%
		Oklauinion 1	2.50%	Wilkes 1	4.00%
		Pirkey 1	5.00%	Wilkes 2	10.00%
				Wilkes 3	9.00%
				West EFORV	5.73%

Table EFORV-1

Fleet ICP Weighted Avg EFORV 3.27%



2016 Generation ICP Metric Definition

Cost Recovery

Targets:

2.00 – 100%

1.00 – 99.75%

0.00 –99.50%

Strategic Plan Goal: Financial Performance

Metric Applies to: Shared and Regulated

Measure Description: The Cost Recovery metric will measure the total actual fuel related costs (as defined below) approved for recovery in all Public Service Commission (PSC) ruling(s) received during the year for the AEP Operating Companies as compared to the total amount of such costs originally sought for recovery in the applicable case(s).

Cost components measured in Fuel Cost Recovery metric include those subject to a Fuel Adjustment Clause (FAC). These costs include direct coal, natural gas, and fuel oil supply and lignite mining costs incurred to support the AEP Operating Companies' fossil fuel generation requirements. Long-Term purchased power (LTPP), transportation and related services costs, such as direct freight charges, affiliate barge transportation costs, the cost of reagents, coal terminal/transloading costs, railcar maintenance costs, and fuel handling are also subject to the Fuel Cost Recovery metric; to the extent these items are included in the FAC in the various jurisdictions.

Any disallowances for items, which have not been deemed imprudent by the respective PSC, will not be included as a disallowance for purposes of this metric. Any disallowance incurred and deemed imprudent by PSC Order will be recognized in the year that the order was received, unless challenged by the Company or Intervener through the PSC and/or the courts. When challenged, the disallowance will be recorded: in the year when the matter reaches the point where all regulatory and legal challenges have been exhausted. Any disallowance incurred for a specific multi-year transaction/activity will only be recognized in the applicable single year. Any future disallowance for this same activity will not be recognized by this metric.

Variances from the definition or listed exceptions should be routed through the SVP, Commercial Operations to the Manager of Planning & Performance for final review and approval by the Generation EVP.

Reporting Frequency: Monthly

Unit Type: % of \$ YTD

Formula: Approved Fuel and LTPP \$ (as defined above) YTD/Actual Fuel and LTPP \$ (as defined above) Requested for Recovery = % Cost Recovered. In the event there are multiple Cost Recovery Orders from the various state and federal agencies having jurisdiction over the AEP Operating Companies, the metric will aggregate the jurisdictional costs for all cases in which a Final Order is received during the current year.

Data Source: Jim Sorrels/Tony Bender

Data Collector: Anthony Gerstenberger

Cost Recovery

2016 Generation ICP Metric Definition

Procurement Savings



Target:

2.0 - O&M 7.5M / Capital 11.3M

1.0 - O&M 6.5M / Capital 10.3M

0.0 - O&M 2.0M / Capital 5.0M

Strategic Plan Goal: Cultural Transformation, Financial Performance, & Sustainable Value

Metric Applies to: Shared and Regulated

Measure Description

This metric will be evaluated on the effectiveness of implementing and utilizing the following key procurement initiatives; as well as the final cost savings associated with these initiatives.

- Conveyor Blankets – Leveraging buying power.
- Electric Motor Blankets – Development of blankets for motors greater than 25HP with at least two technically approved manufacturers.
- Bulk Chemical & Gas Blankets – Leveraging buying power.
- ARA Blankets – Increase competitiveness.
- Scaffolding & Insulation Blankets – Update to achieve better planning, coordination, and assignment with mechanical contractors to improve productivity.
- Pulverizer Gear Box Rebuilds – Exchange program with B&W.
- Babcock Power Master Agreement – Establish master agreement with defined pricing.
- SCR Catalyst Regeneration – Install more modules than total replacement with new.
- Other cost savings initiatives developed throughout the year.

Targets are based on historical data and adjusted base on 2016 spend levels. Therefore, any significant increases or decreases in 2016 budgeted spend could impact targets. In these instances targets will be adjusted accordingly in proportion to 2016 budgeted spend.

Reporting Frequency: Monthly

Unit Type: \$

Formula: Sum \$ Savings

Data Source: Brad Yoho / Randy Gaudio

Data Collector: Anthony Gerstenberger

2016 Generation ICP Metric Definition

Enabling Capital Excellence SCPP Process Adherence

<p>Target: 2.0 - 100% 1.0 - 70% 0.0 - 50%</p>	
<p>Strategic Plan Goal: Cultural Transformation, Financial Performance, & Sustainable Value</p>	
<p>Metric Applies to: Shared and Regulated</p>	
<p>Measure Description: % Conforming Improvement Requisitions (IR's) The Annual SCPB Meetings will provide Number of Conforming (C¹) and Non-conforming (NC) counts. NC and Emergent conforming (EC) will then be impacted by emergent project meetings held the remainder of the year. The NC and EC classification will be assigned on a per project basis by the SCPB Board at the Emergent meeting.</p>	
<p>Process Adherence - % Conforming IR projects: % = (C¹+EC) / (NC+C¹+EC)*(100) %</p> <ul style="list-style-type: none"> • #NC - Number of Non-Conforming (NC) IR projects • #EC - Number of Emergent Conforming (EC) IR projects the SCPB Board classifies as conforming. <ul style="list-style-type: none"> ○ Projects that are conforming to the SCPB process but are emergent due to equipment failures, environmental rule changes, or other causes outside of Generation's control) • #C¹ - Number of Conforming (C) IR projects 1st time (Annual SCPB Meetings) <p>Reference – QMSU-OI-710.01 Strategic Capital Prioritization Process</p> <p>If Generation's capital spend is significantly increased or decreased due to corporate initiatives and the number of projects are adversely impacted, those projects will be excluded from the calculation.</p>	
<p>Reporting Frequency: <i>Monthly</i></p>	<p>Unit Type: %</p>
<p>Formula: % Conforming IR projects: % = (C¹+EC) / (NC+C¹+EC)*(100) %</p>	
<p>Data Source: <i>(GBS) Generation Business Services</i></p>	<p>Data Collector: <i>Anthony Gerstenberger</i></p>

2016 Generation ICP Metric Definition

Environmental & NERC Compliance Index

<p>Targets:</p> <p>2.00 = 0 Events 1.00 = 5 Events 0.00 = 10 Events</p> <p><i>Strategic Plan Goal: Sustainable Value</i></p>	
<p><i>Metric Applies to: Shared, Regulated and Unregulated</i></p>	
<p>Measure Description:</p> <p>The Opacity Exceedance measure is the number of stacks with greater than 2% calendar time with excess opacity, including startup, shutdown and out of service time.</p> <p>The Oil and Chemical Spills measure is the number of reportable and controllable spills or spills that were reportable and non-preventable, but were not contained, reported or cleaned up in a reasonable or required time frame.</p> <p>The Wastewater Exceptions (NDPES) measure is the number of controllable operating water permits exceptions as determined by Environmental Services.</p> <p>The Notices of Violation is the number of environmental and/or NERC violations received by Generation and Regulated Commercial Operations. Environmental and NERC NOV's will be counted that are the result of an action or programmatic deficiency that occurred beginning up to 12 months prior to the start of the plan year. A single type of action or programmatic deficiency that results in a NERC NOV will only be counted as a single occurrence against this metric, even though the action or programmatic deficiency may have been reported in multiple RTOs or NERC Regions.</p> <p>NOV's that will be excluded: minor environmental impact resulting in fines of less than \$1,000; NOV enforcement actions that result from activities outside of the Generation organization; NOV's associated with non-AEP Operated facility; NOV's associated with the mining process (non-environmental); and NERC violations that have been risk ranked as Low-Minor impact on the Bulk Electric System by the AEP NERC Risk Assessment Committee and/or have been self-reported.</p>	
<p>Reporting Frequency: Monthly</p>	<p>Unit type: Count</p>
<p>Opacity Formula:</p> $= \left[\frac{\sum_{i=1}^N \text{TotalExceedanceTime (Min _ or _ Hours)}}{\sum_{i=1}^N \text{TotalCalendarTime (Min _ or _ Hours)}} \right]$ <p>Where, Total Exceedance Time = Hours or Minutes with Opacity Greater than the Allowed Limit. Total Calendar Time = Hours or Minutes within each reporting period.</p> <p>This metric will include the total count of Opacity, Spills, NDPES and NOV events as described above.</p> <p>Data Sources: John McManus, Nick Bostick, Jim Rappach</p> <p>Data Collector: Anthony Gerstenberger</p>	

2016 Generation ICP Metric Definition



Project Schedule Adherence

Target	
2.00 – 0 missed milestones	
1.00 – 2 missed milestones	
0.00 – 4 missed milestones	
Strategic Plan Goal: Sustainable Value	
Metric Applies to: Shared and Regulated	
Measure Description: The Project Schedule Adherence metric will measure the number of milestones completed versus a defined milestone schedule. The hard-copy signed list of projects to be included in this measure is kept with the 2016 ICP documentation in the Generation Business Planning and Performance group.	
The milestone list includes selected projects for Regulated and GenCo. Facilities (Engineering, Environmental, and Major Plant projects managed by Projects, Controls, & Construction and Engineering Services).	
This measure will track the number of milestones that are completed on time. Key project milestones will be defined by the Vice Presidents of Engineering Services and Projects, Controls, & Construction for all projects included in this measure.	
There are a total of 54 milestones.	
* Variance and waiver requests, for events outside of the organizations' control, may be submitted to the EVP - Generation for review and approval.	
Reporting Frequency: Monthly	Unit Type: Count
Formula: # of Key Project Milestones missed according to schedule	
Data Source: Charles Blankenbiller	Data Collector: Anthony Gerstenberger

2016 Generation ICP Metric Definition



Grouped Strategic Goals

Targets: Subjective

See individual Grouped Strategic Goal ICP metric definitions

Strategic Plan Goal: Cultural Transformation, Financial Performance & Sustainable Value

Metric Applies to: Shared, Regulated and Unregulated

Goals:

1. Power Up and Lead
2. Diversity
3. Compliance Improvements
4. Lean
5. Utility of the Future & Customer Experience
6. Culture Survey Actions & Plans

Measure Descriptions: See individual Grouped Strategic Goal ICP metric definitions.

Note: Subjective Goals will be subjectively assessed by Generation Leadership. For Grouped Strategic Goals targets are set to assist in benchmarking and guiding execution and will be part of the consideration for scoring when subjectively assessed by Generation Leadership. The targets are not the sole consideration for scoring these goals due to the nature of the goals being introductory to the organization, organization specific, or driven by more qualitative behaviors, which will also be part of the scoring consideration.

Data Source & Collector:

See individual Grouped Strategic Goal ICP metric definitions

2016 Generation ICP Metric Definition



Power Up & Lead Grouped Strategic Goal

Target: Subjective

Strategic Plan Goal: Cultural Transformation

Metric Applies to: Shared, Regulated, and Unregulated

Measure Description:

This measure tracks the incremental number of employees to complete Power Up & Lead training sessions in Generation. Power Up & Lead supports our overall culture improvement efforts as measured by the number of employees that participate in Power up & Lead unfreezing workshops in 2016.

Note: 25 Sessions with 30 people per session supports Corporate Goal.

Note: Generation Leadership will subjectively assess each Grouped Strategic Goal. For Grouped Strategic Goals targets are set to assist in benchmarking and guiding execution and will be part of the consideration for scoring when subjectively assessed by Generation Leadership. The targets are not the sole consideration for scoring these goals due to the nature of the goals being introductory to the organization, organization specific, or driven by more qualitative behaviors, which will also be part of the scoring consideration.

Reporting Frequency: Quarterly Reports

Unit Type: Count

Formula: Session Attendance Count

Data Source: Kathy Fiata

Data Collector: Anthony Gerstenberger

2016 Generation ICP Metric Definition



Diversity Grouped Strategic Goal

Target: Subjective

Strategic Plan Goal: Cultural Transformation

Metric Applies to: Shared, Regulated, and Unregulated

Measure Description: Strengthen the representation of women and minorities to ultimately achieve parity between internal representation and external availability for all AEP positions. This goal is consistent with and supports the Corporate Diversity Strategic Initiative. Refer to Corporate Plan definition for more detail.

Note: Generation Leadership will subjectively assess each Grouped Strategic Goal. For Grouped Strategic Goals targets are set to assist in benchmarking and guiding execution and will be part of the consideration for scoring when subjectively assessed by Generation Leadership. The targets are not the sole consideration for scoring these goals due to the nature of the goals being introductory to the organization, organization specific, or driven by more qualitative behaviors, which will also be part of the scoring consideration.

Reporting Frequency: Quarterly	Unit Type: Reports
Formula: Reports	
Data Source: Human Resources & Generation Leadership	Data Collector: Human Resources

2016 Generation ICP Metric Definition



Compliance Improvement Grouped Strategic Goal

Target: Subjective

Strategic Plan Goal: Cultural Transformation, Financial Performance, & Sustainable Value

Metric Applies to: Shared, Regulated, and Unregulated

Measure Description

Generation Environmental Performance Enhancement

- Completion and application of CCR compliance documentation system
- Proactive expansion of environmental event reviews

Note: Generation Leadership will subjectively assess each Grouped Strategic Goal. For Grouped Strategic Goals targets are set to assist in benchmarking and guiding execution and will be part of the consideration for scoring when subjectively assessed by Generation Leadership. The targets are not the sole consideration for scoring these goals due to the nature of the goals being introductory to the organization, organization specific, or driven by more qualitative behaviors, which will also be part of the scoring consideration.

Reporting Frequency: Quarterly Reports

Unit Type: Report

Formula: Reports

Data Source: John McManus

Data Collector: Anthony Gerstenberger



2016 Generation ICP Metric Definition

Lean Grouped Strategic Goal

Target: Subjective	
<i>Strategic Plan Goal: Cultural Transformation, Financial Performance, & Sustainable Value</i>	
<i>Metric Applies to: Shared, Regulated, and Unregulated</i>	
Measure Description	
<p>Everyone seeks opportunities to identify and eliminate waste. Build knowledge and skill in our employees to utilize continuous improvement strategies and tools to seek out innovative and creative solutions to spend more wisely and reduce costs. Collaboration across all business units will lead to new ideas to improve work products and support a learning, teaching, coaching culture.</p>	
<p>Most common wastes include;</p> <ul style="list-style-type: none">Transportation, Inventory, Motion, Wait Time, Over Production, Over Processing, Defects, and Under Utilization of Employee Intellect/Experience/Knowledge.	
<p>This metric will subjectively evaluate the effectiveness of lean initiatives throughout Generation; including, but not limited to eliminating waste, improving processes, reducing costs, employee engagement, culture improvement, etc.</p>	
<p>Note: Generation Leadership will subjectively assess each Grouped Strategic Goal. For Grouped Strategic Goals targets are set to assist in benchmarking and guiding execution and will be part of the consideration for scoring when subjectively assessed by Generation Leadership. The targets are not the sole consideration for scoring these goals due to the nature of the goals being introductory to the organization, organization specific, or driven by more qualitative behaviors, which will also be part of the scoring consideration.</p>	
Reporting Frequency: Quarterly Reports	Unit Type: Report
Formula: Reports	
Data Source: McCullough & Lee Direct Reports	Data Collector: Anthony Gerstenberger



2016 Generation ICP Metric Definition

Utility of the Future & Customer Experience Grouped Strategic Goal

Target: Subjective	
<i>Strategic Plan Goal: Cultural Transformation and Sustainable Value</i>	
<i>Metric Applies to: Shared, Regulated, and Unregulated</i>	
Measure Description: Each organization will report out quarterly on areas they are involved in related to the topics listed below.	
<ul style="list-style-type: none">• Improving Customer Experience (Ambassadors, Shareholder value,• Developing / Deploying / Investigating New High Value Technologies (Applications, Renewables, etc...)• AEP value stream impacts	
The purpose is to encourage engagement, ownership, and communication between the organizations, foster idea generation, and improved customer experience.	
Note: Generation Leadership will subjectively assess each Grouped Strategic Goal. For Grouped Strategic Goals targets are set to assist in benchmarking and guiding execution and will be part of the consideration for scoring when subjectively assessed by Generation Leadership. The targets are not the sole consideration for scoring these goals due to the nature of the goals being introductory to the organization, organization specific, or driven by more qualitative behaviors, which will also be part of the scoring consideration.	
Reporting Frequency: <i>Quarterly Reports</i>	Unit Type: <i>Reports</i>
Formula: <i>Reports</i>	
Data Source: <i>McCullough & Lee Direct Reports</i>	Data Collector: <i>Anthony Gerstenberger</i>



2016 Generation ICP Metric Definition

Culture Survey Actions & Plans Grouped Strategic Goal

<i>Target: Subjective</i>	
<i>Strategic Plan Goal: Cultural Transformation and Sustainable Value</i>	
<i>Metric Applies to: Shared, Regulated, and Unregulated</i>	
Measure Description	
<p>Action plan created by each organization and report out on progress quarterly.</p> <ul style="list-style-type: none"> • Organizations <ul style="list-style-type: none"> o APCO/KPCO o Commercial Operations, including River Operations o Field Services o Fuel Operations and Mining o GENCO o Generation Business Services <ul style="list-style-type: none"> o I&M o Performance Improvement o Projects Controls and Construction o PSO o SWEPCO 	
<p>Note: Generation Leadership will subjectively assess each Grouped Strategic Goal. For Grouped Strategic Goals targets are set to assist in benchmarking and guiding execution and will be part of the consideration for scoring when subjectively assessed by Generation Leadership. The targets are not the sole consideration for scoring these goals due to the nature of the goals being introductory to the organization, organization specific, or driven by more qualitative behaviors, which will also be part of the scoring consideration.</p>	
<i>Reporting Frequency: Quarterly Report</i>	<i>Unit Type: Reports</i>
<i>Formula: Reports</i>	
<i>Data Source: McCullough & Lee Direct Reports</i>	<i>Data Collector: Anthony Gerstenberger</i>

AMERICAN ELECTRIC POWER SYSTEM 2015 LONG-TERM INCENTIVE PLAN

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American Electric Power System 2015 Long-Term Incentive Plan

ARTICLE 1 - ESTABLISHMENT, EFFECTIVENESS, PURPOSE AND DURATION

Section 1.01. Establishment. American Electric Power Company, Inc., a New York corporation (hereinafter referred to as the “Company”), establishes an incentive compensation plan to be known as the American Electric Power System 2015 Long-Term Incentive Plan (hereinafter referred to as this “Plan”), as set forth in this document.

Section 1.02. Effectiveness. This Plan shall become effective upon shareholder approval (the “Effective Date”) and shall remain in effect as provided in Section 1.04. Subject to the approval of the Company’s shareholders of this Plan, no further awards shall be granted under the Prior Plan as of the Effective Date.

Section 1.03. Purpose of This Plan. The purposes of the Plan are to: (a) strengthen the alignment of interests between those Employees and Directors of the Company and its Subsidiaries who share responsibility for the success of the business and those of the Company’s shareholders, (b) facilitate the use of long-term incentive compensation and the provisions of market competitive total compensation to Employees, (c) increase Employee ownership of shares of the Company’s common stock to encourage ownership behaviors, and (d) encourage Plan Participant retention. This Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Cash-Based Awards and Other Stock-Based Awards.

Section 1.04. Duration of This Plan. Unless sooner terminated as provided herein, this Plan shall terminate ten years from the Effective Date. After this Plan is terminated, no Awards may be granted but Awards previously granted shall remain outstanding in accordance with their applicable terms and conditions and this Plan’s terms and conditions. Notwithstanding the foregoing, no Incentive Stock Options may be granted more than ten years after the earlier of (a) adoption of this Plan by the Board, or (b) the Effective Date.

ARTICLE 2 - DEFINITIONS

Whenever used in this Plan, the following terms shall have the meanings set forth below, and when the meaning is intended, the initial letter of the word shall be capitalized.

“**Affiliate**” means any corporation or other entity (including, but not limited to, a partnership or a limited liability company) that is affiliated with the Company through stock or equity ownership or otherwise, including each Subsidiary and any other corporation or entity designated as an Affiliate for purposes of this Plan by the Committee.

“**Aggregate Share Authorization**” has the meaning set forth in Section 4.01.

“**Annual Award Limit**” has the meaning set forth in Section 4.03.

“**Award**” means, individually or collectively, a grant under this Plan of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Cash-Based Awards, or Other Stock-Based Awards, in each case subject to the terms of this Plan.

“**Award Agreement**” means either (i) an agreement entered into by the Company and a Participant setting forth the terms and provisions applicable to an Award granted under this Plan, or (ii) a written or electronic statement issued by the Company to a Participant describing the terms and provisions of such Award, including any amendment or modification thereof. The Committee may provide for the use of electronic, Internet, or other non-paper Award Agreements, and the use of electronic, Internet, or other non-paper means for the acceptance thereof and actions thereunder by a Participant.

“**Board**” or “**Board of Directors**” means the Board of Directors of the Company.

“**Cash-Based Award**” means an Award, denominated in cash, granted to a Participant as described in Article 10.

“**Code**” means the U.S. Internal Revenue Code of 1986, as amended from time to time. For purposes of this Plan, references to sections of the Code shall be deemed to include references to any applicable regulations or other published guidance thereunder and any successor or similar provision.

“**Committee**” means the Human Resources Committee of the Board or a subcommittee thereof, or any other committee designated by the Board to administer this Plan. The members of the Committee shall be appointed from time to time by the Board. The Committee shall consist of three or more persons, each of whom qualifies as a “non-employee director” within the meaning of Rule 16b-3 of the Exchange Act and as an “outside director” within the meaning of Code Section 162 (m).

“**Company**” has the meaning set forth in Section 1.01, and any successor thereto as provided in Article 21.

“**Covered Employee**” means any Participant who, in the sole judgment of the Committee, could be treated as a “covered employee” under Section 162(m) at the time income

may be recognized by such Participant in connection with an Award that is intended to qualify for exemption under Section 162(m).

“**Director**” means any individual who is a member of the Board of Directors of the Company and who is not an Employee of the Company.

“**Director Award**” means any Award granted, whether singly, in combination, or in tandem, to a Participant who is a Director pursuant to such applicable terms, conditions, and limitations as the Board may establish in accordance with this Plan.

“**Effective Date**” has the meaning set forth in Section 1.02.

“**Employee**” means any individual designated as an employee of the Company, its Affiliates, and/or its Subsidiaries on any of their payroll records.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended from time to time. For purposes of this Plan, references to sections of the Exchange Act shall be deemed to include references to any applicable regulations or other published guidance thereunder and any successor or similar provision.

“**Fair Market Value**” or “**FMV**” means a price that is based on the opening, closing, actual, high, low, or average selling prices of a Share reported on the New York Stock Exchange (“**NYSE**”) or other established stock exchange (or exchanges) on the applicable date, the preceding trading day, the next succeeding trading day, or an average of trading days, as determined by the Committee in its discretion. Unless the Committee determines otherwise or unless otherwise specified in an Award Agreement, Fair Market Value shall be the closing price of a Share on the date in question (or, if there is no reported sale on such date, on the last preceding date on which Shares were publicly traded). In the event that Shares are not publicly traded at the time a determination of their value is required to be made hereunder, the determination of their Fair Market Value shall be made by the Committee in such manner as it deems appropriate.

“**Full Value Award**” means an Award other than an Award in the form of a Nonqualified Stock Option, Incentive Stock Option or Stock Appreciation Right, and which is settled by the issuance of Shares.

“**Grant Price**” means the price established at the time of grant of an SAR pursuant to Article 7, used to determine whether there is any payment due upon exercise of the SAR.

“**Incentive Stock Option**” or “**ISO**” means an Option to purchase Shares granted under Article 6 to an Employee that is designated as an Incentive Stock Option and intended to meet the requirements of Code Section 422.

“**Nonqualified Stock Option**” or “**NQSO**” means an Option that is not intended to meet the requirements of Code Section 422, or that otherwise does not meet such requirements.

“**Option**” means an Incentive Stock Option or a Nonqualified Stock Option, as granted pursuant to Article 6.

“**Option Price**” means the price at which a Share may be purchased by a Participant pursuant to an Option.

“**Option Term**” means the period of time during which an Option is exercisable as the Committee shall determine at the time of grant; provided, however, no Option shall be exercisable later than the tenth anniversary of its grant date.

“**Other Stock-Based Award**” means an equity-based or equity-related Award not otherwise described by the terms of this Plan, granted pursuant to Article 10.

“**Participant**” means any eligible individual as set forth in Article 5 to whom an Award is granted.

“**Performance-Based Compensation**” means compensation under an Award that is intended to satisfy the requirements of Code Section 162(m) for certain performance-based compensation paid to Covered Employees.

“**Performance Measures**” means measures as described in Article 12 on which the performance goals are based and which are approved by the Company’s shareholders pursuant to this Plan in order to satisfy the requirements for Performance-Based Compensation.

“**Performance Period**” means the period of time during which pre-established performance goals must be met in order to determine the degree of payout and/or vesting with respect to an Award.

“**Performance Share**” means an Award granted pursuant to Article 9 that is denominated in Shares, the value of which at the time it is payable is determined based on achievement of corresponding performance criteria.

“**Performance Unit**” means an Award granted under Article 9 that is denominated in dollars, the value of which at the time it is payable is determined based on achievement of corresponding performance criteria.

“**Period of Restriction**” means the period when Restricted Stock or Restricted Stock Units are subject to a substantial risk of forfeiture (based on the performance of services, the achievement of performance goals, or the occurrence of other events as determined by the Committee, in its discretion), as provided in Article 8.

“**Person**” shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a “group” as defined in

Section 13(d) thereof.

“**Plan**” has the meaning set forth in Section 1.01, as the same may be amended from time to time.

“**Plan Year**” means the calendar year.

“**Prior Plan**” means the Amended and Restated American Electric Power System Long-Term Incentive Plan, last approved by shareholders on April 27, 2010, as amended.

“**Prior Plan Award**” means an award granted under the Prior Plan that is outstanding as of the Effective Date.

“**Restricted Stock**” means an Award granted pursuant to Article 8, as set forth therein.

“**Restricted Stock Unit**” means an Award granted pursuant to Article 8, as set forth therein.

“**Share**” means a share of common stock of the Company.

“**Stock Appreciation Right**” or “**SAR**” means an Award, designated as an SAR, granted pursuant to Article 7.

“**Stock Ownership Participant**” means any eligible individual as set forth in Article 5 to whom an Award is granted that is subject to the Stock Ownership Requirement Plan.

“**Stock Ownership Requirement Plan**” means the American Electric Power System Stock Ownership Requirement Plan that imposes minimum stock ownership requirements on certain executives of the Company or an Affiliate.

“**Subsidiary**” means any corporation or other entity, whether domestic or foreign, in which the Company has or obtains, directly or indirectly, a proprietary interest of 50% or more by reason of stock ownership or otherwise.

ARTICLE 3 - ADMINISTRATION

Section 3.01. General. The Committee shall be responsible for administering this Plan, subject to this Article 3 and the other provisions of this Plan. The Committee may employ attorneys, consultants, accountants, agents, and other individuals, any of whom may be an Employee, and the Committee, the Company, and its officers and Directors shall be entitled to rely upon the advice, opinions, or valuations of any such individuals. All actions taken and all interpretations and determinations made by the Committee shall be final and binding upon the Participants, the Company, and all other interested persons.

Section 3.02. Authority of the Committee. The Committee shall have full discretionary power to interpret the terms and the intent of this Plan and any Award Agreement or other agreement or document ancillary to or in connection with this Plan, to determine eligibility for Awards and to adopt such rules, regulations, forms, instruments, and guidelines for administering this Plan as the Committee may deem necessary or proper. Such authority shall include, but not be limited to, selecting Award recipients, establishing all Award terms and conditions, including the terms and conditions set forth in Award Agreements, granting Awards as an alternative to or as the form of payment for grants or rights earned or due under compensation plans or arrangements of the Company, construing any ambiguous provision of the Plan or any Award Agreement, and, subject to Article 18, adopting modifications and amendments to this Plan or any Award Agreement, including without limitation, any that are necessary to comply with or qualify for the laws of the countries and other jurisdictions in which the Company, its Affiliates, and/or its Subsidiaries operate.

Section 3.03 Delegation. To the extent permitted under applicable law, the Committee may delegate to one or more of its members or to one or more employees of the Company and/or its Subsidiaries, such administrative duties or powers as it may deem advisable, and the Committee or any individuals to whom it has delegated duties or powers as aforesaid may employ one or more individuals to render advice with respect to any responsibility that the Committee or such individuals may have under this Plan. The Committee may, by resolution, authorize one or more persons who are members of the Committee, members of the Board of Directors of the Company, or an officer of the Company to do one or both of the following on the same basis as can the Committee: (a) designate Employees to be recipients of Awards; and (b) determine the size of any such Awards; provided, however, (i) the Committee shall not delegate such responsibilities to any such person for Awards granted to an Employee who is, on the relevant date, a Covered Employee or an officer or Director for purposes of Section 16 of the Exchange Act; (ii) the resolution providing such authorization sets forth the total number of Shares underlying Awards such person(s) may grant; and (iii) the person(s) shall report periodically to the Committee regarding the nature and scope of the Awards granted pursuant to the authority delegated.

ARTICLE 4 - SHARES SUBJECT TO THIS PLAN AND MAXIMUM AWARDS

Section 4.01. Number of Shares Available for Awards. (a) Subject to adjustment as provided in Section 4.04, the maximum number of Shares available for grant to Participants under this Plan (the "Aggregate Share Authorization") shall be 10 million Shares. No further Awards may be granted under the Prior Plan as of the Effective Date. The number of shares issuable under the Prior Plan may, however, increase due to dividend shares and performance shares issued in connection with awards outstanding under the Prior Plan.

(b) To the extent that a Share is issued pursuant to the grant or exercise of a Full Value Award, it shall reduce the Aggregate Share Authorization by one Share; and, to the extent that a Share is issued pursuant to the grant or exercise of an Award other than a Full Value Award, it shall reduce the Aggregate Share Authorization by 0.286 of a Share.

(c) The maximum number of Shares that may be issued pursuant to ISOs under this Plan shall be equal to the Aggregate Share Authorization.

(d) The maximum aggregate value of Awards that may be granted to any Director under this Plan during any calendar year shall not exceed \$700,000, as determined by the Board based on the value of any Award at the time of grant.

Section 4.02. Share Usage. (a) Shares covered by an Award shall be counted as used only to the extent they are actually issued. Except as provided in Section 4.02(b), any Shares related to Awards that terminate by expiration, forfeiture, cancellation, or otherwise without the issuance of such Shares, are settled in cash in lieu of Shares, or are exchanged with the Committee's permission (prior to the issuance of Shares) for Awards not involving Shares, shall be available again for grant under this Plan.

(b) Any Award Shares tendered, exchanged or withheld to cover Option exercise costs, any Award Shares withheld to cover taxes, and all Shares underlying an Award of Stock Appreciation Rights once such Stock Appreciation Rights are exercised, shall be taken into account as Shares issued under this Plan.

Section 4.03. Annual Award Limits. The following limits (each an "Annual Award Limit" and, collectively, "Annual Award Limits") shall apply to grants of Awards under this Plan:

(a) **Options.** The maximum aggregate number of Shares subject to Options granted in any one Plan Year to any one Participant shall be 2,000,000.

(b) **SARs.** The maximum aggregate number of Shares subject to Stock Appreciation Rights granted in any one Plan Year to any one Participant shall be 2,000,000.

(c) **Restricted Stock or Restricted Stock Units.** The maximum aggregate grant with respect to Awards of Restricted Stock or Restricted Stock Units in any one Plan Year to any one Participant shall be 400,000 Shares.

(d) **Performance Units or Performance Shares.** The maximum aggregate number of Performance Units or Performance Shares that a Participant may be awarded in any one Plan Year shall be 400,000 Shares. As provided in Section 9.03, up to 2 Shares (or the cash value of 2 Shares) may be issued with respect to a Performance Unit or Performance Share, depending on the level of performance, plus any applicable Dividend Equivalents.

(e) **Cash-Based Awards.** The maximum aggregate amount awarded with respect to Cash-Based Awards to any one Participant in any one Plan Year may not exceed \$15,000,000, determined as of the date of payment.

(f) ***Other Stock-Based Awards.*** The maximum aggregate grant with respect to Other Stock- Based Awards pursuant to Section 10.02 in any one Plan Year to any one Participant shall be 400,000 Shares.

Section 4.04. Adjustments in Authorized Shares. (a) In the event of any corporate event or transaction (including, but not limited to, a change in the Shares or capitalization of the Company) such as a merger, consolidation, reorganization, recapitalization, separation, partial or complete liquidation, stock dividend, stock split, reverse stock split, split up, spin-off, or other distribution of stock or property of the Company, combination of Shares, exchange of Shares, dividend in kind, or other like change in capital structure, number of outstanding Shares, or distribution (other than normal cash dividends) to shareholders of the Company, or any similar corporate event or transaction, or in the event of unusual or nonrecurring events affecting the Company or the financial statements of the Company or of changes in applicable laws, regulations, or accounting principles, the Committee, in order to prevent dilution or enlargement of Participants' rights under this Plan, shall substitute or adjust, as applicable, the number and kind of Shares that may be granted under this Plan or under particular forms of Awards, the number and kind of Shares subject to outstanding Awards, the Option Price or Grant Price applicable to outstanding Awards, the Annual Award Limits, and other value determinations applicable to outstanding Awards. The Committee, in its discretion, shall determine the methodology or manner of making such substitution or adjustment.

(b) The Committee, in its sole discretion, may also make appropriate adjustments in the terms of any Awards under this Plan to reflect, or that relate to, the changes or distributions described in Section 4.04 and to modify any other terms of outstanding Awards, including modifications of performance goals and changes in the length of Performance Periods. The Committee shall not make any adjustment pursuant to this Section 4.04. that would (i) prevent Performance-Based Compensation from satisfying the requirements of Code Section 162(m), (ii) cause an Award that is otherwise exempt from Code Section 409A to become subject to Section 409A, or (iii) cause an Award that is subject to Code Section 409A to fail to satisfy the requirements of Section 409A. The determination of the Committee as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under this Plan.

(c) Subject to the provisions of Article 18 and notwithstanding anything else herein to the contrary, without affecting the number of Shares reserved or available hereunder, the Committee may authorize the issuance or assumption of benefits under this Plan in connection with any merger, consolidation, acquisition of property or stock, or reorganization upon such terms and conditions as it may deem appropriate.

Section 4.05. Source of Shares. The Shares available for issuance under this Plan may be authorized and unissued Shares, treasury Shares or Shares acquired in the open market.

ARTICLE 5 - ELIGIBILITY AND PARTICIPATION

Section 5.01. Eligibility. Individuals eligible to participate in this Plan include all Employees and Directors.

Section 5.02. Actual Participation. Subject to the provisions of this Plan, the Committee may, from time to time, select from all eligible individuals those individuals to whom Awards shall be granted and shall determine, in its sole discretion, the nature of any and all terms permissible by law, and the amount of each Award.

ARTICLE 6 - STOCK OPTIONS

Section 6.01. Grant of Options. Subject to the terms and provisions of this Plan, Options may be granted to Participants in such number, and upon such terms, and at any time and from time to time as shall be determined by the Committee, in its sole discretion; *provided* that ISOs may be granted only to eligible Employees of the Company or of any parent or subsidiary corporation (to the extent permitted under Code Sections 422 and 424).

Section 6.02. Award Agreement. Each Option grant shall be evidenced by an Award Agreement that shall specify the Option Price, the maximum duration of the Option, the number of Shares to which the Option pertains, the conditions upon which an Option shall become vested and exercisable, and such other provisions as the Committee shall determine which are not inconsistent with the terms of this Plan.

Section 6.03. Option Price. The Option Price for each grant of an Option under this Plan shall be determined by the Committee in its sole discretion and shall be specified in the Award Agreement; *provided, however*, the Option Price must be at least equal to 100% of the FMV of Shares on the date of grant, subject to adjustment as provided for in Section 4.04.

Section 6.04. Term of Options. Each Option granted to a Participant shall expire at such time as the Committee shall determine and set forth in the Award Agreement at the time of grant; *provided, however*, no Option shall be exercisable later than the tenth anniversary date of its grant.

Section 6.05. Exercise of Options. Options granted under this Article 6 shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which terms and restrictions need not be the same for each grant or for each Participant; *provided, however*, that no Option shall be exercisable within three (3) years from its grant date (but may vest no sooner than pro-rata during such period), *provided*, that up to five percent (5%) of the maximum number of Shares available for

issuance under this Plan may be granted without being subject to the foregoing restriction and the restriction set forth in Section 7.05. The foregoing five percent (5%) share issuance limit shall be subject to adjustment consistent with the adjustment provisions of Section 4.04.

Section 6.06. Payment. (a) Subject to Section 6.09, Options granted under this Article 6 shall be exercised by the delivery of a notice of exercise to the Company or an agent designated by the Company in a form specified or accepted by the Committee, or by complying with any alternative procedures which may be authorized by the Committee, setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares. The Shares shall become the property of the Participant on the exercise date, subject to any forfeiture conditions specified in the Option.

(b) A condition of the issuance of the Shares as to which an Option shall be exercised shall be the payment of the Option Price at the time of the exercise. The Option Price of any Option shall be payable to the Company in full either (i) in cash or its equivalent; (ii) by tendering (either by actual delivery or attestation) previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the Option Price; (iii) by a cashless (broker-assisted) exercise; (iv) by a combination of (i), (ii) and/or (iii); or (v) any other method approved or accepted by the Committee in its sole discretion. Unless otherwise determined by the Committee, all payments under all of the methods indicated above shall be paid in United States dollars.

(c) Subject to any governing rules or regulations, as soon as practicable after receipt of written notification of exercise and full payment (including satisfaction of any applicable tax withholding), the Company shall deliver or cause to be delivered to the Participant a statement of holdings as evidence of book entry uncertificated Shares, or at the sole discretion of the Committee upon the Participant's request, Share certificates in an appropriate amount based upon the number of Shares purchased under the Option(s).

Section 6.07. Restrictions on Share Transferability. The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option granted under this Article 6 as it may deem advisable, including, without limitation, minimum holding period requirements, restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed and/or traded, or under any blue sky or state securities laws applicable to such Shares.

Section 6.08. Termination of Employment. Each Participant's Award Agreement shall set forth the extent, if any, to which the Participant shall have the right to exercise the Option following termination of the Participant's employment or provision of services to the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Options granted pursuant to this Article 6, and may reflect distinctions based on the reasons for termination.

Section 6.09. Automatic Option Exercise. An Award Agreement may provide that if, on the last day of the term of an Option, the Fair Market Value of one Share exceeds the Option Price plus associated fees, if the Participant has not exercised the Option, and the Option Price has not otherwise expired, the Option shall be deemed to have been exercised by the Participant on such day. In such event, the Company shall deliver Shares to the Participant in accordance with this Section 6.09, reduced by the number of Shares required for payment of the exercise price and for payment of withholding taxes; any fractional Share shall be settled in cash.

Section 6.10. Stock Retention. So long as a Stock Ownership Participant has not met all applicable stock ownership requirements under the Stock Ownership Requirement Plan, the Stock Ownership Participant will be required to hold the Shares received upon the exercise of Options (net of any Shares used for payment of the exercise price of the Option and withholding taxes).

ARTICLE 7 - STOCK APPRECIATION RIGHTS

Section 7.01. Grant of SARs. Subject to the terms and conditions of this Plan, SARs may be granted to Participants at any time and from time to time as shall be determined by the Committee. Subject to the terms and conditions of this Plan, the Committee shall have complete discretion in determining the number of SARs granted to each Participant and, consistent with the provisions of this Plan, the terms and conditions pertaining to such SARs.

Section 7.02. SAR Award Agreement. Each SAR grant shall be evidenced by an Award Agreement that shall specify the Grant Price, the maximum duration of the SAR, the number of Shares to which the SAR pertains, the conditions upon which an SAR shall become vested and exercisable, and such other provisions as the Committee shall determine which are not inconsistent with the terms of this Plan.

Section 7.03. Grant Price. The Grant Price for each grant of an SAR shall be determined by the Committee and shall be specified in the Award Agreement; *provided, however*, the Grant Price on the date of grant must be at least equal to 100% of the FMV of the Shares as determined on the date of grant.

Section 7.04. Term of SAR. The term of an SAR granted under this Plan shall be determined by the Committee, in its sole discretion, and set forth in the Award Agreement at the time of grant; *provided, however*, that no SAR shall be exercisable later than the tenth anniversary date of its grant.

Section 7.05. Exercise of SARs. SARs granted under this Article 7 shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which terms and restrictions need not be the same for each

grant or for each Participant; *provided, however*, that no SAR shall be exercisable within three (3) years from its grant date (but may vest no sooner than pro-rata during such period), *provided*, that up to five percent (5%) of the maximum number of Shares available for issuance under this Plan may be granted without being subject to the foregoing restriction and the restriction set forth in Section 6.05. The foregoing five percent (5%) share issuance limit shall be subject to adjustment consistent with the adjustment provisions of Section 4.04.

Section 7.06. Settlement of SARs. Upon the exercise of an SAR, a Participant shall be entitled to receive payment from the Company on the exercise date in an amount determined by multiplying: (a) the excess of the Fair Market Value of a Share on the date of exercise over the Grant Price; by (b) the number of Shares with respect to which the SAR is exercised.

At the discretion of the Committee, the payment upon SAR exercise may be in cash, Shares, or any combination thereof, or in any other manner approved by the Committee in its sole discretion. The Committee's determination regarding the form of SAR payout shall be set forth in the Award Agreement pertaining to the grant of the SAR.

Section 7.07. Termination of Employment. Each Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the SAR following termination of the Participant's employment with or provision of services to the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with Participants, need not be uniform among all SARs granted pursuant to this Article 7, and may reflect distinctions based on the reasons for termination.

Section 7.08. Other Restrictions. The Committee shall impose such other conditions and/or restrictions on any Shares received upon exercise of an SAR granted pursuant to this Plan as it may deem advisable or desirable. These restrictions may include, but shall not be limited to, a requirement that the Participant hold the Shares received upon exercise of an SAR for a specified period of time.

Section 7.09. Automatic SAR Exercise. An Award Agreement may provide that if, on the last day of the term of an SAR, the Fair Market Value of one Share exceeds the Grant Price of the SAR plus associated fees, if the Participant has not exercised the SAR, and the SAR has not otherwise expired, the SAR shall be deemed to have been exercised by the Participant on such day. In such event, the Company shall deliver payment to the Participant in accordance with the terms of settlement set forth in Section 7.06.

Section 7.10. Stock Retention. So long as a Stock Ownership Participant has not met all applicable stock ownership requirements under the Stock Ownership Requirement Plan, the Stock Ownership Participant will be required to hold the Shares received upon the exercise of any SAR (net of any Shares used for payment of withholding taxes).

ARTICLE 8 - RESTRICTED STOCK AND RESTRICTED STOCK UNITS

Section 8.01. Grant of Restricted Stock or Restricted Stock Units. Subject to the terms and provisions of this Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock and/or Restricted Stock Units to Participants in such amounts as the Committee shall determine. Restricted Stock Units shall be similar to Restricted Stock except that no Shares are actually awarded to the Participant on the date of grant.

Section 8.02. Restricted Stock or Restricted Stock Unit Award

Agreement. Each Restricted Stock and/or Restricted Stock Unit grant shall be evidenced by an Award Agreement that shall specify the Period (s) of Restriction, the number of Shares of Restricted Stock or the number of Restricted Stock Units granted, and such other provisions as the Committee shall determine.

Section 8.03. Other Restrictions. (a) The Committee shall impose such other conditions and/or restrictions on any Shares of Restricted Stock or Restricted Stock Units granted pursuant to this Plan as it may deem advisable including, without limitation, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock or each Restricted Stock Unit, restrictions based upon the achievement of specific performance goals, time-based restrictions on vesting following the attainment of the performance goals, time-based restrictions, and/or restrictions under applicable laws or under the requirements of any stock exchange or market upon which such Shares are listed or traded, or holding requirements or sale restrictions placed on the Shares by the Company upon vesting of such Restricted Stock or Restricted Stock Units.

(b) To the extent deemed appropriate by the Committee, the Company may retain any certificates or statements of holdings representing Shares of Restricted Stock in the Company's possession until such time as all conditions and/or restrictions applicable to such Shares have been satisfied or lapse.

(c) Except as otherwise provided in this Article 8, Shares of Restricted Stock covered by each Restricted Stock Award shall become freely transferable by the Participant after all conditions and restrictions applicable to such Shares have been satisfied or lapse (including satisfaction of any applicable tax withholding obligations), and Restricted Stock Units shall be paid in cash, Shares, or a combination of cash and Shares as the Committee, in its sole discretion, shall determine.

Section 8.04. Certificate Legend. In addition to any legends placed on certificates or statements of holdings pursuant to Section 8.03, each certificate or statement of holdings representing Shares of Restricted Stock granted pursuant to this Plan may bear a legend restricting the transfer of such Shares.

Section 8.05. Voting Rights. Unless otherwise determined by the Committee and

set forth in a Participant's Award Agreement, to the extent permitted or required by law, as determined by the Committee, Participants holding Shares of Restricted Stock granted hereunder may be granted the right to exercise full voting rights with respect to those Shares during the Period of Restriction. A Participant shall have no voting rights with respect to any Restricted Stock Units granted hereunder.

Section 8.06. Termination of Employment. Each Award Agreement shall set forth the extent to which the Participant shall have the right to retain Restricted Stock and/or Restricted Stock Units following termination of the Participant's employment with or provision of services to the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Shares of Restricted Stock or Restricted Stock Units granted pursuant to this Article 8, and may reflect distinctions based on the reasons for termination.

ARTICLE 9 - PERFORMANCE UNITS / PERFORMANCE SHARES

Section 9.01. Grant of Performance Units / Performance Shares.

Subject to the terms and provisions of this Plan, the Committee, at any time and from time to time, may grant Performance Units and/or Performance Shares to Participants in such amounts and upon such terms as the Committee shall determine.

Section 9.02. Value of Performance Units / Performance Shares. Each

Performance Unit shall have an initial value that is established by the Committee at the time of grant. Each Performance Share shall have an initial value equal to the Fair Market Value of a Share on the date of grant. The Committee shall set performance goals in its discretion which, depending on the extent to which they are met, will determine the value and/or number of Performance Units/Performance Shares that will be paid out to the Participant.

Section 9.03. Earning of Performance Units / Performance Shares.

Subject to the terms of this Plan, after the applicable Performance Period has ended, the holder of Performance Units/Performance Shares shall be entitled to receive payout as provided in Section 9.04 on the value and number of Performance Units/Performance Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance goals have been achieved. Regardless of the level of performance achieved, in no event will the number of Shares issued (or the amount of cash paid) with respect to a Performance Unit/Performance Share exceed 2 Shares (or the value of 2 Shares), plus any applicable Dividend Equivalents.

Section 9.04. Form and Timing of Payment of Performance Units /

Performance Shares. Payment of earned Performance Units/Performance Shares shall be as determined by the Committee and as evidenced in the Award Agreement. Any Shares may be granted subject to any restrictions deemed appropriate by the Committee. The

determination of the Committee with respect to the form of payout of such Awards shall be set forth in the Award Agreement pertaining to the grant of the Award.

Section 9.05. Termination of Employment. Each Award Agreement shall set forth the extent to which the Participant shall have the right to retain Performance Units and/or Performance Shares following termination of the Participant's employment with or provision of services to the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Awards of Performance Units or Performance Shares awarded pursuant to this Article 9, and may reflect distinctions based on the reasons for termination.

ARTICLE 10 - CASH-BASED AWARDS AND OTHER STOCK-BASED AWARDS

Section 10.01. Grant of Cash-Based Awards. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Cash-Based Awards to Participants in such amounts and upon such terms as the Committee may determine.

Section 10.02. Other Stock-Based Awards. The Committee may grant other types of equity-based or equity-related Awards not otherwise described by the terms of this Plan (including the grant or offer for sale of unrestricted Shares) in such amounts and subject to such terms and conditions as the Committee shall determine. Such Awards may involve the transfer of actual Shares to Participants, or payment in cash or otherwise of amounts based on the value of Shares and may include, without limitation, Awards designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States.

Section 10.03. Value of Cash-Based and Other Stock-Based Awards. Each Cash-Based Award shall specify a payment amount or payment range as determined by the Committee. Each Other Stock-Based Award shall be expressed in terms of Shares or units based on Shares, as determined by the Committee. The Committee may establish performance goals in its discretion. If the Committee exercises its discretion to establish performance goals, the number and/or value of Cash-Based Awards or Other Stock-Based Awards that will be paid out to the Participant will depend on the extent to which the performance goals are met.

Section 10.04. Payment of Cash-Based Awards and Other Stock-Based Awards. Payment, if any, with respect to a Cash-Based Award or an Other Stock-Based Award shall be made in accordance with the terms of the Award, in cash or Shares as the Committee determines.

Section 10.05. Termination of Employment. The Committee shall determine

the extent to which the Participant shall have the right to receive Cash-Based Awards or Other Stock-Based Awards following termination of the Participant's employment with or provision of services to the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Committee. Such provisions may be included in the Award Agreement, but need not be uniform among all Awards of Cash-Based Awards or Other Stock-Based Awards granted pursuant to this Article 10, and may reflect distinctions based on the reasons for termination.

ARTICLE 11 - TRANSFERABILITY OF AWARDS

Except to the extent specifically provided by the terms of an Award Agreement, Awards shall be nontransferable. During the lifetime of a Participant, Awards shall be exercised only by such Participant or by his guardian or legal representative. Notwithstanding the foregoing, the Committee may provide in the terms of an Award Agreement that the Participant shall have the right to designate a beneficiary or beneficiaries who shall be entitled to any rights, payments or other benefits specified under an Award Agreement following the Participant's death.

ARTICLE 12 - PERFORMANCE MEASURES

Section 12.01. Awards Under This Article 12. If an Award (other than an Option or SAR) is intended to qualify as Performance-Based Compensation, the Award shall be granted in accordance with the terms of this Article 12 and shall vest or be paid solely on account of the attainment of an objective performance goal based on one or more of the Performance Measures listed in Section 12.03.

Section 12.02. Performance Goals. The Committee shall establish the performance goal in writing not later than 90 days after the commencement of the Performance Period (or, if earlier, before 25% of the Performance Period has elapsed), and at a time when the outcome of the performance goal is still substantially uncertain. The performance goal shall state, in terms of an objective formula or standard, the method for determining the amount of compensation payable to the Participant if the performance goal is attained.

Section 12.03. Performance Measures. (a) The Performance Measures used to establish performance goals for Performance-Based Compensation shall be limited to the following business measures, which may be applied with respect to AEP, any Subsidiary or any business unit, and which may be measured on an absolute or relative-to-peer-group basis: earnings measures (including, for example, primary earnings per share, fully diluted earnings per share, net income, pre-tax income, operating income, earnings before interest, taxes, depreciation and amortization or any combination thereof, and net operating profits after taxes); expense control (including, for example, operations & maintenance expense, total expenditures, expense ratios, and expense reduction); customer measures (including, for

example, customer satisfaction, service cost, service levels, responsiveness, bad debt collections or losses, and reliability—such as outage frequency, outage duration, and frequency of momentary outages); safety measures (including, for example, recordable case rate, severity rate, and vehicle accident rate); diversity measures (including, for example, minority placement rate and utilization); environmental measures (including, for example, emissions, project completion milestones, regulatory/legislative/cost recovery goals, and notices of violation), revenue measures (including, for example, revenue and direct margin); stakeholder return measures (including, for example, total shareholder return, economic value added, cumulative shareholder value added, return on equity, return on capital, return on assets, dividend payout ratio and cash flow(s) – such as operating cash flows, free cash flow, discounted cash flow return on investment and cash flow in excess of cost of capital or any combination thereof); valuation measures (including, for example, stock price increase, price to book value ratio, and price to earnings ratio); capital and risk measures (including, for example, debt to equity ratio, dividend payout as percentage of net income and diversification of business opportunities); employee satisfaction; project measures (including, for example, completion of key milestones); production measures (including, for example, generating capacity factor, performance against the INPO index, generating equivalent availability, heat rates and production cost); and such other individual performance objective that is measured solely in terms of quantitative targets related to the Company, any Subsidiary or the Company's or Subsidiary's business.

(b) Any Performance Measure(s) may be used in a quantitative manner to measure the performance of the Company, Subsidiary, and/or Affiliate as a whole or any business unit of the Company, Subsidiary, and/or Affiliate or any combination thereof, as the Committee may deem appropriate. Any of the above Performance Measures may be used to measure performance relative to specified performance levels; a group of comparator companies; a published or special index that the Committee, in its sole discretion, deems appropriate; or various stock market indices. The Committee also has the authority to provide for accelerated vesting of any Award based on the achievement of a performance goal or goals pursuant to the Performance Measures specified in this Article 12.

Section 12.04. Evaluation of Performance. Any Performance Measure(s) may be made subject to pre-specified adjustments to remove the effects of restructurings, dispositions, changes in tax or accounting rules, or similar non-recurring or extraordinary events to the extent consistent with the requirements of Code Section 162(m) for Performance-Based Compensation.

Section 12.05. Certification of Performance. No vesting or payment shall occur under an Award that is intended to qualify as Performance-Based Compensation until the Committee certifies that the performance goal and any other material terms of the Award have been satisfied.

Section 12.06. Adjustment of Performance-Based Compensation. Awards that are intended to qualify as Performance-Based Compensation may not be adjusted upward.

The Committee shall retain the discretion to adjust such Awards downward, either on a formula or discretionary basis or any combination, as the Committee determines.

Section 12.07. Committee Discretion. For the avoidance of doubt, in the event that the Committee determines that it is advisable to grant Awards that shall not qualify as Performance-Based Compensation, the Committee may make such grants without satisfying the requirements of Code Section 162(m) and the terms of this Article 12. In such event, among other things, the Committee may base the vesting or payment of such Awards on performance measures other than those set forth in Section 12.03.

ARTICLE 13 - DIRECTOR AWARDS

Subject to Section 4.01(d), the Board shall determine all Awards to Directors. The terms and conditions of any grant to any such Director shall be set forth in an Award Agreement.

ARTICLE 14 - DIVIDEND EQUIVALENTS

Any Participant selected by the Committee may be granted dividend equivalents based on the dividends declared on Shares that are subject to any Full Value Award, to be credited as of the dividend payment dates, during the period between the date on which the Full Value Award is granted and the date on which the Award vests or expires, as determined by the Committee. Such dividend equivalents shall be converted to cash or additional Shares by such formula and at such time and subject to such limitations as may be determined by the Committee; *provided* that such dividend equivalents shall be subject to any performance conditions that apply to the underlying Award. Participants shall not accrue, be granted or be paid any dividends or dividend equivalents with respect to Shares that are subject to any Option or Stock Appreciation Right.

ARTICLE 15 - BENEFICIARY DESIGNATION

In the absence of any applicable beneficiary designation, benefits remaining unpaid or rights remaining unexercised at the Participant's death shall be paid to or exercised by the Participant's executor, administrator, or legal representative on behalf of the Participant's estate.

ARTICLE 16 - RIGHTS OF PARTICIPANTS

Section 16.01. Employment. (a) Nothing in this Plan or an Award Agreement shall interfere with or limit in any way the right of the Company, its Affiliates, and/or its Subsidiaries to terminate any Participant's employment or service on the Board or to the

Company at any time or for any reason not prohibited by law, nor confer upon any Participant any right to continue his employment or service as a Director for any specified period of time.

(b) Neither an Award nor any benefits arising under this Plan shall constitute an employment contract with the Company, its Affiliates, and/or its Subsidiaries.

Section 16.02. Participation. No individual shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

Section 16.03. Rights as a Shareholder. Except as otherwise provided herein, a Participant shall have none of the rights of a shareholder with respect to Shares covered by any Award unless and until the Participant becomes the record holder of any Shares associated with such Award.

ARTICLE 17 - CHANGE OF CONTROL

17.01. Effect of Change in Control. The Committee may, in an Award Agreement, provide for the effect of a Change in Control on an Award. Such provisions may include any one or more of the following: (a) the acceleration or extension of time periods for purposes of exercising, vesting in, or realizing gain from any Award, (b) the waiver or modification of performance or other conditions related to the payment or other rights under an Award; (c) provision for the cash settlement of an Award for an equivalent cash value, as determined by the Committee, or (d) such other modification or adjustment to an Award as the Committee deems appropriate to maintain and protect the rights and interests of Participants upon or following a Change in Control.

17.02. Definition of Change in Control. For purposes hereof, a “Change in Control” shall be deemed to have occurred if:

(a) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934 (“Exchange Act”)), other than any company owned, directly or indirectly, by the shareholders of AEP in substantially the same proportions as their ownership of shares Common Stock or a trustee or other fiduciary holding securities under an employee benefit plan of AEP, becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 33-1/3 percent of the then outstanding voting stock of AEP;

(b) AEP consummates a merger or consolidation with any other entity, other than a merger or consolidation which would result in the voting securities of AEP outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 66-2/3% percent of the total voting power represented by the voting securities of AEP or such surviving entity outstanding immediately after such merger or consolidation; or

(c) the shareholders of AEP approve a plan of complete liquidation of AEP, or an agreement for the sale or disposition by AEP (in one transaction or a series of transactions) of all or substantially all of AEP's assets.

ARTICLE 18 - AMENDMENT AND TERMINATION

18.01 Amendment and Termination of the Plan and Awards. (a) Subject to subparagraphs (b) and (c) of this Section 18.01 and Section 18.03 of the Plan, the Board or the Committee may at any time amend or terminate the Plan or amend or terminate any outstanding Award.

(b) Except as provided for in Section 4.04, the terms of an outstanding Award may not be amended, without prior shareholder approval, to: (i) reduce the Option Price of an outstanding Option or to reduce the Grant Price of an outstanding SAR, or (ii) cancel an outstanding Option or SAR in exchange for other Options or SARs with an Option Price or Grant Price, as applicable, that is less than the Option Price of the cancelled Option or the Grant Price of the cancelled SAR, as applicable, or (iii) cancel an outstanding Option with an Option Price that is less than the Fair Market Value of a Share on the date of cancellation or cancel an outstanding SAR with a Grant Price that is less than the Fair Market Value of a Share on the date of cancellation in exchange for cash or another Award.

(c) Notwithstanding the foregoing, no amendment of this Plan shall be made without shareholder approval if shareholder approval is required pursuant to rules promulgated by any stock exchange or quotation system on which Shares are listed or quoted or by applicable U.S. state corporate laws or regulations, applicable U.S. federal laws or regulations and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.

18.02 Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. Subject to Section 12.05, the Committee may make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 4.04) affecting the Company or the financial statements of the Company or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent unintended dilution or enlargement of the benefits or potential benefits intended to be made available under this Plan. The determination of the Committee as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under this Plan. By accepting an Award under this Plan, a Participant agrees to any adjustment to the Award made pursuant to this Section 18.02 without further consideration or action.

18.03 Awards Previously Granted. Notwithstanding any other provision of this Plan to the contrary, other than Sections 18.02, 18.04 and 21.15, no termination or

amendment of this Plan or an Award Agreement shall adversely affect in any material way any Award previously granted under this Plan, without the written consent of the Participant holding such Award.

18.04 Amendment to Conform to Law. Notwithstanding any other provision of this Plan to the contrary, the Board or Committee may amend the Plan or an Award Agreement, to take effect retroactively or otherwise, as deemed necessary or advisable for the purpose of conforming the Plan or an Award Agreement to any law relating to plans of this or similar nature, and to the administrative regulations and rulings promulgated thereunder. By accepting an Award under this Plan, a Participant agrees to any amendment made pursuant to this Section 18.04 to the Plan and any Award without further consideration or action.

ARTICLE 19 - WITHHOLDING

The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, the minimum statutory amount to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan. Participants may elect to satisfy the withholding requirements, in whole or in part, by having the Company withhold shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax that could be imposed on the transaction. The Participant shall remain responsible at all times for paying any federal, state, and local income or employment tax due with respect to any Award, and the Company shall not be liable for any interest or penalty that a Participant incurs by failing to make timely payments of tax.

ARTICLE 20 - SUCCESSORS

All obligations of the Company under this Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

ARTICLE 21 - GENERAL PROVISIONS

Section 21.01. Forfeiture Events. (a) The Committee may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, termination of employment for cause (as defined in the Award Agreement), termination of the Participant's provision of services to the Company, Affiliate, and/or Subsidiary, violation of material Company, Affiliate, and/or Subsidiary policies, breach of noncompetition, confidentiality, or

other restrictive covenants that may apply to the Participant, or other conduct by the Participant that is detrimental to the business or reputation of the Company, its Affiliates, and/or its Subsidiaries.

(b) All Awards shall be subject to the Company's compensation recoupment policy as such policy may be in effect from time to time.

Section 21.02. Legend. The certificates or statements of holdings for Shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer of such Shares.

Section 21.03. Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

Section 21.04. Severability. In the event any provision of this Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of this Plan, and this Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

Section 21.05. Requirements of Law. The granting of Awards and the issuance of Shares under this Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

Section 21.06. Delivery of Title. The Company shall have no obligation to issue or deliver evidence of title for Shares issued under this Plan prior to: (a) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and (b) completion of any registration or other qualification of the Shares under any applicable national or foreign law or ruling of any governmental body that the Company determines to be necessary or advisable.

Section 21.07. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

Section 21.08. Investment Representations. The Committee may require any individual receiving Shares pursuant to an Award under this Plan to represent and warrant in writing that the individual is acquiring the Shares for investment and without any present intention to sell or distribute such Shares.

Section 21.09. Uncertificated Shares. To the extent that this Plan provides for issuance of certificates to reflect the transfer or issuance of Shares, the transfer or issuance of such Shares may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the rules of any stock exchange upon which the Shares are listed.

Section 21.10. Unfunded Plan. Participants shall have no right, title, or interest whatsoever in or to any investments that the Company, and/or its Subsidiaries, and/or its Affiliates may make to aid it in meeting its obligations under this Plan. Nothing contained in this Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Participant, beneficiary, legal representative, or any other individual. To the extent that any individual acquires a right to receive payments from the Company, its Subsidiaries, and/or its Affiliates under this Plan, such right shall be no greater than the right of an unsecured general creditor of the Company, a Subsidiary, or an Affiliate, as the case may be. All payments to be made hereunder shall be paid from the general funds of the Company, a Subsidiary, or an Affiliate, as the case may be, and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts.

Section 21.11. No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to this Plan or any Award unless authorized by the Committee. If the Committee does not authorize the issuance or delivery of fraction shares, then the Committee shall determine whether cash, Awards, or other property shall be granted or paid in lieu of fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

Section 21.12. Retirement and Welfare Plans. Neither Awards made under this Plan nor Shares or cash paid pursuant to such Awards may be included as “compensation” for purposes of computing the benefits payable to any Participant under the Company’s or any Subsidiary’s or Affiliate’s retirement plans (both qualified and non-qualified) or welfare benefit plans unless such other plan expressly provides that such compensation shall be taken into account in computing a Participant’s benefit.

Section 21.13. Deferred Compensation. With respect to Awards subject to Code Section 409A, the Plan is intended to comply with the requirements of Code Section 409A, and the provisions of the Plan and any Award Agreement shall be interpreted in a manner that satisfies the requirements of Code Section 409A, and the Plan is intended to be operated accordingly. The Committee may make changes in the terms or operation of the Plan and/or Awards (including changes that may have retroactive effect) deemed necessary or desirable to comply with Code Section 409A. The Company, however, makes no representation or covenants that the Plan or Awards will comply with Section 409A.

Section 21.14. Non-exclusivity of this Plan. The adoption of this Plan shall not be construed as creating any limitations on the power of the Board or Committee to adopt such other compensation arrangements as it may deem desirable for any Participant.

Section 21.15. No Constraint on Corporate Action. Nothing in this Plan shall be construed to: (a) limit, impair, or otherwise affect the Company's or a Subsidiary's or an Affiliate's right or power to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets; or (b) limit the right or power of the Company or a Subsidiary or an Affiliate to take any action which such entity deems to be necessary or appropriate.

Section 21.16. Governing Law. The Plan and each Award Agreement shall be governed by the laws of the state of Ohio, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Plan to the substantive law of another jurisdiction. Unless otherwise provided in the Award Agreement, recipients of an Award under this Plan are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of Ohio, to resolve any and all issues that may arise out of or relate to this Plan or any related Award Agreement.

Section 21.17. Indemnification. (a) Subject to requirements and limitations of applicable law, each individual who is or shall have been a member of the Board, or a Committee appointed by the Board, or an officer of the Company, a Subsidiary, or an Affiliate to whom authority was delegated in accordance with Article 3, shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him in connection with or resulting from any claim, action, suit, or proceeding to which he may be a party or in which he may be involved by reason of any action taken or failure to act under this Plan and against and from any and all amounts paid by him in settlement thereof, with the Company's approval, or paid by him in satisfaction of any judgment in any such action, suit, or proceeding against him, provided he shall give the Company an opportunity, at its own expense, to handle and defend the same before he undertakes to handle and defend it on his own behalf, unless such loss, cost, liability, or expense is a result of his own willful misconduct or except as expressly provided by statute.

(b) The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such individuals may be entitled under the Company's Articles of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

Section 21.18. No Guarantee of Favorable Tax Treatment.

Notwithstanding any provision of the Plan to the contrary or any action taken by the Company, Subsidiaries, or the Board with respect to any income tax, social insurance, payroll tax, or other tax, the acceptance of an Award under the Plan represents the Participant's acknowledgement that the ultimate liability for any tax owed by the Participant is and remains the Participant's responsibility, and that the Company makes no representations or warranties about the tax treatment of any Award, and does not commit to structure any aspect of the Award to reduce or eliminate a Participant's tax liability, including without limitation, Code Section 409A.

American Electric Power Annual Incentive Compensation Plan

Introduction

The objectives of AEP's Annual Incentive Compensation Plan (the Plan) are to:

- Attract, retain, engage and motivate employees to further the objectives of the company, its customers and the communities it serves;
- Enable high performance by communicating and aligning employee efforts with the Plan's performance objectives; and
- Foster the creation of sustainable shareholder value through achievement of AEP's goals.

2016 Overview

For 2016 the Executive Council, each Operating Company, Customer and Distribution Services (C&DS), Regulated Generation, Competitive Generation, Transmission, Nuclear Generation, and Energy Supply (non-generation), have an annual incentive compensation plan (ICP) with separate goals. All staff groups participate in the ICP program based on the funding measures described below and do not have separate function level incentive goals. As a result, the overall score for all staff groups will be the average overall score¹ for all of the Business Units and Operating Companies, except to the extent that the overall score for one or more Business Units or Operating Companies is capped at the 200% of target maximum score. The staff groups that share the funding measure score are Audit, Executive Administration, Regulatory Services, Safety and Health, Aviation and Security, Infrastructure and Business Continuity, Environmental Services and all employees reporting to the Chief Administrative Officer, the Chief Financial Officer and the General Counsel.

The Plan provides annual incentive compensation to motivate and reward employees based on AEP's performance, business unit performance (if applicable) and, for employees whose payout is discretionary, their individual performance. Annual incentive funding for all plans is tied to AEP's Operating Earnings per Share (75% weight), safety (10% weight) and strategic initiatives (15% weight).

Linking annual incentive compensation to AEP's earnings aligns it with the value created for AEP's shareholders and ensures that AEP meets its shareholder commitments before setting aside dollars for employee rewards. Relative individual performance is reflected in managers' discretionary allocations from their award pool for all employees in positions in the new 20 grade salary plan (SP20) and all employees in positions in the exempt, administrative, technical, customer solutions center and non-exempt supervisory salary plans. Group or team performance may also be reflected through discretionary adjustments in the allocation of funding from the annual incentive pool at higher organizational levels.

¹ Weighted by the aggregate target award for all employees in each group

Each ICP has separate strategic and operational performance measures that provide a balanced scorecard of financial, customer experience, employee experience (includes safety) and other (includes environmental and compliance) objectives. The Plan is intended to drive the achievement of these objectives by clearly communicating them, conveying their importance, aligning employee efforts toward their achievement and further motivating employees to achieve them. This balanced scorecard encourages the achievement of all types of objectives, rather than the achievement of some objectives, such as earnings, at the expense of others, such as customer service, reliability safety or compliance.

Performance measures are selected, whenever practical, to provide a “line of sight” that enables employees to see how the work they perform affects annual incentive awards. Objective and quantifiable performance measures are used whenever they are available but the Plan also includes subjective assessments of performance in less quantifiable areas and for individual performance assessments.

Safety remains the first priority irrespective of the ICP goals and other objectives the Company establishes. To help ensure that all employees have a personal stake in maintaining safe work practices, particularly those that could prevent severe accidents, a company-wide Fatality Measure is included in the Plan with a 2.5% weight. The score for this measure will be 0% for 2016 due to the fatal employee incident that occurred in early 2016. The Fatality Measure serves as a constant reminder to work safely at all times and recognizes all employees for working a full year without a fatal work related employee incident. A target score (100%) requires the calendar year to be completed without a fatal work related employee incident, while a 200% score requires two or more calendar years to be completed without such an incident.

Operating Performance Measures and Weights

The specific performance measures vary by business unit. The score for each operating unit performance objective may range from 0% to 200% of target for that component.

Refer to Appendix A

2016 Funding Measures

The 2016 funding measures were established by the HR Committee of the Board early in the year. The maximum funding available for 2016 is 200% of target funding². As in past years, the CEO and HR Committee of the Board have discretion to adjust annual incentive funding. All incentive plan funding is contingent on AEP achieving operating earnings of at least \$3.65 per share for 2016.

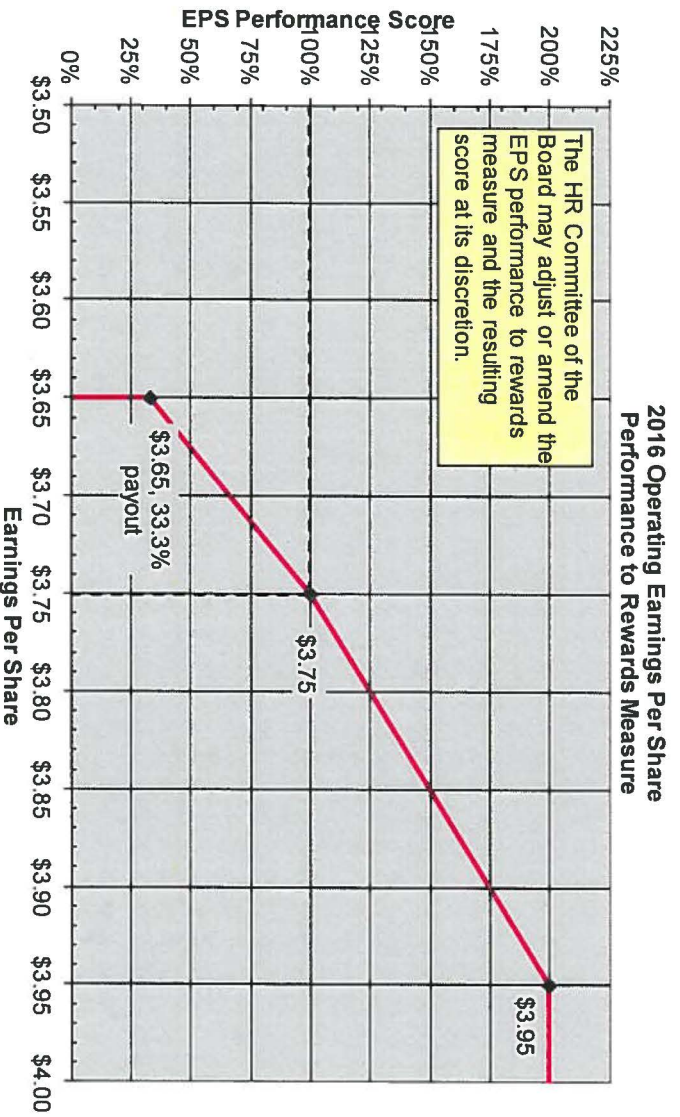
Operating Earnings per Share – 75%

AEP is committed to generating sustainable value for its shareholders through its earnings and growth. Therefore 75% of annual incentive funding is tied to AEP's Operating Earnings per

² Given the fatal employee incident, the maximum potential funding score for 2016 is 195% of target.

Share. This ensures that funding is commensurate with the Company's operating earnings and the extent to which the company can afford to pay annual incentive compensation while also serving the interests of its shareholders, customers and other stakeholders. It also:

- Further aligns the financial interests of all AEP employees with those of AEP's shareholders;
- Ensures that adequate earnings are generated for AEP's shareholders and continued investment in AEP's business before employees are rewarded with annual incentive compensation; and
- Aligns employee interests with those of regulated and other customers by strongly encouraging expense discipline.



Safety—10% Weight

AEP is undertaking a long-term, 5-year effort to transform our safety culture from “Good to Great”. To accomplish this we will be transforming our approach to safety and building the systems and culture needed to support and sustain world-class safety performance. This includes building a proactive safety culture based on proactive measures and continuous improvement.

For 2016 the employee and contractor recordable case rate ICP measures, as well as the incident severity rate measure, will be replaced with DART rate improvement to focus our attention on incidents with potentially serious consequences. DART stand for Days Away, Restricted or job Transfer and is an industry accepted measure that allows companies to focus on more serious events.

DART Rate Improvement for Employees and Contractors (7.5% weight)

- DART Rate = (Total Number of DART incidents x 200,000) ÷ Total Hours Worked
 - Threshold (0% payout) – 0% improvement vs. three-year average

- Target (100% payout) – 10% Improvement vs. three-year average
- Maximum (200% payout) – 20% Improvement vs. three-year average

Fatality Measure (2.5% weight)

- 0% payout – Any fatal work related employee incident
- 100% payout – No fatal work related employee incident
- 200% payout – No fatal work related employee incident for at least two (2) years

At the business unit and Operating Company level we will also be establishing more proactive measures,

2016 Strategic Initiatives (15% weight)

There are three areas of focus for AEP’s 2016 strategic initiatives, which reflect the major areas on which AEP needs to make progress in order to enable our future success:

- Business Transformation
- Customer Experience
- Culture and Employee Engagement

Each of these focus areas includes several performance measures (shown in the table below) that reflect some of the many transformative initiatives the company is undertaking.

2016 Strategic Initiatives		Weight
<u>Business Transformation</u>		6%
Competitive Business Assessment of Non-PPA Plants		2%
AEP OnSite Partners and AEP Renewables Start-ups		2%
Transmission Business Expansion		2%
<u>Customer Experience</u>		5%
Quality of Service: SAIDI		2%
Quality of Service: J.D. Power Residential Overall Customer Satisfaction Index		2%
Network Remediation		1%
<u>Culture & Employee Engagement</u>		4%
Power Up & Lead		1%
Gallup Pulse Survey		1%
Diversity		1%
Lean Management Sustainability		1%
Total Strategic Initiative Weight		15%

Business Transformation (6% total weight)

Competitive Business Assessment for Non-PPA Plants (2% weight)

- Conclude strategic review process for non-PPA generation units by the end of 2016 to achieve the strategic goal of reducing exposure to unregulated generation (2% weight)
 - Threshold (0% payout) – if the strategic review is not completed and no

- recommendation is made to the Board to retain or sell the assets
- Target (100% payout) – if bids are solicited and firm, and either:
 - Valuation results in a recommendation to retain these assets; OR
 - The strategic process results in a signed contract for the sale of these assets
 - Maximum (200% payout) – The strategic process results in a signed contract for the sale of these assets and a plan for the use of proceeds is completed and approved by the Board

AEP OnSite Partners and AEP Renewables Start-ups (2% weight)

- Enable start-up of AEP OnSite Partners and AEP Renewables by successfully building and starting-up initial projects (substation, solar, etc.), closing the talent gap through recruiting and training and preparing entities for Clean Power Plan (CPP) opportunities
 - Threshold (0% payout) – no progress made or failure to execute projects currently under way
 - Target (100% payout) – modest backlog of \$20M in the letter of intent (LOI) phase projects
 - Maximum (200% payout) – significant backlog of projects developed with a minimum of \$50M in LOI phase

Transmission Business Expansion (2% weight)

- Achieve AEP Transmission Holdco business expansion by capturing long-term capex investment opportunities³ through a portfolio of activities, including:
 - Approval and identification of projects through Tennessee Transco and Telecom fiber build out through Transcos
 - RTO awarded projects to Transource
 - Direct investment in, or licensing fees received by BOLD Transmission, LLC
 - Threshold (0% payout) – \$100M
 - Target (100% payout) – \$200M
 - Maximum (200% payout) – \$300M

Customer Experience (5% total weight)

Quality of Service - SAIDI (System Average Interruption Duration Index) – (2% Weight)

- SAIDI represents the total number of minutes the average customer has experienced interruption over a 12 month time period excluding major events. Major event exclusions and targets vary by Operating Company or jurisdiction due to PUC preference and regional differences.
 - OpCo Thresholds (0% payout) – 80% of target or 75% of target for KY Power due to historic volatility
 - OpCo Targets (100% payout) – Regulatory targets where applicable or a 10 year glide path to the regional peer group average or, if the average has already been achieved, maintain this average

³ Capex captured in 2016 for investment in 2016 and future years

- OpCo Maximums (200% payout) – 120% of target or 125% of target for KY Power due to historic volatility
- Overall AEP performance will be determined based on a customer weighted average of Operating Company performance scores

Quality of Service - J.D. Power and Associates (JDDPA) Residential Overall Customer Satisfaction Index (CSI) – (2% Weight)

- The overall CSI represents the aggregate score of numerous questions included in JDDPA's annual residential customer satisfaction study. Operating Company⁴ ICP measures and targets are based on the four waves of the study conducted during the calendar year, not JDDPA's survey publication timeline.
 - OpCo Thresholds (0% payout) – Current performance
 - OpCo Targets (100% payout) – Improve performance on pace with peer group improvement trend (1.5% - 2.4% depending on the OpCo)
 - OpCo Maximums (200% payout) – the higher of 3% improvement or a 3-year trajectory to achieve the regional peer average
 - Overall AEP performance will be determined based on a customer weighted average of Operating Company performance scores

Network Remediation (1% weight)

- Achieve the 2016 baseline replacement schedule, which is 32% of total 5 year plan.
 - 0% – (75% of target) 286,931 circuit feet replaced (primary and secondary)
 - 100% – (100% of target) 382,575 circuit feet replaced (primary and secondary)
 - 200% – (125% of target) 478,218 circuit feet replaced (primary and secondary)

Culture & Employee Engagement (4% total weight)

Gallup Pulse Survey (1% weight)

- Achieve year over year improvement in our culture and engagement as demonstrated by Gallup Survey Results (Overall Company* Grand Mean). The 2016 survey will be conducted as a pulse survey, meaning that a sample of the population will be invited to participate in the survey, not all employees. AEP's 2015 Grand Mean score of 3.96 was at the 39th percentile.⁵
 - Thresholds (0% payout) - 0.07 improvement, which would bring AEP's scores to approximately the survey median
 - A score increase of 0.07 is the average improvement seen from the second to third year of participation in the Gallup survey
 - Target (100% payout) - 0.10 improvement
 - Maximum (200% payout) - 0.20 improvement

Diversity (1% weight)

- AEP's diversity goal is to increase the representation of women and minorities to

⁴ Excludes AEP Texas because Texas is a full choice retail state and AEP does not bill customers directly, which reduces customer interaction.

⁵ This reflects AEP in total but businesses under strategic review (AEP Energy Partners, AEP Energy, Gavin Plant, Lawrenceburg Plant, Waterford Plant and Darby Plant) will be excluded from both target and actual results.

- ultimately achieve parity between internal representation and external availability for all AEP positions. To achieve this goal AEP will need to improve hiring rates for women and minorities for all open positions and take steps to reduce attrition from these groups.
- The diversity measure is based on an employee weighted average of female and minority representation rates for all Equal Employment Opportunity (EEO) categories, except Officials and Managers, which are double weighted, with threshold, target and maximum levels that are no lower than current representation rates
 - Threshold (0% payout): AEP's current representation rates + placement at 80% of the hiring availability⁶ rates for the positions AEP expects to recruit - attrition at AEP's current representation rates
 - Target (100% payout): AEP's current representation rates + placement at 100% of the hiring availability rates for the positions AEP expects to recruit - attrition at AEP's current representation rates
 - Maximum (200% payout): AEP's current representation rates + placement at 120% of the hiring availability rates for the positions AEP expects to recruit - attrition at AEP's current representation rates

Power Up and Lead (1% weight)

- Support our overall culture improvement efforts through Power up & Lead. This objective will be measured by the number of employees that participate in Power up & Lead workshops in 2016.
 - Threshold (0% payout) - 3,900 participants
 - Target (100% payout) - 5,200 participants
 - Maximum (200% payout) - 6,500 participants

Phase 1 Lean Management System (LMS) Deployment (1% weight)

- Continue the emphasis on Lean in both pilot and non-pilot areas.
- Pilot areas include:
 - Development of a Change Management and Communication strategy
 - Development of a plan to align people systems and technology with lean strategy to enable continuous improvement
 - Utilization of lean tools, visual management, standard work, lean leader standard work (defining what a leader does on a daily, weekly, monthly basis to enable problem solving at all levels of the organization), and creating accountability
- Non-pilot areas include implementation of basic lean leader standard work and solidify understanding of lean concepts, tools, and metrics
- Threshold (0% payout) - 1 pilot area⁷ and 30 non-pilot areas complete
- Target (100% payout) - 3 pilot areas and 40 non-pilot areas complete
- Maximum (200% payout) - 3 pilot areas and 50 non-pilot areas complete plus pilots initiated in 3 other areas

⁶ Hiring availability is the weighted internal and external availability for the historical mix of internal and external candidates selected for each opportunity. External availability is based on census data for the local, regional or national area from which AEP expects to select for each position. Internal availability is based on AEP's representation rates for the internal positions from which AEP historically recruits for each opportunity.

⁷ Areas are generation plants, transmission areas, distribution districts, and other groups

Modifier

The Modifier is a normalizing function that allocates the available funding to each business unit and operating company based on the group's relative performance score. After the modifier is applied, the weighted average overall final score for all groups, before the overall 200% maximum is applied, is equal to the funding score. This insures that the sum of all awards equals the funding available based on the funding scores.

The modifier is calculated as the Weighted Average Funding Score, divided by the Average Operating Performance Score (AOPS)⁸ for all incentive plans as shown below:

$$\frac{\text{Weighted Avg. Funding Score}}{\text{AOPS}} = \text{Modifier}$$

CEO Performance Adjustment

The CEO Adjustment may be used to increase or decrease the Overall Score⁹ for the Plan to the extent that the CEO or Plan Compensation Committee determines that the Overall Score does not appropriately reflect the group's performance for the year. Such adjustments may be used to capture those aspects of a group's performance that are difficult to quantify or that were not adequately included in the performance measures established at the beginning of the year. For example, the CEO Performance Adjustment might be used to reward a group for successfully completing an important project that was not anticipated at the time the ICP goals were established.

Individual Performance Factor

Management determines individual awards for all employees in positions in the new SP20 salary plan as well as those in exempt, nonexempt supervisor, administrative, technical, and customer solutions center salary plan positions. These determinations are based on an assessment of each employee's relative individual performance, the value of their contribution to AEP, business unit, department and individual goals and other business factors, potentially including recent and pending employment changes. The Individual Performance Factor has a lower limit of 0% and no upper limit. However, the approval of a member of the Executive Council is required for individual awards in excess of a participant's maximum award opportunity (see the Target and Maximum Awards section below). In addition managers cannot exceed their award pool.

In determining Individual Performance Factors, managers are expected to assess employee performance and contribution relative to other employees in the same position and the performance expectations for that position, to avoid a bias in favor of positions at both higher and lower reporting and grade levels in the organization.

⁸ AOPS is the average of the Composite Scores for all incentive groups weighted by the aggregate target incentive award for all participants in each incentive group (see attached scorecard for an example).

⁹ See Sample Scorecard for the definition and an example of the calculation of the Overall Score.

Eligible Earnings

ICP Eligible Earnings include the following:

1. Regular Earnings – Straight Rate
2. Paid Vacation
3. Paid Holidays
4. Paid Personal Days Off
5. Sick Pay (Non-occupational & Occupational)
6. Paid Jury Duty
7. Paid Death in Family
8. Paid Rest Period
9. Inclement Weather Pay
10. Lump Sum Merit Increase
11. Lump Sum General Increase
12. Grievance Settlement for Wages
13. Overtime – Nonexempt and Exempt
14. Shift Premium
15. Sunday Premium
16. Military Pay
17. Trip Pay (River)

Earnings not classified as one of the above types in AEP's payroll system are not considered for award calculation purposes.

Target and Maximum Award Opportunity

A participant's target award percent is based on the salary grade for his/her position as of the **last day of the last full pay period of the year**, as shown in the chart below, except as discussed below for employees in positions at or above SP20 salary plan grade 12 or EXEM salary plan grade 30 who change jobs during the year:

Salary Plan	New Grade Structure	
	Grade	Target %*
SP20 (includes non-exempt administrative, technical and non-exempt supervisor positions moved to the new SP20 grade structure)	1	5%
	2	5%
	3	5%
	4	6%
	5	8%
	6	9%
	7	10%
	8	10%
	9	15%
	10	20%
	11	25%
	12	30%
	13	35%

New Grade Structure		
Salary Plan	Grade	Target %*
	14	40%
	15	45%
	16	50%
	17	55%
	18	60%
	19	80%
	20 (CEO)	125%

* As a percent of eligible earnings.

Old Grade Structures		
Salary Plan	Grade	Target %*
NESU (nonexempt supervisors)	05N	7%
All nonexempt salary structures and wage schedules except SP20 and NESU	All grades	5%
	1 - 6	5%
	7 - 12	7%
	13 - 20	10%
	21 - 24	15%
	25 - 26	17%
	27	20%
	28	22%
	29	25%
	30 - 32	27%
	33	30%
	34-35	35%
	36	40%
	38	45%
	40	50%

* As a percent of eligible earnings.

A participant's maximum individual award percent is the greater of two times his or her target award percent or the Overall Score for the Plan plus 50% of the target score. This feature enables managers to positively differentiate awards by up to 50% of an employee's target award to reflect strong individual employee performance even if the Overall Score for the Plan is between 150% and the 200% of target maximum score. A participant's target and maximum award opportunity is their target or maximum award percent multiplied by their eligible earnings. The approval of a member of AEP's Executive Council in the participant's chain of command is

required for awards in excess of a participant's maximum award opportunity.

The award opportunity for employees in SP20 salary plan grade 12 or EXEM salary plan grade 30 and higher positions at any point during the plan year who change jobs during the Plan Year will be prorated and calculated as the total of the independently calculated award opportunities for each position held during the Plan Year, including the earnings, target award percent, and Overall Score for each such position. This calculation will be performed as shown in the example below:

$$\begin{aligned} \text{Position 1: Earnings} & * \text{Target Award \%} * \text{Overall Score} = \$ \text{Pos 1} \\ \text{Position 2: Earnings} & * \text{Target Award \%} * \text{Overall Score} = \$ \text{Pos 2} \\ \text{Position 3: Earnings} & * \text{Target Award \%} * \text{Overall Score} = \$ \text{Pos 3} \\ & = \text{Total Award Opportunity} \end{aligned}$$

The target awards for employees in positions below salary grade 30 for the entire Plan Year will be calculated based on the target percent and Overall Score for the position held as of the last day of the last full pay period of the Plan Year.

Award Calculation

Because the Plan includes several discretionary factors, attainment of performance objectives does not guarantee the payment of awards. An award pool will be calculated for each group based on the scores for each performance measure as soon as practical after the conclusion of the Plan Year. The final score for each performance objective is rounded to three decimal places.

The Modifier is computed as follows:

- AEP's funding measures are compared to their performance targets to determine their performance scores, which are rounded to three decimal places (e.g., 105.5% or 1.055). The Weighted Average Score is then calculated based on the weight assigned to each funding measure.
- The Average Operating Performance Score (AOPS) is the average of the Composite Scores for all annual incentive plans (each of which is rounded to three decimal places) weighted by the sum of the incentive targets for all participants in each plan. AOPS is then rounded to three decimal places (e.g., 125.7% or 1.257).
- The Modifier is the Weighted Average Score for the Funding Measures divided by AOPS, the result of which is rounded to three decimal places (e.g., 1.055 / 1.257 = .839)

Board Policy on Recouping Executive Compensation from LTIP Participants

This policy applies to employees who participate in the Company's Long Term Incentive Compensation Plan (LTIP) and relates to incentive compensation paid or payable to such employees, whether under the LTIP, this Plan, or otherwise.

The Board of Directors believes that incentive compensation provided by the Company should be reimbursed to the Company if, in the Board's determination:

- Such incentive compensation was predicated upon the achievement of financial or other results that were subsequently materially restated or corrected,

- The employee from whom such reimbursement is sought engaged in misconduct that caused or partially caused the need for the restatement or correction, and
- A lower payment would have been made to the employee based upon the restated or corrected financial results.

Therefore, if and to the extent that, in the Board's view, the above conditions have been met and such reimbursement is warranted by the facts and circumstances of the particular case or if the applicable legal requirements impose more stringent requirements on AEP to obtain reimbursement of such compensation, then you will be required to reimburse AEP for the value of such compensation paid to you. AEP also may retain any deferred compensation previously credited to you and not paid, provided that AEP will retain such deferred compensation only if, when and to the extent that it otherwise becomes payable to you.

This right to reimbursement is in addition to, and not in substitution for, any and all other rights AEP might have to pursue reimbursement or such other remedies against an employee for misconduct in the course of employment by AEP or otherwise based on applicable legal considerations, all of which are expressly retained by AEP.

Administration

Plan Compensation Committee

The Plan is administered by the HR Committee of the Board of Directors with respect to executives in the HR Committee Review Group and a Plan Compensation Committee consisting of AEP's CEO, COO, CFO, General Counsel, Chief Administrative Officer and Top Human Resources officer with respect to all other employees, in either case ("the Committee"). The CEO of American Electric Power Company, Inc. may change the composition and number of members of the Plan Compensation Committee at any time for any reason. The Committee may delegate day-to-day authority to administer the Plan, as they deem appropriate. In lieu of an official meeting, the Committee may act by written or electronic consent of a majority of its members. The Committee's interpretations of the Plan provisions are conclusive and binding on all Participants.

The Committee has sole authority to amend or terminate the Plan and may do so at any time, for any reason, either with or without notice. The Committee may adopt, delete, modify or adjust performance objectives, metrics and weights at any time, including after the conclusion of a Plan Year, should the Committee determine that changes in AEP's structure or other significant business situations would produce Overall Scores or awards for a Plan Year that are not reflective of the underlying economics and profitability of the business. The Committee may also modify the eligibility criteria for the Plan, add or delete individual participants or groups of participants and adjust any or all award payouts.

Executive Council members with management responsibility for a business unit or staff function served by the Plan have the authority to increase or decrease the award pool for any group under their purview, provided that such adjustments do not increase the total of all award pools under their purview.

Plan Year

A "Plan Year" begins on January 1st and ends on December 31st of each year for which the Plan is in effect.

Participation

All full-time and regular part-time AEP employees who are actively employed during the Plan Year will be "Participants" in the Plan for such Plan Year except:

1. Employees participating in any other **annual** AEP incentive plan,
2. Employees participating in any other plan or agreement that explicitly excludes their participation in the Plan or annual incentive compensation plans in general,
3. Employees represented by unions that decline the opportunity to participate in the Plan or all similar incentive plans,
4. Temporary employees and contract workers, and
5. Employees hired by AEP on or after December 1 of such Plan Year.

Participation in an incentive compensation plan in any Plan Year shall not confer any right to continued employment or to continued participation in the Plan for any subsequent Plan Year.

Participant Responsibility

Plan Participants are expected to comply with all applicable Company policies and directives as well as all applicable laws and regulations. Failure to do so may have many serious consequences, including but not limited to forfeiture of Plan eligibility in the current and future Plan Years.

Award Eligibility

Participants must be **actively** employed on the last day of such Plan Year to be eligible to receive an award for that Plan Year, except as otherwise noted below.

If a Participant transfers during the Plan Year to a position that is ineligible to participate in the Plan, then such Participant will be ineligible to receive an award for such Plan Year from the Plan, unless the participant was a salary grade 30 or higher employee during the Plan Year as specified in the "Target and Maximum Award Opportunity" section above.

If a participant is on Leave of Absence status as of the last day of the Plan Year, the Participant will be eligible to receive an award for the Plan Year to the extent that they have eligible earnings for the Plan Year.

Employees who become inactive during the Plan Year due to participation in an AEP long-term disability plan will be eligible to receive an award for that Plan Year to the extent that they have eligible earnings for the Plan Year, although long-term disability benefits are not ICP eligible earnings.

Participants forfeit their incentive plan eligibility if they are discharged for cause or resign in lieu of being "discharged for cause" at any time prior to the award payment date, unless the Plan Compensation Committee approves an award payment to such employee.

Satisfaction of eligibility criteria does not guarantee the payment of any awards.

Termination Due to Death or Retirement

Participants remain **eligible** for an award, based on their eligible earnings for a Plan Year, if their employment with AEP is terminated during the Plan Year due to their death or retirement. In the event of a Participant's death, any award to which they would otherwise be entitled will become payable to the Participant's estate. For the purposes of the Plan, "retirement" is defined as termination of employment for any reason other than for cause or as part of a voluntary or involuntary severance or layoff, after the Participant attains at least age 55 and five years of AEP service.

Termination Due to Voluntary and Involuntary Severance and Layoffs

Due to the severe financial constraints that generally give rise to the need for employee severances and layoffs, Participants with both discretionary and non-discretionary award opportunities are **ineligible** for an award if they would have a separation from service with AEP during the Plan Year as part of a voluntary or involuntary severance program or a layoff as defined under a collective bargaining agreement or the Supplemental Handbook and they are not rehired during the Plan Year. Severed employees are ineligible for an award even if, in connection with their severance, they are (a) placed on a Leave of Absence or (b) offered, but fail to meet the qualifications to be paid a severance benefit (e.g., if they would fail to timely sign and return, a Severance and Release of All Claims Agreement). In the event a severed employee is rehired during the Plan Year, such Participant will be eligible for an award only to the extent of their earnings for the period after they were rehired.

Resignations after the Plan Year

Participants who are **actively** employed on the last day of a Plan Year but who subsequently voluntarily resign their employment remain eligible for an award. However, for discretionary participants, their actual or pending voluntary resignation is a business factor that management may consider in determining their award payment, if any.

Award Payment

Award payment will be made within 2-1/2 months after the end of the year or as soon as practical thereafter if it is impractical, either administratively or economically, to make payments within this time period.

The Plan is hereby approved by:


Lisa M. Barton

Date: 9/25/14

EVP Transmission

Appendix



2016 ICP Plan



2016 Transmission ICP Plan

Changes/Additions from 2015 Plan:

- Safety & Culture Excellence: weighting increased to 35%; “Days Away, Restrictions and Transfers” or DART rate for employees and contractors replaces severity and recordable rates; Field Observations and Visits will continue; the Culture component will focus on completion of culture action plans and the completion of Power-Up & Lead training.
- Build Infrastructure: replaces Financial category and is weighted at 45%; includes AEPTHC Earnings, Transco & OPCO Plant in Service and Strategic Initiatives with a focus on the growth of the Transmission business.
- Customer Experience: replaces Operational & Strategic Initiatives; weighted at 20%; includes SAIDI Targets and pro-active work plan, Customer Outreach efforts and strategic initiatives



Draft 2016 Transmission ICP Plan

Safety & Culture 35%

Safety	Dart Rate	10%	0.0 = 0.64 1.0 = 0.58 2.0 = 0.51
	Standard Industry Safety Metric		
	Proactive Safety Measures	20%	Various - Scoring based on achievement of milestones
Culture	Culture Action Plans	2.5%	0.0 = 80% 1.0 = 90% 2.0 = 100%
	Performance based on the number of leaders with Culture Action Plans in response to the Gallup survey		
	Power Up & Lead	2.5%	0.0 = 500 1.0 = 560 2.0 = 600
Subtotal - Safety & Culture		35%	

Build Infrastructure 45%

AEP/THC Earnings	Aligned with corporate targets	20%	0.0 = \$205M 1.0 = \$220M 2.0 = \$230M
Transco & OpCo Plant in Service	Plant in service targets for Transco and Operating companies	15%	0.0 = \$2.0B 1.0 = \$2.2B 2.0 = \$2.3B
Strategic Initiatives	Transmission business expansion goals	10%	0.0 = \$100M 1.0 = \$200M 2.0 = \$300M
Subtotal - Build Infrastructure		45%	



Draft 2016 Transmission ICP Plan

Customer Experience 20%

Customer Reliability	Performance based on the achievement of operating company SAIDI Targets and completion of pro-active work plans	5.0%	0.0 = 40.3 1.0 = 33.6 2.0 = 26.9
Customer Outreach and Relationship Management	Identification of top-tier customers, determination of their service requirements (including worst performing circuits) and resulting work/mitigation plans	5.0%	Scoring based on achievement of milestones
Env. Compliance	Performance based on limiting Environmental enforcement action by a state agency	2.0%	0.0 >= 4 Violations 1.0 <= 2 Violations 2.0 = 0 Violations
NERC Compliance	Performance based on the self-reporting of potential compliance issues and adhering to NERC reliability standards	2.0%	0.0 <85% Internally Found 1.0 = <85% Internally Found 2.0 = 100% Internally Found
Emergency Resp. / ICS	Performance based on assisting Infrastructure & Business Continuity (I&BC) group in developing, testing, and implementing AEP's Emergency Response Plan and Incident Command Center.	1.0%	Scoring based on achievement of milestones
Strategic Initiatives	Project Scoping & Execution TOMSS	5.0%	Scoring based on achievement of milestones
Subtotal - Customer Experience		20%	
TOTAL - ALL ICP SECTIONS		100%	

2016 Plan Details

Safety & Culture – 35%

1) Safety – 30%

- a. DART Rate for both Employees and Contractors (10%)
 - i. DART Rate = (Total Number of DART incidents x 200,000) / Total Hours Worked. No improvement = 0.0; 15% = 1.0; 30% = 2.0
- b. Proactive Performance Metrics: Proactive initiatives aimed at improving long term safety performance.
 - i. Quality Assurance on Job Site Observations – 5%
 - ii. Identify and address top five high risk activities – 5%
 - iii. Good Catch – Increase the number and quality “Good Catch” (Near Miss) reporting – 5%
 - iv. Site Inspection Program – Review material yards, substations, generating plants, warehouses, office buildings; inspect, prioritize and develop mitigation plans-5%

2) Culture – 5%

- a. Culture Action Plans – 2.5%
 - i. Action plans based on 2015 AEP Culture Survey (Gallup Survey) results will be developed through peer-to-peer and work team discussions
 - ii. Performance timeframe: Leaders upload one “impact plan” in the system by 04/08/16; 2.0 = Leaders upload two or more “impact plans” in the system by 04/08/16. Leaders shall update these plans at least once by 12/31/2016
 - iii. Targets:

Culture Action Plans	0.0	1.0	2.0
Percent Leaders with Impact Plans and updated 1 time during 2016	<80%	>= 90%	=100%

Safety & Culture – 35%

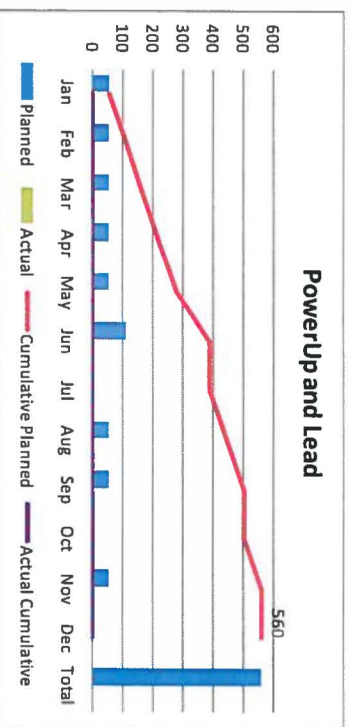
- a. Power Up and Lead – 2.5%
 - i. Power up & lead is part of AEP's Culture Shaping Initiative designed to help us be even more effective at living our values and getting even better results. The workshop increases effectiveness at the individual level, improves team performance, and helps employees work together across the organization.

ii. Targets:

PowerUp and Lead	0.0	1.0	2.0
Year-end target of training FTEs in 2016	560	<500	>=560
			>=600

iii. Execution Timeframe:

PowerUp and Lead		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Planned		56	56	56	56	56	112	0	56	56	0	56	0	560
Cumulative Planned		56	112	168	224	280	392	392	448	504	504	560	560	560
Actual		0	0	0	0	0	0	0	0	0	0	0	0	0
Actual Cumulative		0	0	0	0	0	0	0	0	0	0	0	0	0



Build Infrastructure – 45%

1) AEPTHC Earnings – 20%

- a. Current projected earnings for AEPTHC are \$212M or .43 per share, a 10% increase over 2015 earnings
- b. Targets:

Build Infrastructure Category	0.0	1.0	2.0
AEPTHC Earnings (\$M)	\$205M	\$220M	\$230M

2) Transco & OpCo Plant in Service – 15%

- a. The total PIS target for Transco's and OpCo's for 2016 is **\$2.2B**, evenly split between Transco & Opco
- b. Targets:

Build Infrastructure Category	0.0	1.0	2.0
Transco / OpCo Plant in Service (\$M)	\$2,000M	\$2,250M	\$2,300M

3) Transmission Business Expansion – 10%

- a. Objective: Achieve AEP Transmission Holdco business expansion by capturing long-term capex investment opportunities through a portfolio of activities.
- b. Goals: Approval and identification of projects through Tennessee Transco and Telecom fiber build out through Transcos
 - i. Tennessee Transco Sub Goals:
 - Evaluate options for Transmission projects in Tennessee to built by existing or a new Transco
 - Perform a legal and regulatory analysis and make necessary State and FEREC regulatory filing to effectuate a Transco for projects in Tennessee
 - Obtain the necessary regulatory approvals
 - Secure internal CI approval for projects in Tennessee

Build Infrastructure – 45%

- ii. Telecom
 - Perform a legal accounting and regulatory analysis to classify the Telecom build out as Transmission assets
 - Develop guidelines to the extend the existing Projects selection Guidelines to enable them to classify these investments as Transco
 - Submit and Secure internal CI approval for projects in Tennessee
- b. RTO awarded projects to Transource
 - i. Submit bids for various competitive projects in PJM, MISO and SPP
 - ii. Secure competitive projects from RTO's through the various competitive processes
- c. Direct investment in, or licensing fees received by BOLD
- d. Targets:

Build Infrastructure Category	0.0	1.0	2.0
Transmission Business Expansion (\$M)	\$100M	\$200M	\$300M

*Capex captured in 2016 for investment in 2016 and future years

Customer Experience – 20%

1) Customer Reliability – 5%

- a. Customer Reliability initiatives include the development and execution of work plans (Proactive SAIDI Improvement Activities – 2.5%) and hard SAIDI targets (2.5%)
- b. Development of work plans and targets will be a cooperative effort between the operating companies and Transmission
 - i. Performance considerations: Funding, certain outage cancellations, change in design or strategy
- c. Targets:

Proactive SAIDI Improvement Activities	0.0	1.0	2.0
Completion rate of proactive initiatives	Completion of less than 50% of proactive reliability-driven projects by December 31.	Completion of 75% of proactive reliability-driven projects by December 31.	Completion of 100% of proactive reliability-driven projects by December 31.

ICP Score	0.00	1.00	2.00
(50%) Number of Animal Mitigation Fences installed per Operating Company	2	3	4
(50%) Number of arresters replaced on Transformers per operating company			
APCO	55	83	110
I&M	27	41	54
KYP	0	0	0
AEP Ohio	58	86	115
PSO	49	74	98
SWEPCo	48	72	96
TX	30	45	60
Total	267	400	533

TMIM not funded

Customer Experience – 20%

d. Targets:

SAIDI	0.0	1.0	2.0	
T-SAIDI	AEP Total	40.3	33.6	26.9

2) Outreach and Relationship Management – 5%

- a. Identification of worst performing circuits per operating company using a variety of metrics such as TSAIDI, TSAIFI, CMI, SAIDI, and TMAIFI.
- b. Development of related mitigation plans to address worst performers. Operating companies, wholesale and large retail customers will be engaged in the development of mitigation plans. Target and scoring will be based on the achievement of milestones related to the analysis and identification of worst performing circuits and the development of related mitigation plans.
- c. Muni / Co-op / Large Industrials - Transmission will hold meetings with wholesale and large industrial customers that are served directly from Transmission to determine reliability and service concerns. The meetings will be used to discuss plans to address customer concerns, and identify mitigation plans, as warranted.

Customer Experience – 20%

d. Targets:

Goal	Relative Weight (5%)	0.0	1.0	2.0
Identify worst performing circuits by operating company and discuss with operating company and distribution organizations	33%	Identification of top 10 worst performing facilities by customer	Identification of top 10 worst performing facilities for each customer that require capital mitigation	Identification of ownership for worst performing facilities that require O&M or capital mitigations
Development of mitigation plans to address worst performers	33%	Identify mitigation plans for top 10 worst performing facilities in collaboration with operating companies and distribution organizations	Move mitigation plans to Gate 0.5	Move mitigation plans to Gate 1.0
Meetings with identified whole sale and major retail customers	34%	Meetings not held with at least 80% of identified customers	Meetings held with at least 80% of customers, but not all mitigation plans developed	Discussion of mitigation plans with all identified whole sale and major retail customers

2) Environmental Compliance – 2 %

- a. Notice of Violations – defined as: A formal environmental enforcement action.
- A formal environmental enforcement action shall constitute a measurable NOV. The total number of environmental-related NOVs received by Transmission as a result of an action or programmatic deficiency that occurred during the plan year shall be tallied on a “points” basis. NOVs resulting from an issue or event identified by a governing agency shall be counted as 2 points. NOVs resulting from a self-reported issue or event shall count as 1 point. Environmental NOVs to be excluded from this metric shall be those resulting from events that are;
 - Deemed uncontrollable (as determined by Environmental Services and Transmission Senior Leadership), or
 - Have at most a minor environmental impact, or
 - Outside the control of the Transmission organization.

Customer Experience – 20%

b. Targets:

Environmental Compliance	0.0	1.0	2.0
Notice of Violations - Number	4	2	0

1) NERC Compliance – 2%

- a. Ensure timely and accurate completion of all NERC Compliance deliverables based on:
- Compliance Monitoring and Enforcement Program (CMEP) deliverables
 - Mitigation Milestones
 - Improve self-reporting of issues
 - Improve Reliability Compliance with respect Reliability Standards and their monitoring and enforcement
 - Analyze AEP compliance practices and identify compliance improvement opportunities
 - Improve awareness of compliance across Transmission

This measure is designed to ensure we are in compliance with the NERC Reliability Standards and Requirements. 100% of the target will be based on Strategic Compliance Initiatives. An adder of up to 100% of the target will be based on identifying potential compliance issues through internal methods compared to having violations identified by external parties.

- b. Strategic Compliance Initiatives - Since NERC Reliability Compliance continues to evolve, Transmission needs to implement systems, procedures, and policies to effectively implement our program. These goals are divided into various categories. A) Ensure timely and accurate completion of all CMEP deliverables and Mitigation Milestones, B) Improve self-reporting of issues, C) Improve Reliability Compliance with respect to Reliability Standards and their monitoring and enforcement, D) Analyze Transmission compliance practices, and identify compliance improvement opportunities, and E) Improve compliance awareness across Transmission.

- Stretch Goal: Improve Self-Reporting of Compliance Issues - NERC and the Regional Entities view violations that have been self-reported more positively than violations that have been discovered through events or through audits. Self-reports typically result in lower fines for each violation. This is discussed further in the NERC Rules of Procedure Appendix 4B - Sanction Guidelines of the North American Electric Reliability Corporation. Also, a cultural habit of identifying our own issues (i.e. self-reporting) allows AEP to assess its internal systems and processes, enabling continuous improvement.
- The metric is calculated per quarter by dividing the sum of self-identified issues by the sum of the total unique Potential Violations across AEP's regions. The average of the 4 quarters is then used to for the final multiplier.

Customer Experience – 20%

c. Targets:

- 100 % of Issues Internally Found – 2.0 x ICP
 - Zero internally discovered with zero externally discovered is also considered to be 100%
 - 95% of Issues Internally Found – 1.75 x ICP
 - 90% of Issues Internally Found – 1.5 x ICP
 - 85% of Issues Internally Found – 1.25 x ICP
 - <85% of Issues Internally Found – 1.0 x ICP
- The ICP is calculated each quarter. Each quarter is weighted as 25% of the total.
 - Sample ICP Calculation:

	Q1	Q2	Q3	Q4	
% Internally Identified	33%	96%	89%	92%	
Quarter ICP multiplier	1.00	1.75	1.25	1.50	Final Multiplier
Weighted 25% each Q	0.25	.4375	.3125	.375	1.375

5) Emergency Response / Incident Command Center – 1%

Assist the AEP Service Corporation Infrastructure & Business Continuity (I&BC) group in developing, testing, and implementing AEP's Emergency Response Plan and Incident Command Center.

- a. Assist I&BC in implementing WebEOC by December 15, 2016. (50%)
 - Participate in design and development of WebEOC.
 - Assign and enter user roles.
 - Complete end-user training for key personnel.

b. Targets:

Emergency Response	0.0	1.0	2.0
Implement WebEOC	Does not complete any aspect of goal.	Meets ICP goal.	Meets ICP goal, plus conducts additional WebEOC training for remaining Transmission employees

Customer Experience – 20%

- c. Utilize the Incident Command System (ICS) per the Emergency Response Plan (ERP) during all level III or greater storm events beginning January 1, 2016. (50%)
 - o Participate with OPCos in conducting After Action Reviews following storm events. AEP Transmission shall conduct its own After Action Review and will be held accountable for its evaluation of performance.

d. Targets:

Incident Command Center	0.0	1.0	2.0
Utilization during Storm Event	Does not complete any aspect of goal.	Meets ICP goal.	Meets ICP goal plus conduct a Full Functional ICS training Exercise for a Level I or Level II event that includes participation by Transmission.

Note: If AEP does not experience an appropriate level storm during 2016, the ICP measure impacted will roll up equitably to the other goal(s).

6) Strategic Initiatives – 5%

- a. Project Scoping & Execution. Conduct project “lookbacks” by utilizing the capital excellence team to identify lessons learned best practices, and overall project performance that will be shared across the business unit. These project “lookbacks” will help address longer term capital programs scoping, estimation and execution performance.
- b. Objective: Enhance the customer experience for both internal (OpCos) and external customers through improved product reliability, a focus on customer satisfaction, and better work processes, systems and infrastructure.

c. Targets:

Project Scoping & Execution.	0.0	1.0	2.0
Conduct project “lookbacks” by utilizing the capital excellence team to identify lessons learned best practices, and overall project performance that will be shared across the business unit.	<4 lookbacks	<6 lookbacks	>=8 lookbacks.

Customer Experience – 20%

- d. TOMSS (Transmission Outage Management Strategy and System): Phase 2
 - i. Objective: The objective for Transmission’s TOMSS initiative, Phase 2, is to operationalize the TOMSS system in the Ohio jurisdiction and be TOMSS compliant in Ohio by 12/31/2016.

e. Milestones:

2016 Milestones and Due Dates

Milestone	Due Date	Notes
1. Scheduling Teams in TFS and TEPS operational in Ohio Jurisdiction	Q2 2016	“Operational” means having scheduling staff in place with ability to analyze, optimize and schedule relevant project outages
2. TOMSS Integration & Change Management Plan Completed	Q2 2016	Completed plan approved by steering committee
3. TOMSS Process Support Team operational	Q3 2016	“Operational” means having support staff in place to analyze, report, and communicate TOMSS performance to Transmission Stakeholders.
4. Ohio Jurisdiction TOMSS Compliant	Q4 2016	“TOMSS Compliant” means Ohio Jurisdiction following the spirit of TOMSS business rules. This will be demonstrated through analysis provided by TOMSS Process Support team

f. Targets

TOMSS	0.0	1.0	2.0
2016 Deliverables	0 Completed Milestones	2 Completed Milestones	4 Completed Milestones

American Electric Power

Annual Incentive Compensation Plan

Operating Company

Introduction

The objectives of AEP's Annual Incentive Compensation Plan (the Plan) are to:

- Attract, retain, engage and motivate employees to further the objectives of the company, its customers and the communities it serves;
- Enable high performance by communicating and aligning employee efforts with the Plan's performance objectives; and
- Foster the creation of sustainable shareholder value through achievement of AEP's goals.

2017 Overview

For 2017 the Executive Council, each Operating Company, Customer and Distribution Services (C&DS), Regulated Generation, Competitive Generation, Transmission, Nuclear Generation, and Energy Supply (non-generation), have an annual incentive compensation plan (ICP) with separate goals. All staff groups participate in the ICP program based on the funding measures described below and do not have separate function level incentive goals.

The Plan provides annual incentive compensation to motivate and reward employees based on AEP's performance, business unit performance (if applicable) and, for employees whose payout is discretionary, their individual performance. Annual incentive funding for all plans is tied to AEP's Operating Earnings per Share (70% weight), safety (10% weight) and strategic initiatives (15% weight).

Linking annual incentive compensation to AEP's earnings aligns it with the value employees have created and ensures that AEP meets its commitments to all other stakeholders before setting aside dollars for employee rewards. Relative individual performance is reflected in managers' discretionary allocations from their award pool for all employees in positions in the new (SP20) and exempt salary plans. Group or team performance may also be reflected through discretionary adjustments in the allocation of funding from the annual incentive pool at higher organizational levels.

Each ICP includes a balanced scorecard of performance measures in four categories:

- Financial
- Customer
- Safety and Compliance
- Culture and Employee Engagement

The Plan is intended to drive the achievement of these objectives by clearly communicating them, conveying their importance, aligning employee efforts toward their achievement and further motivating employees to achieve them. This balanced scorecard encourages the

achievement of all types of objectives, rather than the achievement of a few objectives, such as financial objectives, at the expense of others, such as customer service, reliability, safety or compliance.

Performance measures are selected, whenever practical, to provide a “line of sight” that enables employees to see how the work they perform affects their annual incentive award. Objective and quantifiable performance measures are used when they are available but the Plan also includes subjective assessments of performance in less quantifiable areas and for individual performance assessments.

Safety remains the first priority irrespective of the ICP goals and other objectives the Company establishes. To help ensure that all employees have a personal stake in maintaining safe work practices a substantial portion of every plan is tied to safety for both AEP employees and contract workers.

Operating Performance Measures and Weights

Specific performance measures vary by business unit and operating company. The score for each performance measure may range from 0% to 200% of target.

Refer to Appendix A

2017 Funding Measures

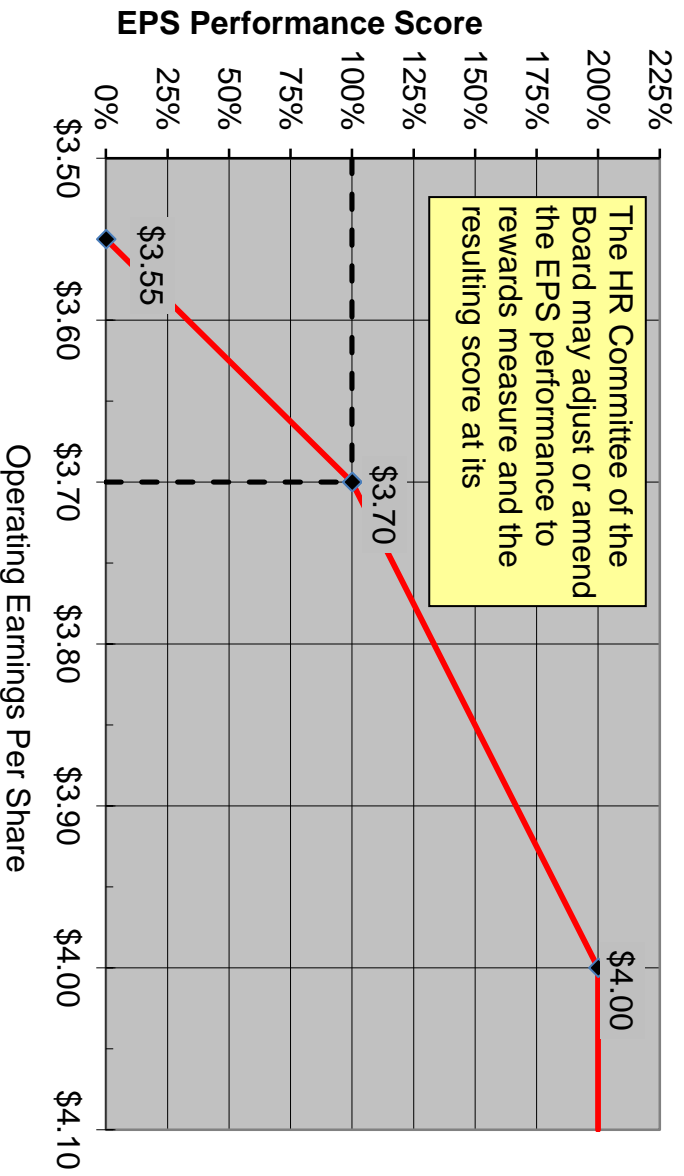
The 2017 funding measures were established by the HR Committee of the Board early in 2017. The maximum funding available is 200% of target funding. As in past years, the CEO and HR Committee of the Board have discretion to adjust annual incentive funding. All incentive plan funding is contingent on AEP achieving operating earnings of at least \$3.55 per share for 2017.

Operating Earnings Per Share – 70%

AEP is committed to generating sustainable value for all its stakeholders through its earnings and growth. Therefore 70% of annual incentive funding is tied to AEP’s Operating Earnings per Share. This ensures that funding is commensurate with the Company’s operating earnings and the extent to which the company can afford to pay annual incentive compensation while also serving the interests of its shareholders, customers and other stakeholders. It also:

- Aligns employee interests with those of customers by strongly encouraging expense discipline;
- Ensures that adequate earnings are generated for AEP’s shareholders and continued investment in AEP’s business before employees are rewarded with annual incentive compensation; and
- Further aligns the financial interests of all AEP employees with the results employees deliver to the Company and all its stakeholders.

2017 Performance to Rewards Measure



Safety and Compliance – 12% Weight
AEP is transforming our safety culture from “Good to Great” by building the systems and culture needed to support and sustain world-class safety performance. This includes building a safety culture based on proactive measures and continuous improvement.

For 2017 DART rate improvement will be measured to focus our attention on incidents with potentially serious consequences. DART stand for Days Away, Restricted or job Transfer and is an industry accepted measure that allows companies to focus on more serious events.

DART Rate Improvement for Employees and Contractors (7% weight)

- DART Rate = (Total Number of DART incidents x 200,000) ÷ Total Hours Worked
 - Threshold (0% payout) – 0% improvement vs. three-year average
 - Target (100% payout) – 10% Improvement vs. three-year average
 - Maximum (200% payout) – 20% Improvement vs. three-year average

Zero Harm (3% weight)

- Zero Employee Fatalities (1.5% weight)
 - Threshold (0% payout) – 1 or more fatalities
 - Maximum (200% payout) – No Fatalities
- Zero Contractor Fatalities (1.5% weight)
 - Threshold (0% payout) – 1 or more fatalities
 - Maximum (200% payout) – No Fatalities

Environmental Stewardship (1% weight) - Defined as the number of resolved formal enforcement actions with a fine > \$1,000

- Resolved means the fine is paid within the current calendar year for an event within that calendar year or the previous year
- Maximum (200% payout) – 0 resolved formal enforcement actions
- Target (100% payout) – 2 resolved formal enforcement actions
- Threshold (0% payout) – 4 or more resolved formal enforcement actions

NERC Compliance (1% weight) - The number of self-reported NERC violations as a percentage of the total number of violations

- Maximum (200% payout) – 100% of NERC violations were self-reported
- Target (100% payout) – 90% of NERC violations were self-reported
- Threshold (0% payout) – 80% or less of NERC violations were self-reported

2017 Strategic Initiatives (18% weight)

There are three areas of focus for AEP's 2017 strategic initiatives: Business Transformation, Customer Experience, and Culture and Employee Engagement. These are the major areas in which AEP needs to make progress in order to enable our future success. Each of these areas of focus includes several performance measures (shown in the table below) that reflect some of the many transformative initiatives the company is undertaking.

	2017 Strategic Initiatives	Weight
Business Transformation		8%
Transmission Business Expansion	4%	
AEP OnSite Partners	2%	
AEP Renewables	2%	
Customer Experience		6%
Quality of Service: SAIDI	2%	
Quality of Service: J.D. Power Residential Overall Customer Satisfaction Index	2%	
Mobile Alert Penetration	2%	
Culture & Employee Engagement		4%
Gallup Pulse Survey	1%	
Diversity	1%	
	Total Strategic Initiative Weight	18%

Business Transformation (8% total weight)

Transmission Business Expansion (4% weight)

- **Plant in Service (2% weight)**
 - Maximum (200% payout) – \$2.3B (~ target plus 10%)
 - Target (100% payout) – \$2.1B
 - Threshold (0% payout) – \$2.0B (~ target less 5%)
- **Capital Investment (2% weight)**
 - Maximum (200% payout) – \$3.23B (~ target plus 10%)

- Target (100% payout) – \$2.94B
- Threshold (0% payout) – \$2.79B (~ target less 5%)

The following goals for AEP Onsite Partners and AEP Renewables support AEP's strategic initiative of investing \$1B in renewables over 3 the next years.

- **AEP OnSite Partners (2% weight)** - newly signed renewable contracts during 2017 that commit capital to be spent
 - Threshold (0% payout) - \$75M of investment commitments
 - Target (100% payout) - \$125M of investment commitments
 - Maximum (200% payout) - \$175M of investment commitments
- **AEP Renewables Growth (2% weight)** - Capital associated with existing projects that achieve COD during 2017 plus newly signed contracts during 2017 that commit capital to be spent
 - Threshold (33.3% payout) - \$100M of investment commitments
 - Target (100% payout) - \$300M of investment commitments
 - Maximum (200% payout) - \$400M of investment commitments

Customer Experience and Quality of Service (6% total weight)

Quality of Service - SAIDI (System Average Interruption Duration Index) – (2% Weight)

SAIDI represents the total number of minutes the average customer has experienced interruption over a 12 month time period excluding major events. Major event exclusions and targets vary by Operating Company or jurisdiction due to PUC preference and regional differences.

- OpCo Thresholds (0% payout) – 80% of target or 75% of target for KY Power due to historic volatility
- OpCo Targets (100% payout) – Regulatory targets where applicable or a 2 year glide path to the regional peer group average or, if the average has already been achieved, maintaining this average
- OpCo Maximums (200% payout) – 120% of target or 125% of target for KY Power due to historic volatility

AEP performance will be determined based on a customer weighted average of the operating company performance scores.

Quality of Service - J.D. Power and Associates (JDP) Residential Overall Customer

Satisfaction Index (CSI) – (2% Weight)

AEP's goal is to achieve top quartile regional peer group performance within 3 years for each operating company. Operating Company ICP measures and targets are aligned to the four waves of the study conducted during the calendar year

- OpCo Thresholds (0% payout) – Achieve the higher of 2016 performance or the target CSI score less the target to maximum bandwidth
- OpCo Targets (100% payout) – Achieve the year 1 target CSI score on the 3 year glide path to the projected 2019 top quarter CSI score
- OpCo Maximums (200% payout) – Achieve projected top quartile CSI score

AEP performance will be determined based on a customer weighted average of the Operating

Company performance scores. AEP Texas is excluded because Texas is a full choice retail state and AEP does not bill customers directly, which reduces interaction with customers.

Mobile Alert Penetration – (2% weight)

- Threshold (0% payout) – Current customer penetration
- Target (100% payout) – 25% customer penetration (double current customer penetration)
- Maximum (200% payout) – 38% customer penetration

This measure excludes AEP Texas due to difficulty getting email addresses and text numbers for these customers who do not purchase services directly from AEP Texas

Culture & Employee Engagement (4% total weight)

Gallup Pulse Survey (2% weight) - Achieve a year over year improvement in our culture and engagement as demonstrated by Gallup Survey Results (Overall Company Grand Mean). The 2017 AEP Employee Culture Survey will be conducted as a census survey, meaning all employees will be invited to participate in the survey.

- 4.03 Threshold (.06 improvement) - 0% of target payout
- 4.07 Target (.10 improvement) - 100% of target payout
- 4.17 Maximum (.20 improvement) - 200% of target payout

Diversity (2% weight) - AEP's diversity goal is to increase the representation of women and minorities to ultimately achieve parity between internal representation and external availability for all AEP positions. To achieve this goal AEP will need to improve hiring rates for women and minorities for all open positions and take steps to reduce attrition from these groups.

- Threshold (0% payout) for each female and minority category is the higher of: a. AEP's current representation rate plus placements at 80% of the hiring availability rate less attrition at AEP's current representation rate or b. AEP's current representation rate
- Target (100% payout) for each female and minority category is the higher of a. AEP's current representation rate plus placements at 100% of the hiring availability rate less attrition at AEP's current representation rate or b. AEP's current representation rate
- Maximum (200% payout) for each female and minority category is the higher of a.

AEP's current representation rate plus placements at 120% of the hiring availability rate less attrition at AEP's current representation rate or b. AEP's current representation rate

The overall diversity measure is the employee weighted average of female and minority representation rates for all Equal Employment Opportunity (EEO) categories, except Officials and Managers, which are double weighted.

Modifier

The Modifier is a normalizing function that allocates the available funding to each business unit and operating company based on the group's performance relative to the performance of all other business units and operating companies. This results in performance differentiated Overall Scores that fully utilize but never exceed the funding available.

The modifier is calculated as the Overall Score for the Funding Measures divided by the Average

Operating Performance Score (AOPS)¹ for all business units and operating companies as shown below:

$$\frac{\text{Overall Funding Score}}{\text{AOPS}} = \text{Modifier}$$

Maximum Score

If the application of the Modifier results in an Overall Score² for the Plan that exceeds 200% of target, then the Overall Score is capped at 200% of target.

Performance Adjustment

A Performance Adjustment may be used to increase or decrease the Overall Score for the Plan to the extent that the Plan Compensation Committee determines that the Overall Score does not appropriately reflect the group's performance for the year. Such adjustments may be used to capture those aspects of a group's performance that are difficult to quantify or that were not adequately included in the performance measures established at the beginning of the year. For example, a Performance Adjustment might be used to reward a group for successfully completing an important project that was not anticipated at the time the ICP goals were established.

Individual Performance Factor

Management determines individual awards for all employees in positions in the new SP20 salary plan as well as those in exempt positions in the old salary structure. These determinations are based on an assessment of each employee's relative individual performance, the value of their contribution to AEP, business unit, department and individual goals and other business factors, potentially including recent and pending employment changes. Individual performance factors have a lower limit of 0% and no upper limit. However, the approval of a member of the Executive Council is required for individual awards in excess of a participant's maximum award opportunity (see the Target and Maximum Awards section below). In addition managers cannot exceed their award pool.

In determining individual performance factors, managers are expected to assess employee performance and contribution relative to other employees in the same position or grade level as well as the performance expectations for that position. Managers are also expected to avoid a bias in favor of positions at either higher or lower salary grade levels in the organization.

Eligible Earnings

ICP Eligible Earnings include the following:

1. Regular Earnings – Straight Rate
2. Paid Vacation
3. Paid Holidays

¹ AOPS is the average of the Operating Performance Scores for all incentive groups weighted by the aggregate target incentive award for all participants in each incentive group (see attached scorecard for an example).

² See Sample Scorecard for the definition and an example of the calculation of the Overall Score.

4. Paid Personal Days Off
5. Sick Pay (Non-occupational & Occupational)
6. Paid Jury Duty
7. Paid Death in Family
8. Paid Rest Period
9. Inclement Weather Pay
10. Lump Sum Merit Increase
11. Lump Sum General Increase
12. Grievance Settlement for Wages
13. Overtime – Nonexempt and Exempt
14. Shift Premium
15. Sunday Premium
16. Military Pay
17. Trip Pay (River)
18. Paid Union Business

Earnings not classified as one of the above types in AEP's payroll system are not considered for award calculation purposes.

Target and Maximum Award Opportunity

A participant's target award percent is based on the salary grade for his/her position **as of the last day of the last pay period that will be paid during the Plan Year**, as shown in the chart below, except as discussed below for employees in positions at or above SP20 salary plan grade 12 or EXEM salary plan grade 30 at any point during the Plan Year who change targets during the Plan Year:

New Grade Structure		
Salary Plan	Grade	Target %*
SP20	1	5%
	2	5%
	3	5%
	4	6%
	5	8%
	6	9%
	7	10%
	8	10%
	9	15%
	10	20%
	11	25%
	12	30%
	13	35%
	14	40%
	15	45%
	16	50%
	17	55%

New Grade Structure		
Salary Plan	Grade	Target %*
	18	60%
	19	80%
	20 (CEO)	125%

* As a percent of eligible earnings.

Old Grade Structures		
Salary Plan	Grade	Target %*
All nonexempt salary structures and wage schedules except SP20	All grades	5%
	1 - 6	5%
	7 - 12	7%
	13 - 20	10%
	21 - 24	15%
	25 - 26	17%
	27	20%
	28	22%
	29	25%
	30 - 32	27%
EXEM (Old Exempt Structure)	33	30%
	34-35	35%
	36	40%
	38	45%
* As a percent of eligible earnings.	40	50%

A participant's maximum individual award percent is the greater of two times his or her target award percent or the Overall Score for the Plan plus 50% of the target score. This enables managers to positively differentiate awards by up to 50% of an employee's target award to reflect strong individual employee performance even if the Overall Score for the Plan is between 150% and the 200% of target maximum score. A participant's target and maximum award opportunity is their target or maximum award percentage multiplied by their eligible earnings. The approval of a member of AEP's Executive Council in the participant's chain of command is required for awards in excess of a participant's maximum award opportunity.

The award opportunity for employees in SP20 grade 12 or EXEM grade 30 and higher positions at any point during the Plan Year whose target changes will be prorated on a monthly basis and calculated as the total of the independently calculated award opportunities for each position held during the Plan Year, including the earnings, target award percent, and Overall Score for each

such position. This calculation will be performed as shown in the example below:

$$\begin{aligned} \text{Position 1: Earnings} & * \text{Target Award \%} * \text{Overall Score} = \$ \text{Pos 1} \\ \text{Position 2: Earnings} & * \text{Target Award \%} * \text{Overall Score} = \$ \text{Pos 2} \\ \text{Position 3: Earnings} & * \text{Target Award \%} * \text{Overall Score} = \underline{\$ \text{Pos 3}} \\ & = \text{Total Award Opportunity} \end{aligned}$$

The target awards for employees in positions below SP20 salary plan grade 12 or EXEM salary plan grade 30 for the entire Plan Year will be calculated based on the target percent and Overall Score for the position held as of the last day of the last full pay period of the Plan Year.

Award Calculation

Because the Plan includes several discretionary factors, attainment of performance objectives does not guarantee the payment of awards. An award pool will be calculated for each group based on the scores for each performance measure as soon as practical after the conclusion of the Plan Year. The final score for each performance objective is rounded to three decimal places.

The Modifier is computed as follows:

- AEP's funding measures are compared to their performance targets to determine their performance scores, which are rounded to three decimal places (e.g., 105.5% or 1.055). The Weighted Average Score is then calculated based on the weight assigned to each funding measure.
- The Average Operating Performance Score (AOPS) is the average of the Operating Performance Scores for all annual incentive plans (each of which is rounded to three decimal places) weighted by the sum of the incentive targets for all participants in each plan. AOPS is then rounded to three decimal places (e.g., 125.7% or 1.257).
- The Modifier is the Weighted Average Score for the Funding Measures divided by AOPS, the result of which is rounded to three decimal places (e.g., 1.055 / 1.257 = .839)

Board Policy on Recouping Incentive Compensation

This policy applies to all executive officers of the Company as well as all other employees of the Company or any of its subsidiaries at salary grade 15 or equivalent and higher, regulated operating company presidents and officer direct reports to the Company's Chief Executive Officer (collectively, the "Covered Employees").

This policy relates to incentive compensation paid or payable to such Covered Employees, whether under this Plan, the Company's Long Term Incentive Plan or otherwise.

The Board of Directors believes, subject to the exercise of its discretion based on the facts and circumstances of a particular case, that incentive compensation provided by the Company should be reimbursed to the Company if, in the Board's determination:

- Such incentive compensation was received by a Covered Employee where the payment or the award was predicated upon the achievement of financial or other results that were subsequently materially restated or corrected, and
- Incentive compensation would have been materially lower had the achievement been

calculated on such restated or corrected financial or other results.

Therefore, the Plan, hereby, requires Cover Employees to reimburse the Company, if and to the extent that, in the Board's view, such reimbursement is warranted by the facts and circumstances of the particular case or if the applicable legal requirements impose more stringent requirements on the Company to obtain reimbursement of such compensation. The Company also may retain any deferred compensation credited to a Covered Employee, including earnings thereon, if, when and to the extent that it otherwise would become payable.

This right to reimbursement is in addition to, and not in substitution for, any and all other rights the Company might have to pursue reimbursement or such other remedies against a Covered Employee in the course of employment by the Company or otherwise based on applicable legal considerations, all of which are expressly retained by AEP.

Administration

Plan Compensation Committee

The Plan is administered by the HR Committee of the Board of Directors with respect to executives in the HR Committee Review Group and a Plan Compensation Committee consisting of AEP's CEO, COO, CFO, General Counsel and Chief Administrative Officer with respect to all other employees, in either case ("the Committee"). The CEO of American Electric Power Company, Inc. may change the composition and number of members of the Plan Compensation Committee at any time for any reason. The Committee may delegate day-to-day authority to administer the Plan, as they deem appropriate. In lieu of an official meeting, the Committee may act by written or electronic consent of a majority of its members. The Committee's interpretations of the Plan provisions are conclusive and binding on all Participants.

The Committee has sole authority to amend or terminate the Plan and may do so at any time, for any reason, either with or without notice. The Committee may adopt, delete, modify or adjust performance objectives, metrics and weights at any time, including after the conclusion of a Plan Year, should the Committee determine that changes in AEP's structure or other significant business situations would produce an Overall Score or awards for a Plan Year that are not reflective of the underlying economics or performance of the business. The Committee may also modify the eligibility criteria for the Plan, add or delete individual participants or groups of participants and adjust any or all award payouts.

Executive Council members with management responsibility for a business unit or staff function served by the Plan have the authority to increase or decrease the award pool for any group under their purview, provided that such adjustments do not increase the total of all award pools under their purview.

Plan Year

A "Plan Year" begins on January 1st and ends on December 31st of each year for which the Plan is in effect.

Participation

All full-time and regular part-time AEP employees who are actively employed during the Plan Year will be “Participants” in the Plan for such Plan Year except:

1. Employees participating in any other **annual** AEP incentive plan,
2. Employees participating in any other plan or agreement that explicitly excludes their participation in the Plan or annual incentive compensation plans in general,
3. Employees represented by unions that decline the opportunity to participate in the Plan or all similar incentive plans,
4. Temporary employees and contract workers, and
5. Employees hired by AEP on or after December 1 of such Plan Year.

Participation in an incentive compensation plan in any Plan Year shall not confer any right to continued employment or to continued participation in the Plan for any subsequent Plan Year.

Participant Responsibility

Plan Participants are expected to comply with all applicable company policies and directives as well as all applicable laws and regulations. Failure to do so may have many serious consequences, including but not limited to forfeiture of award eligibility in the current and future Plan Years.

Award Eligibility

Participants must be **actively** employed on the last day of a Plan Year to be eligible to receive an award for that Plan Year, except as otherwise noted below.

If a Participant transfers during the Plan Year to a position that is ineligible to participate in the Plan, then such Participant will be ineligible to receive an award for such Plan Year from the Plan, unless the participant was SP20 salary plan grade 12 or EXEM salary plan grade 30 or higher during the Plan Year. In which case, the participant will be eligible for a prorated award for the Plan Year as specified in the “Target and Maximum Award Opportunity” section above.

If a participant is on Leave of Absence status as of the last day of the Plan Year, the Participant will be eligible to receive an award for the Plan Year to the extent that they have eligible earnings for the Plan Year.

Employees who become inactive during the Plan Year due to participation in an AEP long-term disability plan will be eligible to receive an award for that Plan Year to the extent that they have eligible earnings for the Plan Year, although long-term disability benefits are not ICP eligible earnings.

Participants forfeit their incentive plan eligibility if they are discharged for cause or resign in lieu of being “discharged for cause” at any time prior to the award payment date, unless the Plan Compensation Committee approves an award payment to such employee.

Satisfaction of eligibility criteria does not guarantee the payment of any awards.

Termination Due to Death or Retirement

Participants remain **eligible** for an award, based on their eligible earnings for a Plan Year, if their employment with AEP is terminated during the Plan Year due to their death or retirement and they were employed by AEP through at least the first 3 months of the Plan Year. In the event of a Participant's death, any award to which they would otherwise be entitled will become payable to the Participant's estate. For the purposes of the Plan, "retirement" is defined as termination of employment for any reason other than for cause or as part of a voluntary or involuntary severance or layoff, after the Participant attains at least age 55 and five years of AEP service.

Termination Due to Voluntary and Involuntary Severance and Layoffs

Due to the severe financial constraints that generally give rise to the need for employee severances and layoffs, Participants with both discretionary and non-discretionary award opportunities are **ineligible** for an award if they would have a separation from service with AEP during the Plan Year as part of a voluntary or involuntary severance program or a layoff as defined under a collective bargaining agreement or the Supplemental Handbook and they are not rehired during the Plan Year. Severed employees are ineligible for an award even if, in connection with their severance, they are (a) placed on a Leave of Absence or (b) offered, but fail to meet the qualifications to be paid a severance benefit (e.g., if they would fail to timely sign and return, a Severance and Release of All Claims Agreement). In the event a severed employee is rehired during the Plan Year, such Participant will be eligible for an award only to the extent of their earnings for the period after they were rehired.

Resignations after the Plan Year

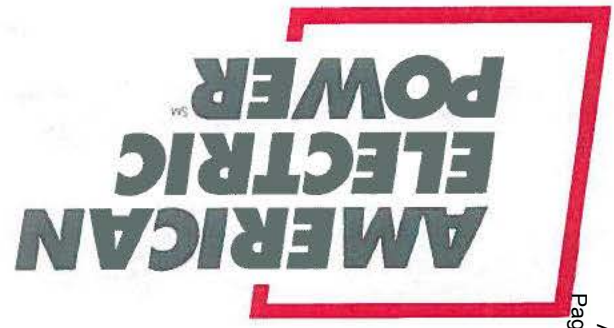
Participants who are **actively** employed on the last day of a Plan Year but who subsequently voluntarily resign their employment remain eligible for an award. However, for discretionary participants, their actual or pending voluntary resignation is a business factor that management may consider in determining their award payment, if any.

Award Payment

Award payment will be made within 2-1/2 months after the end of the year or as soon as practical thereafter if it is impractical, either administratively or economically, to make payments within this time period.

The Plan is hereby approved by:

EVP or Higher Name	Date
EVP Title	



BOUNDLESS ENERGYSM

Appendix A

2017 Operating Company ICP Details

FINAL - April 2017



Executive Vice President - Utilities

Paul Chodak III

Date

2017 Operating Company ICP Framework



OpCo ICP plans are subject to Executive Leadership discretion

LEAN VALUES AND PRACTICE



2017 Tier 1 Targets

Tier 1 Measures		KPCO	Goals
Infrastructure Development	OpCo Net Income (vs. Control budget)	\$44.9	
	Efficiency and Effectiveness - Tot Dist Cost Per ASB Hour	\$388.58	
	Efficiency and Effectiveness - DOLC Unit Price	70%	
	Efficiency and Effectiveness - Contractor Inspection Percentage	50%	
	Economic & Business Development Revenue (\$M)	\$2.88	
	Economic & Business Development Work Plan	1.00	
Customer Experience	SADI (12M Ending)	433.3	
	Reliability Work Plan	1.00	
	Risk Mitigation Work Plan Execution	1.00	
	Regulatory Execution	1.00	
	OpCo Customer Work Plan Execution	1.00	
	Systemwide Customer Work Plan Execution - Bill Redesign	1.00	
	Systemwide Customer Work Plan Execution - Mobile App	1.00	
	Systemwide Customer Work Plan Execution - Mobile Alerts	1.00	
	Customer Satisfaction Performance (JDPA - 6 OpCos, MSI Cogent - AEP-TX)	692	
	MSR Commercial Customer Satisfaction Survey Results	90.2%	
Employee Experience	Gallup Action Plan Measure	1.00	
	Employee-Contractor DART Rate	0.61	
	Pro-Active Employee Safety Measures - Vehical Operation	1.00	
	Pro-Active Employee Safety Measures - High Risk Activities	1.00	
	Pro-Active Employee Safety Measures - Site Inspections	1.00	
	Pro-Active Employee Safety Measures - CORE Visit Quality	14.40	
	Pro-Active Employee Safety Measures - CORE Visit Participation	90%	
	Pro-Active Employee Safety Measures - Good Catch Quality	90%	



Tier 1 - Net Income Targets / Bandwidths

Measure: Ongoing Operating Company Earnings

Target: Based on 2017 control budget & modeling, bandwidth curves based on Budget ROE

ICP Curve Bandwidth	(% Δ vs Budget)	Earnings Range (\$M)			Budget	ROE
		2.0	1.0	0.0	2.0	2.0

Higher Earnings Curves (>10.5%)

Middle Earnings Curves (>9.5% and <10.5%)

Lower Earnings Curves (<9.5%)

Kentucky 6.7% 40.4 44.9 58.3 -10% 30%



Tier 1 – Economic Development Measure

Measure: Based on performance relative to OpCo EB&D net revenue target (40%), AEP System EB&D net revenue target (20%), and OpCo-specific work plan performance (40%)
Target: OpCo EB&D net revenue target (defined below); assessment of performance vs. OpCo-specific work plan; assessment of performance vs. AEP System revenue target (defined below)

2017 Targets			
	0.0	1.0	2.0
Economic & Business Development Revenue (\$M)			
Kentucky	\$2.31	\$2.88	\$3.46
[Redacted]			
[Redacted]			



Tier 1 - Efficiency and Effectiveness Measures

Measure: Based on demonstrated value produced by efficiency in operations (50%) and work toward contractor pricing and inspection targets with measurable objectives (50%)

Target: Efficiency measure by Operating Company based on baseline historical performance. Other valuation & operational targets set by leadership to drive impactful value or savings

Total District Cost Per As Built Hour (5%)

- Targets are in accordance with the 3-year, 10% improvement glide path established in early 2016. Adjustments to targets attributable to changes in calculation methodology may be made as the year progresses. Target exceptions may also be considered with documented impacts as a result of changes in work plans, budgets or other operational factors.
- "Total District Costs" are defined as any direct costs attributed to the district-level financial rollup for each company. Excluded from these costs are MRO departments (if present), as well as Network, Restoration, Off-System and DOP work. Added to these costs are any central Contractor expense charged to a "D" construction work order, and allocated back to each district based on work location.
- As-Built Hours for each district represent all work requests that have been "completed" in the preceding 12-month period. At year end, this will include all work requests completed between January and December of 2017, as of the reporting time

Efficiency and Effectiveness - Tot Dist Cost Per ASB Hour							
AEPH	APTX	APCO	I&M	KPCO	PSO	SWEPCO	
\$299.00	\$301.75	\$328.95	\$357.00	\$388.58	\$370.44	\$263.75	



Tier 1 - Efficiency and Effectiveness Measures (cont'd)

Measure: Based on demonstrated value produced by efficiency in operations (50%) and work toward contractor pricing and inspection targets with measurable objectives (50%)

Target: Efficiency measure by Operating Company based on baseline historical performance. Other valuation & operational targets set by leadership to drive impactful value or savings

Distribution Overhead Line Contractors – Unit Price Work Target (2.5%)

• Performance will be measured based on the total dollar value of Contractor work

0.0 ICP Performance = 65% Unit Price Work
1.0 ICP Performance = 70% Unit Price Work
2.0 ICP Performance = 85% Unit Price Work

***Glide path targets may be set for extenuating circumstances, on a case-by-case basis*

Percentage of Contractor Work Field Inspected (2.5%)

• Performance will be measured based on the total YTD dollar value of inspected work

0.0 ICP Performance = 45% Contractor Work Inspected
1.0 ICP Performance = 50% Contractor Work Inspected
2.0 ICP Performance = 60% Contractor Work Inspected



Tier 1 – SAIDI Performance

Measure: Number of customer minutes interrupted divided by total customers; exclusions of major events differ based on regulatory definition

Target: Based either on established jurisdictional regulatory targets, maintenance of three year average (if performance is favorable to regulatory peers), or placement along glide path to achieve regulatory peer average

2017 Targets		2016 Target			SAIDI
		0.0	1.0	2.0	
		541.6	433.3	325.0	Kentucky

***Deration of reliability factors previously impacting several Operating Companies, and based on unfavorable performance against Regulatory targets, has been excluded from the ICP plan in 2017 for simplicity purposes.*



Tier 1 – Reliability Work Plan Execution

Measure: Performance on reliability work plan developed and executed individually by each Operating Company, then reviewed by Distribution Engineering Services group on quarterly basis. Action items must adhere to framework provided by Distribution Engineering Services.

Target: Achievement of Operating Company specific work plan objectives. Measured reliability performance and trends will be considered for final scoring of work plan effectiveness. The bandwidth for the reliability programs is +/- 20%, unless otherwise indicated.

2017 RELIABILITY PROGRAM TARGETS		
Program	KPCO	
Cutout Replacement	1,800	
Sectionalizing	\$250K	
System Hardening	\$1.25M	
Worst Performing Circuits		1,775
Vegetation Management		
Circuit Ties		
Targeted Inspection Repairs (poles)		
Targeted Inspection Repairs (OVHD)		
Targeted Inspection Repairs (URD)		
Vine Removal		
URD Cable Replacement (miles)		

***Failure to submit a detailed work plan to Performance Management will result in a 0.0 ICP score for the Operating Company until such time as the work plan has been received.



Tier 1 - Risk Mitigation Work Plan Execution

Measure: Development and execution of Operating Company Risk Mitigation plans (5 Components – Network Remediation, Pole Inspections, Overhead Circuit Inspection, Underground Circuit Inspection and Contact Voltage)

Target: Achievement of planned objectives (outlined below). For the first four programs the 0.0 is earned for anything less than 80% of target. The 2.0 is earned when they have achieved objectives and met the inspection target. For the Underground Network Remediation the 0.0 is earned when the replacement footage is less than 80% of target. The 2.0 is earned when the replacement footage is over 120% of target.

2017 RISK PROGRAM TARGETS		Program
		Pole Inspections
		OVD Circuit Inspections (miles)
		UG Circuit Inspections (units)
		Contact Voltage (Cities)
		Network Remediation (feet)
KPCO	9,500	
	4,419	
	2,129	
	NA	
	NA	

*****Failure to submit a detailed work plan to Performance Management will result in a 0.0 ICP score for the Operating Company until such time as the work plan has been received.**



Tier 1 – Regulatory Execution

Measure: Completion of a planned program of work towards innovative Regulatory actions and technological implementations to improve the customer experience within each local jurisdiction

Target: Achievement of planned objectives by Operating Company. Regulatory achievements and outcomes will be taken into consideration for final scoring.

***Failure to submit a detailed work plan to Performance Management will result in a 0.0 ICP score for the Operating Company until such time as the work plan has been received.

Tier 1 – Customer Experience Work Plan Execution

Measure: Completion of specific strategic and tactical efforts aimed at improving the customer experience. All action items should tie to drivers of customer satisfaction performance.

Target: Achievement of specific work plan objectives, both systemwide and Operating Company specific. Measured impacts to customer satisfaction survey performance will be taken into consideration for final scoring. Milestone-based plans will be assessed based on plan progress.

Systemwide Customer Experience Plan Components (5%)

- **Bill Redesign (2%)**
 - 0.0 Performance Milestone = No Progress
 - 1.0 Performance Milestone = Operating Companies sign off on the new bill design by 10/27/2017
 - 2.0 Performance Milestone = New Bill Design in production and printing by 12/31/2017
- **Mobile App Implementation (2%)**
 - 0.0 Performance Milestone = No Progress
 - 1.0 Performance Milestone = Provide three demos for OPCO feedback in May, August and October
 - 2.0 Performance Milestone = Deliver app with MVP feature set for all OPCOs by December 31
- **Mobile Alerts Enrollment (1%)**
 - 0.0 Performance Milestone = 12% overall enrollment, company-wide
 - 1.0 Performance Milestone = 25% overall enrollment, company-wide
 - 2.0 Performance Milestone = 38% overall enrollment, company-wide
- **OPCo-Specific Customer Experience Plan Component (5%)**
 - Individual plans submitted by Operating Companies (see Appendix)



Tier 1 - JD Power Residential Customer Satisfaction

Measure: Overall Residential CSI index for the 4 individual waves conducted during the 2017 calendar year (2017 wave 3 & 4, 2018 wave 1 & 2).
Target: Target index score determined by adjustable glide paths relative to Operating Company performance as compared to peer group. AEP-TX will utilize MSI Cogent survey results in the absence of JDPA scores.

Customer Satisfaction Index	
Higher of 2016 Actual OR 1.0 to Projected Top 3 Year Glide Path	Target Less Gap (2.0 to 1.0)
0.0	0.0
1 Year Projected Top Quartile Threshold	3 Year Projected Top Quartile Threshold
2.0	1.0

JDPA Residential Customer Satisfaction Targets			
[Redacted]			
Kentucky	653	692	737
[Redacted]			



Tier 1 - MSR Commercial Customer Satisfaction

Measure: Overall MSR Commercial Customer Satisfaction score.

Target: Target index score determined by measured improvement over 2016 MSR Commercial survey results. 2017 targets represent first step in a 3-yr glide path to 95% satisfaction, with a 5% bandwidth in the first year, capped at 95%. Bandwidth was intentionally set wide, due to the limited data available (1 year) upon which to base the targets. Glide path to be adjusted annually.

2017 Targets		2016 Actual		
	2.0	1.0	0.0	MSR Commercial - Customer Satisfaction
	95.0%	90.2%	85.2%	87.8%
				Kentucky



Tier 1 – Gallup Action Planning Work Plan Execution

Measure: Entry and Ongoing Maintenance of the Gallup Action Plans in the Gallup system for all leaders with direct reports

Target: Adherence to Gallup Action Plan, Plan Updates and actual Gallup survey performance will be taken into consideration for final scoring. Plan activity in the Gallup system will be reported by Human Resources, and activity will be scored by operating company.

0.0 ICP Performance =

Enter 100% of Culture Action Plans for OPCo teams into the Gallup System for 2017

1.0 ICP Performance =

Provide at least **one** Action Plan Update during 2017 (100% OPCo team participation)

2.0 ICP Performance =

Provide at least **two** Action Plan Updates during 2017 (75% OPCo team participation)

***ICP performance is not tied to survey results, however achieving results is a good indicator of effective planning, therefore Gallup results including Grand Mean Improvement and Accountability Index measures, will be considered when evaluating year end scoring



Tier 1 – Combined Employee-Contractor DART Rate

Measure: Calculated DART Rate combining both Employee and Contractor results by Operating Company. DART Rate = (Total DART events x 200,000) divided by Total Hours

Target: Single Employee-Contractor DART target defined as the more stringent of the historic three-year rolling average or the previous year's target.

Year	Operating Company	Actual DART	Worked Hours	Cases	Rate
2014	OPCO Distribution Contractors-Line & Forestry	13,027,712	35	0.54	
2015	OPCO Distribution Contractors-Line & Forestry	12,956,308	44	0.68	
2016	OPCO Distribution Contractors-Line & Forestry	13,422,275	48	0.72	
2014	OPCO Total - Employees	10,365,381	41	0.79	
2015	OPCO Total - Employees	10,450,078	37	0.71	2017 ICP Operating Company Targets
2016	OPCO Total - Employees	10,460,309	35	0.67	
70,682,063 240 0.68 0.68 0.61 0.54					
2014	Transmission Forestry	1,989,397	5	0.50	
2015	Transmission Forestry	1,496,079	7	0.94	
2016	Transmission Forestry	1,227,686	2	0.33	
2014	Customer & Distribution Services	2,272,554	0	0.00	
2015	Customer & Distribution Services	2,349,271	4	0.34	2017 ICP C&DS and T Forestry Targets
2016	Customer & Distribution Services	2,375,166	0	0.00	
11,710,153 18 0.31 0.31 0.31 0.25					
AEP Utilities Target 82,392,216 258 0.63 0.63 0.56 0.50					
0.0 Target 1.0 Target 2.0 Target					

***Historical average sets the 0.0 ICP target. 1.0 target represents 10% improvement and 2.0 target represents 20% improvement over the historical average.



Tier 1 – Pro-Active Safety Measures

Measure: Vehicle and Equipment Operation

Target: Approximately 15-30 representatives from the Grand Central Safety/other teams will participate in the Driving Summit in Q2 of 2017. Business Units will then implement agreed upon recommendations from the summit. *This will be a shared performance score across all participating business units.*

Performance Measure (4%)

0.0 ICP Performance = Attend and participate in Driving Summit

1.0 ICP Performance = Develop recommendations and develop implementation plans for approved recommendations

2.0 ICP Performance = Develop recommendations and develop implementation plans for approved recommendations and implement five recommendations in 2017

Tier 1 – Pro-Active Safety Measures

Measure: High Risk Activities

Target: Continue the evaluation and implementation of standard work practices for high risk work activities common across organizations and business units. Business units are also encouraged to look for overlap of activities with other business units to drive consistency. *This will be a shared performance score across all operating companies.*

Performance Measure (4%)

0.0 ICP Performance = Implement **less than** the remaining high risk mitigation work processes identified in 2016

1.0 ICP Performance = Implement **all of** the remaining high risk mitigation work processes identified in 2016

2.0 ICP Performance = Implement remaining High Risk mitigation work processes identified in 2016 and implement either two new High Risk mitigation processes OR two from other BU OR one new High Risk mitigation process and one from other BU

Tier 1 – Pro-Active Safety Measures

Measure: Site Inspection Program

Target: Develop Mitigation Plans and Estimates for the high risk hazards identified in 2016. Assess risk after mitigation plan developed to confirm acceptable level of risk. *This will be a shared performance score across all participating business units.*

Performance Measure (4%)

0.0 ICP Performance = Develop Mitigation Plans and budget inputs for 0% of identified sites
1.0 ICP Performance = Develop Mitigation Plans and budget inputs for all identified sites,
2.0 ICP Performance = Develop Mitigation Plans and budget inputs for all identified sites, implement work practices for all high risk hazards and mitigation plans requiring on-site physical work for 25% of high hazards



Tier 1 – Pro-Active Safety Measures

Measure: CORE/Shadow of the Leader Training and CORE Visit Requirements
Target: Employees with at least 1 direct report, and others identified as being in leadership roles will be required to complete CORE training, and any associated CORE visits. Performance will be measured in two parts – a quality measure based on observed CORE visit scores, and a participation measure based on the number of observed CORE visit forms recorded.

Observed CORE Visit Expectations are as follows:
 Q1 2017 Training = 3 CORE Visits (Q2, Q3, Q4) in 2017
 Q3 2017 Training = 1 CORE Visit (Q4) in 2017
 2016 Training = 2 CORE Visits (Any Quarter) in 2017
 Q2 2017 Training = 2 CORE Visits (Q3, Q4) in 2017
 Q4 2017 Training = 1 CORE Visit (Q4) in 2017

<u>Quality Measure (2%)</u>	<u>Participation Measure (2%)</u>
2.0 ICP Performance = 15.2 average score or 95% forms recorded	2.0 ICP Performance = 95% CORE Visit forms recorded
1.0 ICP Performance = 14.4 average score or 90% forms recorded	1.0 ICP Performance = 90% CORE Visit forms recorded
0.0 ICP Performance = 12.8 average score or 80% forms recorded	0.0 ICP Performance = 80% CORE Visit forms recorded

****Overall year end calculations in each measure will be averaged together by Business Unit for final scoring purposes. Participation will be calculated using the number of individuals that completed requirements and not the overall submission total**



Tier 1 – Pro-Active Safety Measures

Measure: Good Catch Quality Measure
Target: The quality measurement which will help assure this continues to be a leading indicator across the company. The measurement is based on a grading system communicated and evaluated by Safety & Health. Each month a random sample of 20% (with a maximum of 30 and a minimum of 20) good catch events will be reviewed for each Business Unit. If the monthly minimum of 20 events is not achieved, 100% of the events will be evaluated. *This will be a shared performance score across all operating companies.*

Performance Measure (4%)

0.0 ICP Performance = An average score of 80% Good Catch Quality
1.0 ICP Performance = An average score of 90% Good Catch Quality
2.0 ICP Performance = An average score of 95% Good Catch Quality

***Business Units will be expected to create their own Good Catch sharing strategy to address local sharing (area, location, OPCO, etc.) as well as sharing across the entire Business Unit. Those events that might be shared across the Company need to be coordinated through the respective Director S&H. Documentation of the local sharing should be done through SHEMS.



2017 ICP Evaluation Process & Principles

- ❖ Consistent with past review practice, ICP scores will be evaluated collectively rather than individually and scoring adjustments may be made at the discretion of Executive Leadership. This does not seek to replace each Presidents' ICP review if desired, but puts in place a formal review of all scores, with input from central groups considered for evaluation
- Subjective measures are work plan based, but ***measured outcomes and related trends will be considered in evaluating the strength and effectiveness of work plans***

❖ In order to facilitate evaluation consistently, we are seeking greater structure in the development of the following work plan measures:

- **Reliability Work Plan Execution** – should follow structure communicated by Distribution Engineering Services to Reliability Managers, including clear 0.0, 1.0, and 2.0 targets
- **Regulatory Execution Work Plan** – should be concise action items, including clear 0.0, 1.0, and 2.0 targets, and drive innovative or technological, customer-driven solutions
- **Customer Experience Work Plan Execution** – both system-wide and OpCo-specific components should be concise (3-5 major actions), measurable (0.0, 1.0, 2.0 targets), and clearly tie/drive customer satisfaction performance

❖ Final ICP Scoring for the year will be calculated using data available as of the designated deadline for score submission, per AEP Corporate.





BOUNDLESS ENERGYSM

Appendix A

2017 Customer & Distribution Services ICP Details

FINAL - April 2017

Charles R. Patton
Executive Vice President – External Affairs

Charles R. Patton
May 4, 2017

Date

2017 C&DS ICP Framework



OpCo ICP plans are subject to Executive Leadership discretion

LEAN VALUES AND PRACTICE



BOUNDLESS ENERGY

Tier 1 – C&DS Gallup Action Planning Work Plan Execution

Measure: Entry and Ongoing Maintenance of the Gallup Action Plans in the Gallup system for all leaders with direct reports

Target: Adherence to Gallup Action Plan, Plan Updates and actual Gallup survey performance will be taken into consideration for final scoring. Plan activity in the Gallup system will be reported by Human Resources, for scoring purposes

0.0 ICP Performance =

Enter 100% of Culture Action Plans for C&DS teams into the Gallup System for 2017

1.0 ICP Performance =

Provide at least **one** Action Plan Update during 2017 (100% team participation)

2.0 ICP Performance =

Provide at least **two** Action Plan Updates during 2017 (75% team participation)

***ICP performance is not tied to survey results, however achieving results is a good indicator of effective planning, therefore Gallup results including Grand Mean Improvement and Accountability Index measures, will be considered when evaluating year end scoring



Tier 1 – C&DS Combined Employee-Contractor DART Rate

Measure: Calculated DART Rate combining both Employee and Contractor results by Operating Company. DART Rate = (Total DART events x 200,000) divided by Total Hours

Target: Single Employee-Contractor DART target defined as the more stringent of the historic three-year rolling average or the previous year's target.

Year	Operating Company	Actual Hours	DART	Actual DART	Worked Cases	Rate
2014	OPCO Distribution Contractors-Line & Forestry	13,027,712	35	0.54		
2015	OPCO Distribution Contractors-Line & Forestry	12,956,308	44	0.68		
2016	OPCO Distribution Contractors-Line & Forestry	13,422,275	48	0.72		
2014	OPCO Total - Employees	10,365,381	41	0.79		
2015	OPCO Total - Employees	10,450,078	37	0.71	2017 ICP Operating Company Targets	
2016	OPCO Total - Employees	10,460,309	35	0.67		
		70,682,063	240	0.68		
					0.68	0.61
					0.0 Target	2.0 Target
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2015	Transmission Forestry	1,496,079	7	0.94		
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2015	Customer & Distribution Services	2,349,271	4	0.34	2017 ICP C&DS and T Forestry Targets	
2016	Customer & Distribution Services	2,375,166	0	0.00		
		11,710,153	18	0.31		
					0.31	0.28
					0.0 Target	2.0 Target
					0.63	0.56
					0.0 Target	2.0 Target
		82,392,216	258	0.63		
					0.63	0.50
					0.0 Target	2.0 Target

***Historical average sets the 0.0 ICP target. 1.0 target represents 10% improvement and 2.0 target represents 20% improvement over the historical average.



Tier 1 - AEP System Customer Effort Score

Measure: MSR Customer Effort score based on survey data from Call Center contact.

Target: Target index score determined by measured improvement over 2016 MSR Customer Effort survey results. 2017 targets represent first step in a 3-yr glide path. Target was based on input from MSR and peer group scores.

MSR Customer Effort Score			
	2016 Actual	0.0	1.0
	2017 Targets		
AEP System	68.2%	65.8%	68.8%

Methodology			
2016 Actual	67.3%	68.2%	69.4%
2016	2017	2018	2019
2.0	71.8%		
1.0	68.2%	68.8%	70.0%
0.0		65.8%	

*System includes equal weight phone and online methods, all contact types. DK & Refused excluded.



Tier 1 – Customer Solutions Center Training

Measure: Based on completion of Customer Solutions Center program training work in 2017.
Target: Goal is to complete the majority of training commitment, including Effortless Customer Experience Training and leadership and quality transformation workshops. Commitment is based on volume of associates completing the training.

0.0 ICP Performance =

125 Frontline Employees completed Effortless Customer Experience training

1.0 ICP Performance =

175 Frontline Employees completed Effortless Customer Experience training and, Completion of the leadership and quality transformation workshops

2.0 ICP Performance =

200 Frontline Employees completed Effortless Customer Experience training and, Completion of the leadership and quality transformation workshops



Tier 1 – Grid of the Future/PowerOn Implementation

Measure: Program to Expand and Implement Grid Technologies on the Distribution System.
Target: Completion of identified 2017 key milestones, as defined below. Late submission against the dates below may cause downward adjustment to performance measure. Score to remain at achievement level until the next milestone is reached.

0.0 ICP Performance =

No progress on planning, training and review objectives

1.0 ICP Performance =

Development of Distribution technology investment strategy for Operating Companies and submit preliminary plan for Board review by **July 15**

2.0 ICP Performance =

Development of Distribution technology investment strategy for Operating Companies and submit final plan for Board review by **September 17**
***If a directional change is indicated as a result of McKinsey strategy planning, 2.0 performance can be achieved with demonstrated action planning toward new strategy.*



Appendix: Operating Company Plan Detail



Tier 1 - Net Income Targets / Bandwidths

Measure: Ongoing Operating Company Earnings

Target: Based on 2017 control budget & modeling, bandwidth curves based on Budget ROE

ICP Curve Bandwidth (% Δ vs Budget)	Earnings Range (\$M)			Budget ROE
	2.0	1.0	0.0	
0.0				
2.0				

Higher Earnings Curves (>10.5%)				
[Redacted]				
Middle Earnings Curves (>9.5% and <10.5%)				
[Redacted]				
Lower Earnings Curves (<9.5%)				
[Redacted]				
30%	-10%	58.3	44.9	6.7%
Kentucky				



Tier 1 – Economic Development Measure

Measure: Based on performance relative to OpCo EB&D net revenue target (40%), AEP System EB&D net revenue target (20%), and OpCo-specific work plan performance (40%)
Target: OpCo EB&D net revenue target (defined below); assessment of performance vs. OpCo-specific work plan; assessment of performance vs. AEP System revenue target (defined below)

2017 Targets			
	0.0	1.0	2.0
Economic & Business Development Revenue (\$M)			
Kentucky	\$2.31	\$2.88	\$3.46



Tier 1 - Efficiency and Effectiveness Measures

Measure: Based on demonstrated value produced by efficiency in operations (50%) and work toward contractor pricing and inspection targets with measurable objectives (50%)

Target: Efficiency measure by Operating Company based on baseline historical performance. Other valuation & operational targets set by leadership to drive impactful value or savings

Total District Cost Per As Built Hour (5%)

- Targets are in accordance with the 3-year, 10% improvement glide path established in early 2016. Adjustments to targets attributable to changes in calculation methodology may be made as the year progresses. Target exceptions may also be considered with documented impacts as a result of changes in work plans, budgets or other operational factors.
- "Total District Costs" are defined as any direct costs attributed to the district-level financial rollup for each company. Excluded from these costs are MRO departments (if present), as well as Network, Restoration, Off-System and DOP work. Added to these costs are any central Contractor expense charged to a "D" construction work order, and allocated back to each district based on work location.
- As-Built Hours for each district represent all work requests that have been "completed" in the preceding 12-month period. At year end, this will include all work requests completed between January and December of 2017, as of the reporting time

Efficiency and Effectiveness - Tot Dist Cost Per ASB Hour							
AEPH	APTX	APCo	I&M	KPCO	PSO	SWEPCo	
\$299.00	\$301.75	\$328.95	\$357.00	\$388.58	\$370.44	\$263.75	



Tier 1 - Efficiency and Effectiveness Measures (cont'd)

Measure: Based on demonstrated value produced by efficiency in operations (50%) and work toward contractor pricing and inspection targets with measurable objectives (50%)

Target: Efficiency measure by Operating Company based on baseline historical performance. Other valuation & operational targets set by leadership to drive impactful value or savings

Distribution Overhead Line Contractors – Unit Price Work Target (2.5%)

- Performance will be measured based on the total dollar value of Contractor work

0.0 ICP Performance = 65% Unit Price Work

1.0 ICP Performance = 70% Unit Price Work

2.0 ICP Performance = 85% Unit Price Work

***Glide path targets may be set for extenuating circumstances, on a case-by-case basis*

Percentage of Contractor Work Field Inspected (2.5%)

- Performance will be measured based on the total YTD dollar value of inspected work

0.0 ICP Performance = 45% Contractor Work Inspected

1.0 ICP Performance = 50% Contractor Work Inspected

2.0 ICP Performance = 60% Contractor Work Inspected



Tier 1 – SAIDI Performance

Measure: Number of customer minutes interrupted divided by total customers; exclusions of major events differ based on regulatory definition

Target: Based either on established jurisdictional regulatory targets, maintenance of three year average (if performance is favorable to regulatory peers), or placement along glide path to achieve regulatory peer average

2017 Targets		2016 Target		SAIDI
	2.0	1.0	0.0	
			451.9	Kentucky
	325.0	433.3	541.6	

***Deration of reliability factors previously impacting several Operating Companies, and based on unfavorable performance against Regulatory targets, has been excluded from the ICP plan in 2017 for simplicity purposes.*



Tier 1 – Reliability Work Plan Execution

Measure: Performance on reliability work plan developed and executed individually by each Operating Company, then reviewed by Distribution Engineering Services group on quarterly basis. Action items must adhere to framework provided by Distribution Engineering Services.

Target: Achievement of Operating Company specific work plan objectives. Measured reliability performance and trends will be considered for final scoring of work plan effectiveness. The bandwidth for the reliability programs is +/- 20%, unless otherwise indicated.

2017 RELIABILITY PROGRAM TARGETS		Program
Cutout Replacement	1,800	KPCO
Sectionalizing	\$250K	
System Hardening	\$1.25M	
Worst Performing Circuits	1,775	
Vegetation Management		
Circuit Ties		
Targeted Inspection Repairs (poles)		
Targeted Inspection Repairs (OVHD)		
Targeted Inspection Repairs (URD)		
Vine Removal		
URD Cable Replacement (miles)		

***Failure to submit a detailed work plan to Performance Management will result in a 0.0 ICP score for the Operating Company until such time as the work plan has been received.



Tier 1 - Risk Mitigation Work Plan Execution

Measure: Development and execution of Operating Company Risk Mitigation plans (5 Components – Network Remediation, Pole Inspections, Overhead Circuit Inspection, Underground Circuit Inspection and Contact Voltage)

Target: Achievement of planned objectives (outlined below). For the first four programs the 0.0 is earned for anything less than 80% of target. The 2.0 is earned when they have achieved objectives and met the inspection target. For the Underground Network Remediation the 0.0 is earned when the replacement footage is less than 80% of target. The 2.0 is earned when the replacement footage is over 120% of target.

2017 RISK PROGRAM TARGETS		Program
	KPCO	Pole Inspections
	9,500	OVD Circuit Inspections (miles)
	4,419	UG Circuit Inspections (units)
	2,129	Contact Voltage (Cities)
	NA	Network Remediation (feet)

***Failure to submit a detailed work plan to Performance Management will result in a 0.0 ICP score for the Operating Company until such time as the work plan has been received.



Tier 1 – Regulatory Execution

Measure: Completion of a planned program of work towards innovative Regulatory actions and technological implementations to improve the customer experience within each local jurisdiction

Target: Achievement of planned objectives by Operating Company. Regulatory achievements and outcomes will be taken into consideration for final scoring.

*****Failure to submit a detailed work plan to Performance Management will result in a 0.0 ICP score for the Operating Company until such time as the work plan has been received.**

Tier 1 – Customer Experience Work Plan Execution

Measure: Completion of specific strategic and tactical efforts aimed at improving the customer experience. All action items should tie to drivers of customer satisfaction performance.

Target: Achievement of specific work plan objectives, both systemwide and Operating Company specific. Measured impacts to customer satisfaction survey performance will be taken into consideration for final scoring. Milestone-based plans will be assessed based on plan progress.

Systemwide Customer Experience Plan Components (5%)

- **Bill Redesign (2%)**

- 0.0 Performance Milestone = No Progress
- 1.0 Performance Milestone = Operating Companies sign off on the new bill design by 10/27/2017
- 2.0 Performance Milestone = New Bill Design in production and printing by 12/31/2017

- **Mobile App Implementation (2%)**

- 0.0 Performance Milestone = No Progress
- 1.0 Performance Milestone = Provide three demos for OPCO feedback in May, August and October
- 2.0 Performance Milestone = Deliver app with MVP feature set for all OPCOs by December 31

- **Mobile Alerts Enrollment (1%)**

- 0.0 Performance Milestone = 12% overall enrollment, company-wide
- 1.0 Performance Milestone = 25% overall enrollment, company-wide
- 2.0 Performance Milestone = 38% overall enrollment, company-wide

OPCo-Specific Customer Experience Plan Component (5%)

- Individual plans submitted by Operating Companies (see Appendix)



Tier 1 - JD Power Residential Customer Satisfaction

Measure: Overall Residential CSI index for the 4 individual waves conducted during the 2017 calendar year (2017 wave 3 & 4, 2018 wave 1 & 2).
Target: Target index score determined by adjustable glide paths relative to Operating Company performance as compared to peer group. AEP-TX will utilize MSI Cogent survey results in the absence of JDPA scores.

Customer Satisfaction Index	
Higher of 2016 Actual OR 1.0 to Projected Top 3 Year Glide Path	Target Less Gap (2.0 to 1.0)
0.0	
1 Year Projected Top Quartile Threshold	3 Year Projected Top Quartile Threshold
2.0	1.0

JDPA Residential Customer Satisfaction Targets			
[Redacted]			
Kentucky	653	692	737
[Redacted]			



Tier 1 - MSR Commercial Customer Satisfaction

Measure: Overall MSR Commercial Customer Satisfaction score.

Target: Target index score determined by measured improvement over 2016 MSR Commercial survey results. 2017 targets represent first step in a 3-yr glide path to 95% satisfaction, with a 5% bandwidth in the first year, capped at 95%. Bandwidth was intentionally set wide, due to the limited data available (1 year) upon which to base the targets. Glide path to be adjusted annually.

MSR Commercial - Customer Satisfaction			
2017 Targets	2016 Actual		
2.0	1.0	0.0	0.0
95.0%	90.2%	85.2%	87.8%
Kentucky			



Tier 1 – Gallup Action Planning Work Plan Execution

Measure: Entry and Ongoing Maintenance of the Gallup Action Plans in the Gallup system for all leaders with direct reports

Target: Adherence to Gallup Action Plan, Plan Updates and actual Gallup survey performance will be taken into consideration for final scoring. Plan activity in the Gallup system will be reported by Human Resources, and activity will be scored by operating company.

0.0 ICP Performance =

Enter 100% of Culture Action Plans for OPCo teams into the Gallup System for 2017

1.0 ICP Performance =

Provide at least **one** Action Plan Update during 2017 (100% OPCo team participation)

2.0 ICP Performance =

Provide at least **two** Action Plan Updates during 2017 (75% OPCo team participation)

***ICP performance is not tied to survey results, however achieving results is a good indicator of effective planning, therefore Gallup results including Grand Mean Improvement and Accountability Index measures, will be considered when evaluating year end scoring



Tier 1 – Combined Employee-Contractor DART Rate

Measure: Calculated DART Rate combining both Employee and Contractor results by Operating Company. DART Rate = (Total DART events x 200,000) divided by Total Hours

Target: Single Employee-Contractor DART target defined as the more stringent of the historic three-year rolling average or the previous year's target.

Year	Operating Company	Actual Hours	DART	Actual DART	Worked Cases	Rate
2014	OPCO Distribution Contractors-Line & Forestry	13,027,712	35	0.54		
2015	OPCO Distribution Contractors-Line & Forestry	12,956,308	44	0.68		
2016	OPCO Distribution Contractors-Line & Forestry	13,422,275	48	0.72		
2014	OPCO Total - Employees	10,365,381	41	0.79		
2015	OPCO Total - Employees	10,450,078	37	0.71		
2016	OPCO Total - Employees	10,460,309	35	0.67		
2017 ICP Operating Company Targets						
				0.68		0.61
				0.68		0.54
2014	Transmission Forestry	1,989,397	5	0.50		
2015	Transmission Forestry	1,496,079	7	0.94		
2016	Transmission Forestry	1,227,686	2	0.33		
2014	Customer & Distribution Services	2,272,554	0	0.00		
2015	Customer & Distribution Services	2,349,271	4	0.34		
2016	Customer & Distribution Services	2,375,166	0	0.00		
2017 ICP C&DS and T Forestry Targets						
				0.31		0.28
				0.31		0.25
AEP Utilities Target						
		82,392,216	258	0.63		0.50
				0.63		0.56
				0.63		0.50
2017 ICP C&DS and T Forestry Targets						
				0.31		0.28
				0.31		0.25
AEP Utilities Target						
		82,392,216	258	0.63		0.50
				0.63		0.56
				0.63		0.50

***Historical average sets the 0.0 ICP target. 1.0 target represents 10% improvement and 2.0 target represents 20% improvement over the historical average.



Tier 1 – Pro-Active Safety Measures

Measure: Vehicle and Equipment Operation
Target: Approximately 15-30 representatives from the Grand Central Safety/other teams will participate in the Driving Summit in Q2 of 2017. Business Units will then implement agreed upon recommendations from the summit. *This will be a shared performance score across all participating business units.*

Performance Measure (4%)

0.0 ICP Performance = Attend and participate in Driving Summit
1.0 ICP Performance = Develop recommendations and develop implementation plans for approved recommendations
2.0 ICP Performance = Develop recommendations and develop implementation plans for approved recommendations and implement five recommendations in 2017



Tier 1 – Pro-Active Safety Measures

Measure: High Risk Activities
Target: Continue the evaluation and implementation of standard work practices for high risk work activities common across organizations and business units. Business units are also encouraged to look for overlap of activities with other business units to drive consistency. *This will be a shared performance score across all operating companies.*

Performance Measure (4%)

0.0 ICP Performance = Implement **less than** the remaining high risk mitigation work processes identified in 2016
1.0 ICP Performance = Implement **all of** the remaining high risk mitigation work processes identified in 2016
2.0 ICP Performance = Implement remaining High Risk mitigation work processes identified in 2016 and implement either two new High Risk mitigation processes OR two from other BU OR one new High Risk mitigation process and one from other BU

Tier 1 – Pro-Active Safety Measures

Measure: Site Inspection Program

Target: Develop Mitigation Plans and Estimates for the high risk hazards identified in 2016. Assess risk after mitigation plan developed to confirm acceptable level of risk. *This will be a shared performance score across all participating business units.*

Performance Measure (4%)

0.0 ICP Performance = Develop Mitigation Plans and budget inputs for 0% of identified sites
1.0 ICP Performance = Develop Mitigation Plans and budget inputs for all identified sites,
2.0 ICP Performance = Develop Mitigation Plans and budget inputs for all identified sites,
implement work practices for all high risk hazards and mitigation
plans requiring on-site physical work for 25% of high hazards

Tier 1 – Pro-Active Safety Measures

Measure: CORE/Shadow of the Leader Training and CORE Visit Requirements
Target: Employees with at least 1 direct report, and others identified as being in leadership roles will be required to complete CORE training, and any associated CORE visits. Performance will be measured in two parts – a quality measure based on observed CORE visit scores, and a participation measure based on the number of observed CORE visit forms recorded.

Observed CORE Visit Expectations are as follows:
 Q1 2017 Training = 3 CORE Visits (Q2, Q3, Q4) in 2017
 Q3 2017 Training = 1 CORE Visit (Q4) in 2017

2016 Training = 2 CORE Visits (Any Quarter) in 2017
 Q2 2017 Training = 2 CORE Visits (Q3, Q4) in 2017
 Q4 2017 Training = 1 CORE Visit (Q4) in 2017

Quality Measure (2%)

2.0 ICP Performance = **15.2** average score or 95%
 1.0 ICP Performance = **14.4** average score or 90%
 0.0 ICP Performance = **12.8** average score or 80%

Participation Measure (2%)

2.0 ICP Performance = 95% CORE Visit forms recorded
 1.0 ICP Performance = 90% CORE Visit forms recorded
 0.0 ICP Performance = 80% CORE Visit forms recorded

****Overall year end calculations in each measure will be averaged together by Business Unit for final scoring purposes. Participation will be calculated using the number of individuals that completed requirements and not the overall submission total**



Tier 1 – Pro-Active Safety Measures

Measure: Good Catch Quality Measure
Target: The quality measurement which will help assure this continues to be a leading indicator across the company. The measurement is based on a grading system communicated and evaluated by Safety & Health. Each month a random sample of 20% (with a maximum of 30 and a minimum of 20) good catch events will be reviewed for each Business Unit. If the monthly minimum of 20 events is not achieved, 100% of the events will be evaluated. **This will be a shared performance score across all operating companies.**

Performance Measure (4%)

0.0 ICP Performance = An average score of 80% Good Catch Quality
1.0 ICP Performance = An average score of 90% Good Catch Quality
2.0 ICP Performance = An average score of 95% Good Catch Quality

***Business Units will be expected to create their own Good Catch sharing strategy to address local sharing (area, location, OPCO, etc.) as well as sharing across the entire Business Unit. Those events that might be shared across the Company need to be coordinated through the respective Director S&H. Documentation of the local sharing should be done through SHEMS.



2017 ICP Evaluation Process & Principles

- ❖ Consistent with past review practice, ICP scores will be evaluated collectively rather than individually and scoring adjustments may be made at the discretion of Executive Leadership.
 - This does not seek to replace each Presidents' ICP review if desired, but puts in place a formal review of all scores, with input from central groups considered for evaluation
 - Subjective measures are work plan based, but ***measured outcomes and related trends will be considered in evaluating the strength and effectiveness of work plans***
- ❖ In order to facilitate evaluation consistently, we are seeking greater structure in the development of the following work plan measures:
 - **Reliability Work Plan Execution** – should follow structure communicated by Distribution Engineering Services to Reliability Managers, including clear 0.0, 1.0, and 2.0 targets
 - **Regulatory Execution Work Plan** – should be concise action items, including clear 0.0, 1.0, and 2.0 targets, and drive innovative or technological, customer-driven solutions
 - **Customer Experience Work Plan Execution** – both system-wide and OpCo-specific components should be concise (3-5 major actions), measurable (0.0, 1.0, 2.0 targets), and clearly tie/drive customer satisfaction performance

❖ Final ICP Scoring for the year will be calculated using data available as of the designated deadline for score submission, per AEP Corporate.

**AEP COMMERCIAL OPERATIONS
TRADING AND MARKETING
INCENTIVE COMPENSATION PLAN
Effective as of January 1, 2017**

Article 1

Establishment, Purpose and Effective Date

1.1 The Company hereby establishes the AEP Commercial Operations Trading and Marketing Incentive Compensation Plan (the "Plan").

1.2 The purposes of the Plan are to improve corporate performance, enhance shareholder value and reduce risk by providing Plan Participants with an incentive to promote the financial success of the Company.

1.3 The Plan is effective as of January 1, 2017 and shall terminate on December 31, 2017, except with respect to the payment of Incentive Awards.

Article 2
Definitions

2.1 "Annual Bonus Pool" means the lower of (i) 12.5% of the Eligible Earnings for a Plan Year plus the amount of any "Discretionary Funding" plus or minus the amount of any "Zero Harm Adjustment", plus or minus the amount of any "Culture Adjustment" or (ii) \$1.5 million. "Company" means American Electric Power Company, Inc. and its subsidiaries and affiliates.

2.2 "Cover" means the daily profit and loss statement.

2.3 "Culture Adjustment" means the sum of the individual culture adjustment for all plan Participants, calculated based on the percentages shown in the table below. The Culture Adjustment will apply to the Plan only in the event that the company earns at least \$3.55 operating earnings per share. 100% of the adjustment will be added to the annual bonus pool if the 2017 culture survey results for the AEP overall company grand mean exceed the mean score by 0.20 compared to the 2016 results. A 100% deduction to the annual bonus pool will occur if the 2017 culture survey results for the AEP overall company grand mean do not exceed the mean score by greater than 0.059 compared to the 2016 results.

Salary Grade	Individual Culture Adjustment as a % of Year End Base Salary
6-7	2.00%
8-9	2.50%

10-11	3.00%
12+	5.00%

2.4 “Discretionary Funding” means any amount that the Plan Compensation Committee may make available for Incentive Awards as part of the Annual Bonus Pool, provided that the total value of the Annual Bonus Pool does not exceed the limits of Article 2.1 (ii).

2.5 “Eligible Earnings” are those described in Schedule A.

2.6 “Employee” means an employee of the Company.

2.7 “Incentive Award” means the amount of incentive compensation, as determined by the Plan Compensation Committee, payable to a Participant for a Plan Year.

2.8 “Participant” means an Employee approved by the Plan Compensation Committee as eligible for an Incentive Award, if any, under the terms of this Plan. Participants will generally be those employees of the Company whose duties involve wholesale trading and marketing.

2.9 “Plan Year” means January 1, 2017 to December 31, 2017.

2.10 “Plan Compensation Committee” will consist of AEP’s CEO, CFO, Top Shared Services Executive, Top Human Resources Executive, all members of AEP’s Executive Council in the Commercial Operations chain of command, which is currently AEP’s EVP of Generation and SVP Commercial Operations. The CEO may change the composition of this committee at any time for any reason. The Plan Compensation Committee may delegate authority for the day-to-day administration of the Plan as it deems necessary or appropriate.

2.11 “Qualifying Termination” means a termination of employment with the Company due to death or Retirement.

2.12 “Retirement” means the termination of an Employee’s employment with the Company for any reason other than for cause or as part of a voluntary or involuntary severance, after the Employee attains age 55 and completes five years of Company service. “Retirement” shall not include the circumstance in which the Company has determined that a Participant has elected retirement so as to avoid termination by the Company.

2.13 A “Transfer” occurs when, during a Plan Year, a Participant begins a new job with the Company, in a position for which the incumbent is generally not eligible to participate in this Plan.

2.14 “Zero Harm Adjustment” means the sum of the individual zero harm adjustments for all plan Participants, calculated based on the percentages shown in the

table below. The Zero Harm Adjustment will apply to the Plan only in the event that the company earns at least \$3.55 operating earnings per share. An upward adjustment of 50% of the calculation will be included if the company does not experience a fatal employee illness or injury that is determined to be work related and an upward adjustment of 50% of the calculation will be included if the company does not experience a fatal contractor illness or injury that is determined to be work related. A downward adjustment of 50% of the calculation will be included if the company experiences a fatal employee illness or injury that is determined to be work related and a downward adjustment of 50% of the calculation will be included if the company experiences a fatal contractor illness or injury that is determined to be work related.

Salary Grade	Individual Zero Harm Adjustment as a % of Year End Base Salary
6-7	2.00%
8-9	2.50%
10-11	3.00%
12+	5.00%

Article 3 Plan Participant

3.1 Employees selected to participate in the Plan shall not be eligible to participate in any other annual incentive plan except that prorated participation in more than one annual incentive plan will be provided to Participants who Transfer during the Plan Year.

3.2 Participation in the Plan shall not guarantee participation in any future Plan or in any other incentive compensation plans that may be adopted by the Company.

Article 4 Determination of Awards

4.1 In the event of a Qualifying Termination or Transfer, the Participant's Award will typically be reduced by the portion of the Plan Year for which they were not actively employed in a position that generally participates in the Plan. The amount of any prorated Incentive Award for such participant will be determined at the sole discretion of the Plan Compensation Committee.

4.2 After the end of the Plan Year, the Senior Vice President of Commercial Operations shall make a recommendation to the Plan Compensation Committee as to the amount of each Participant's Incentive Award for the Plan Year, subject to the limitations of the Plan as set forth herein. The Senior Vice President of Commercial Operations may consider individual contributions to Eligible Earnings, compliance with good energy

industry practice, corporate stewardship, staff development, and compliance with and support of AEP's Code of Ethics and other policies and other factors in such determination. The Plan Compensation Committee may approve, modify or eliminate any Incentive Award recommendation. Any and all Incentive Awards are made, amended, or eliminated at the discretion of the Plan Compensation Committee.

4.3 If the Annual Bonus Pool for the Plan Year is less than or equal to the total amount of guaranteed bonuses of Participants for that year, Participants in the Plan shall receive an Incentive Award only to the extent of their guaranteed bonuses. All sign-on bonuses, retention awards and other bonuses paid to Participants during the respective Plan Year will be deducted from the Annual Bonus Pool for such Plan Year unless the Plan Compensation Committee, in its sole discretion, determines that a portion or all such bonuses shall not be deducted from the Annual Bonus Pool.

4.4 The amount of the Annual Bonus Pool remaining, after the deductions referenced in Article 4.3, is available for discretionary allocation as Incentive Awards for the Plan Year. In no event shall the sum of all Incentive Awards exceed the Annual Bonus Pool, less the deductions referenced in Article 4.3, for such Plan Year. The Plan Compensation Committee may, in its sole discretion, determine that the circumstances warrant the allocation of less than the full remaining value of the Annual Bonus Pool as Incentive Awards for any Plan Year and may determine that no Incentive Awards shall be paid with respect to any Plan Year.

Article 5 Payment of Incentive Awards

5.1 One-hundred percent (100%) of Incentive Awards shall be paid in cash or credited in accordance with the terms of all applicable savings and deferred compensation programs for which the Participant has made a timely and valid deferral election. All Incentive Awards shall be paid or credited as soon as practical after performance results are certified and Incentive Awards are approved using the normal payroll process for the payment of annual incentive awards. Payment made in cash under this Section 5.1 (as applicable) shall be made no later than such date as will qualify such payment as a short-term deferral described in Section 1.409A-1(b)(4) of the federal income tax regulations.

5.2 Except for a Participant whose termination is a Qualifying Termination, a Participant must be an employee of the Company on the last day of the Plan Year to be eligible for an Incentive Award for such Plan Year.

5.3 Participants forfeit their eligibility for an Incentive Award if they are discharged for cause or resign in lieu of being "discharged for cause" at any time prior to the award payment date, unless the Plan Compensation Committee approves an award payment to such Participant.

5.4 All payments shall be subject to the applicable tax withholdings, including, but not limited to, those for federal, state and local and employment taxes.

Article 6 Administration

6.1 The Plan Compensation Committee shall administer the Plan. The Plan Compensation Committee shall have the authority to interpret the Plan and to prescribe, amend and rescind rules and regulations relating to the administration of the Plan, and all such interpretations, rules and regulations shall be conclusive and binding on all Participants.

6.2 The Plan Compensation Committee may employ agents, attorneys, accountants, or other persons and allocate or delegate to them powers, rights, and duties as the Plan Compensation Committee considers necessary or advisable to properly carry out the administration of the Plan. The Plan Compensation Committee may also delegate responsibility for administering aspects of the Plan to individual members of the Plan Compensation Committee. Any action taken by the Plan Compensation Committee shall be final.

Article 7 Miscellaneous

7.1 The Plan Compensation Committee shall have the right, authority and power to alter, amend, modify, revoke or terminate the Plan at any time and for any reason that it deems appropriate. Under such circumstances, the Plan Compensation Committee may, in its sole discretion, determine and approve the early payment of some or all Incentive Awards prior to the end of a Plan Year. Any Incentive Awards approved for payment under such circumstance will be paid to Plan Participants 100% in cash at such time as determined by the Plan Compensation Committee or credited in accordance with the terms of all applicable savings and deferred compensation programs for which the Participant has made a timely and valid deferral election.

7.2 The Plan Compensation Committee will periodically review the terms and conditions of this Plan with the Human Resource Committee of the Board of Directors of the American Electric Power Company, Inc.

7.3 No compensation or benefits at any time payable under this Plan to a Participant or a Participant's estate shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, attachment, garnishment, levy, execution, or other legal or equitable process, or encumbrance of any kind except to the extent otherwise required by applicable law.

7.4 Nothing in this Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment at any time, or confer upon a Participant any right to continue in the employ of the Company.

7.5 The Plan shall be construed and administered according to the laws of the State of Ohio. In the event a Participant or alleged Participant initiates any legal action relating to the Plan, that action shall be brought in the Franklin County, Ohio Court of Common Pleas (subject to the Company's right to remove the action to federal district court if allowed by law) or the United States District Court for the Southern District of Ohio, Eastern Division in Columbus, Ohio.

7.6 In the event the Plan Compensation Committee shall find that a Participant is unable to care for his or her affairs because of illness or accident, the Plan Compensation Committee may direct that any payment due the Participant be paid to the Participant's duly appointed legal representative, and any such payment so made shall be a complete discharge of the liabilities of the Plan.

7.7 Each Participant who is granted an Incentive Award shall reimburse Company or its Subsidiaries, as applicable, for the amount awarded, earned, received or paid under such Incentive Award if the Human Resources Committee of the Company's Board of Directors, in its discretion, determines that:

- (i) the Award or any compensation resulting from it was predicated upon the achievement of financial or other results that were subsequently materially restated or corrected, and
- (ii) the Participant engaged in misconduct that caused or partially caused the need for the restatement or correction, and
- (iii) a lower payment would have been made to the Participant based upon the restated or corrected financial results.

If and to the extent that the Committee, in its sole discretion, determines that the conditions set forth in (i) through (iii) have been met and such reimbursement is warranted by the facts and circumstances of the particular case or if the applicable legal requirements impose more stringent requirements on the Company or any of its Subsidiaries to obtain reimbursement of such compensation, then the Participant will be required to reimburse Company or its Subsidiaries, as applicable, for the value of such compensation paid to that Participant. The Company or its Subsidiaries, as applicable, also may retain any deferred compensation previously credited to the Participant and not paid, provided that the Company or its Subsidiaries, as applicable, will retain such deferred compensation only if, when and to the extent that it otherwise becomes payable to the Participant. This right to reimbursement is in addition to, and not in substitution for, any and all other rights the Company and its Subsidiaries might have to pursue reimbursement or such other remedies against an employee for misconduct in the course of employment or otherwise based on applicable legal considerations, all of which are expressly retained by the Company and its Subsidiaries.

7.8 The design and administration of the Plan are intended to comply with an exception to the requirements of Section 409A of the Code, or if an exception is not

available, to comply with an exception to the requirements of Section 409A of the Code to the extent such section is effective and applicable to amounts to be paid or credited hereunder. However, no Participant, beneficiary or any other person shall have any recourse against the Company, the Plan Compensation Committee or any of their affiliates, employees, agents, successors, assigns or other representatives, if any of those conditions are determined not to be satisfied.

Article 8 Confidentiality

8.1 The Plan is confidential and proprietary, and neither the Plan document nor its contents shall be disclosed to persons other than the Plan Compensation Committee, Plan Participants, and those individuals administering the Plan. At the request of a Participant, the Plan Compensation Committee may approve the disclosure of the relevant contents of the plan and potential or actual award values to specific third parties engaged in the provision of legal or financial services to the Participant, provided that such third party agrees to keep such information strictly confidential.

Article 9 Participant Responsibility

9.1 Plan Participants are expected to comply with all applicable Company policies and directives as well as all applicable laws and regulations.

The AEP Commercial Operations Trading and Marketing Incentive Compensation Plan is hereby approved by the members of the Plan Compensation Committee:

Nick Akins President & CEO	date
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Brian X. Tierney EVP - CFO	date
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Tracy A. Elich VP Human Resources	date
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Lana L. Hillebrand EVP & Chief Administrative Officer	date
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Mark C. McCullough EVP Generation	date
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Jeffrey D. LaFleur SVP - Commercial Operations	date
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Schedule A
Eligible Earnings Definition

Basis for Regulated Mark-to Market Risk Management and Trading Transactions

1. Gross margin from designated trading and marketing activities (see Schedule B for designated books) of the wholesale electricity business, emissions trading activity and coal trading business activities as set forth on the Cover, excluding interest associated with the discounting of the books that is listed in the Cover under “Interest Rate” and “Interest Rate Hedge.” The Plan Compensation Committee may add, delete, adjust, and modify the list of designated books at any time, including after the conclusion of the plan year, and for any reason.
2. Plus a portion of gross margin from financial hedge liquidations and auctions in the PHHS and NSHS books calculated based on the percentage associated with the total gross margin from those books as shown in the table below.

Gross Margin	Adder as a % of Gross Margin
\$0 – \$9,999,999	0%
\$10,000,000 - \$29,999,999	10%
Over \$30,000,000	15%

3. Plus or minus year on year changes in Credit Reserve (excluding the current year initial impacts of any changes in credit reserve calculation methodology).
4. Plus or minus year on year changes in Liquidity Reserve.
5. Less Plan Participant base salaries and benefits.
6. Adjusted for Interest and Capital Costs, calculated as follows:
 - a. Interest income or expense for the Plan Year for cash flows generated or used in regulated trading activities calculated at the money pool rate multiplied by:
 - i. The monthly average realized margins/losses less direct salaries, benefits and expenses as determined in 4. above, and
 - ii. The monthly average net outstanding option premiums received / (paid);
 - b. The cost of letters of credit and 3rd party credit guarantees (if any) utilized to support regulated trading activities during the plan year;
 - c. A capital charge for all net margins posted/held with/from counter parties, brokers and exchanges utilized to support regulated trading activities during the plan year, calculated at the company’s weighted average cost of capital. If AEP receives interest on posted credit, this should be netted against the charge to the plan.

Designated Books

Commodity	Book Name	Description
Power	MMSO	MISO Auction Sales with Respective Physical Hedges
Power	PEQT	Financial Hedge for Ohio Auctions
Power	NEQT	Physical Ohio Auction Sales
Power	PHRS	AEP West Hourly Trades
Power	PHRD	Non-Direct Optimization Trading of PJM/MISO Hourly Power Transactions including Futures
Power	PHRT	Non-Direct Optimization Trading of PJM/MISO/TVA Bal Day
Power	PHRW	West Hourly Trades
Power	PHWT	Physically tagged block imports/exports, Bal day trading, non-standard hourly profiles for West activity
Power	PICT	MTM Book for PCA East Term spec trades (including FTRs)
Power	PSHD	Non-hourly physically tagged block imports/exports, bilaterally scheduled block power, cleared FIN-FUT (including FTRs)
Power	PSWH	Non-Direct Optimization Trading of PJM/MISO Hourly Power Swap
Power	PSWT	Non-Direct Optimization Trading of PJM/MISO Term Power Swap
Power	PMAC	Energy and SOCO Cash and Hourly
Power	PWLS	Wheeling Power Merchant Optimization Trading
Gas	KBRA	Non-Direct Optimization Trading of NG transactions
Gas	KSHD	Non-Direct Optimization Trading of NG transactions
Gas-Spark	KCP	Midwest Gas Spark Spread Book
Gas-Spark	KEP	AEP-West Gas Spark Spread Book
Gas	KHRS	Gas book for Non-Dedicated SPP Transactions
Emissions	Em Comp MTM	Service Corp SO2 and NOx Compliance Trades
Emissions	REC Comp	Renewable Energy Certificate compliance book *

*plan to include 50 percent of book activity designated as non-RPS, not to exceed activity designated as RPS



2017 Executive Council Scorecard and Company-Wide Funding Measures



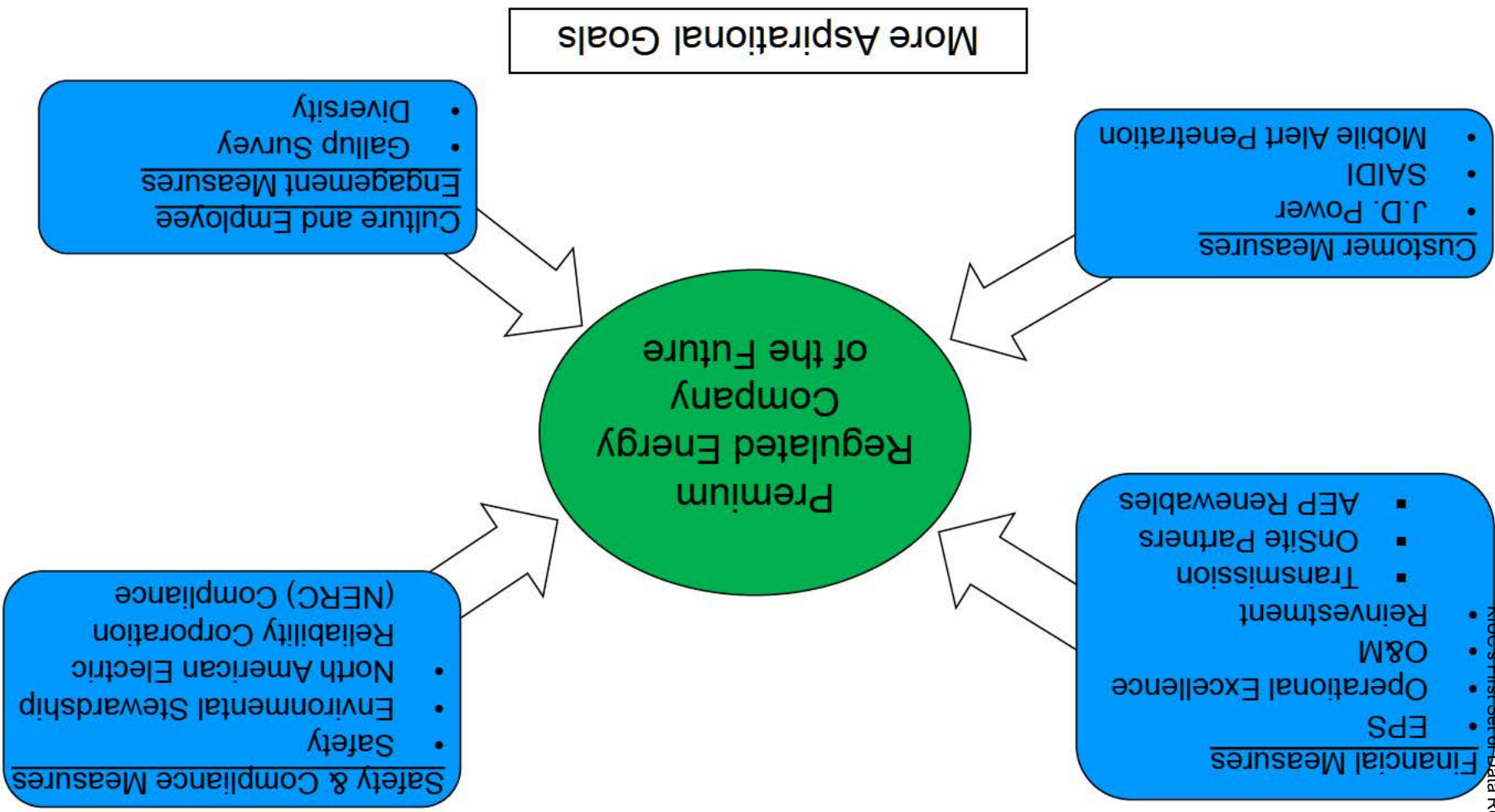
Proposed 2017 Performance Measures and Weights

Continue the balanced scorecard of earnings, safety and strategic measures

Performance Category	2017	2016	2013 to 2015
Funding Measures			
Operating Earnings Per Shares	70.0%	75.0%	75.0%
Strategic Initiatives	18.0%	15.0%	15.0%
Safety & Compliance	12.0%		
Safety DART Rate*	-	7.5%	
Zero Harm*	-	2.5%	
Safety Matrix	-	-	10.0%
Funding Adjustments			
Zero Fatality Extra Credit	-	-	+7.5%
Culture and Engagement Extra Credit	-	-	+5.0%
*Included in Safety & Compliance performance category for 2017			



2017 Balanced Scorecard





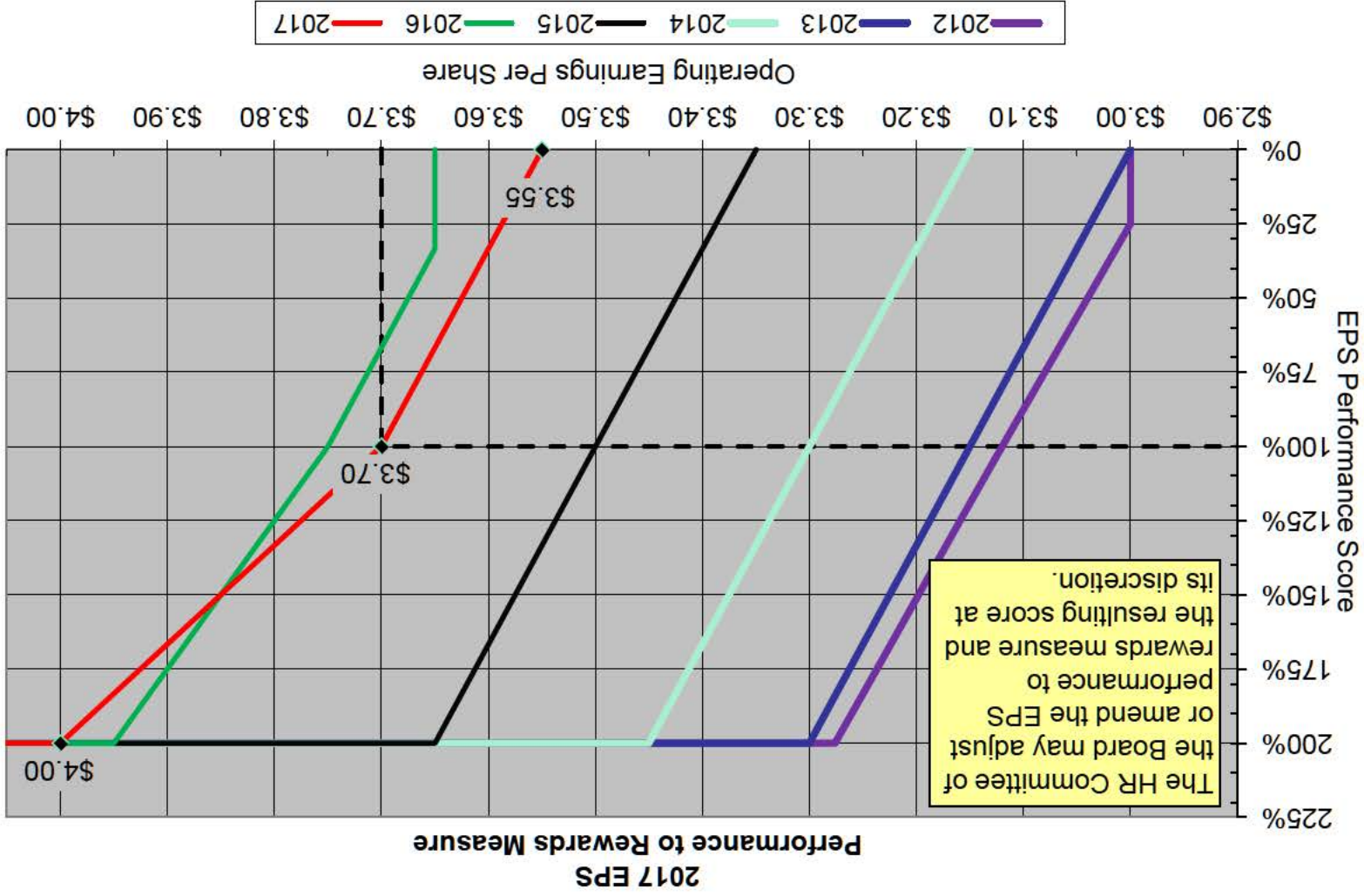
2017 Operating Earnings Per Share Measure (70% weight)

- The recommended 2017 Operating Earnings Per Share target for STI is \$3.70 per share, which is 5¢ or 1.4% above the earnings guidance midpoint
- The recommended operating earnings for a maximum (200%) STI payout is \$4.00, which is 30¢ or 8.1% above target and 35¢ or 9.6% above the earnings guidance midpoint
- The recommended operating earnings threshold is \$3.55, which is 15¢ or 4.1% less than the target and the low end of earnings guidance range
- The cliff at threshold performance was eliminated for 2017 to provide a performance to increase the threshold to target bandwidth from 10¢ (with a 33% payout) to 15¢ (with 0% payout)
- No payout on any goals if EPS is less than threshold (\$3.55 for 2017)

2017 Operating Earnings Guidance	Operating EPS For ICP	Performance vs. Target	Award Score	Year Over Year Growth from
Maximum \$3.75	≥ \$4.00	+ ≥ 30¢ or 8.1%	200%	10.5%
Target \$3.65	= \$3.70	= target	100%	2.2%
Threshold \$3.55	≤ \$3.55	- ≤ 15¢ or 4.1%	0%	-2.0%

*Excludes \$0.32 of 2016 Wishbone Plant earnings to calculate earnings growth on an equivalent (same store sales) basis.

2017 Operating EPS Measure (70% weight)





2017 Safety and Compliance Goals (12% total weight)

- **DART Rate Improvement for Employees and Contractors (7% weight)**
 - **DART stands for Days Away, Restricted or Job Transfer and is an industry accepted measure that allows companies to focus on more serious events**
 - **DART Rate = (Total Number of DART incidents x 200,000) ÷ Total Hours Worked**
 - **Threshold (0% payout) – 0% improvement vs. three-year average**
 - **Target (100% payout) – 10% improvement vs. three-year average**
 - **Maximum (200% payout) – 20% improvement vs. three-year average**

- **Zero Harm (3% total weight, 1.5% each)**
 - **Zero Employee Fatalities (1.5% weight)**
 - **Threshold (0% payout) – 1 or more fatalities**
 - **Maximum (200% payout) – No Fatalities**
 - **Zero Contractor Fatalities (1.5% weight)**
 - **Threshold (0% payout) – 1 or more fatalities**
 - **Maximum (200% payout) – No Fatalities**



2017 Safety and Compliance Goals (12% total weight)

Environmental Stewardship (1% weight)

- Defined as the number of resolved formal enforcement actions with a fine > \$1,000
- Resolved means the fine is paid within the current calendar year for an event within that calendar year or the previous year
- The \$1k threshold eliminates de minimis parking ticket fines
- Maximum (200% payout) – 0 resolved formal enforcement actions
- Target (100% payout) – 2 resolved formal enforcement actions
- Threshold (0% payout) – 4 resolved formal enforcement actions

- 4 formal enforcement actions were resolved in 2016: 3 in Generation and 1 in Distribution

NERC Compliance (1% weight)

- The number of self-reported NERC violations as a % of the total number of violations
- Maximum (200% payout) – 100% of NERC violations were self-reported
- Target (100% payout) – 90% of NERC violations were self-reported
- Threshold (0% payout) – 80% or less of NERC violations were self-reported

Strategic Initiatives (18% Weight)

2017 Strategic Initiatives		Weight
Business Transformation		8%
Transmission Business Expansion		4%
AEP OnSite Partners		2%
AEP Renewables		2%
Customer Experience		6%
Quality of Service: SAIDI		2%
Quality of Service: J.D. Power Residential Overall Customer Satisfaction Index		2%
Mobile Alert Penetration		2%
Culture & Employee Engagement		4%
Gallup Survey		2%
Diversity		2%
Total Strategic Initiative Weight		18%





Strategic Initiatives (17% Weight)

Business Transformation (8% total weight)

- Transmission Business Expansion (4% total weight)

- Plant in Service (2% weight)
 - Maximum (200% payout) – \$2.3B (~ target + 10%)
 - Target (100% payout) – \$2.1B
 - Threshold (0% payout) – \$2.0B (~ target - 5%)

- Capital Investment (2% weight)
 - Maximum (200% payout) – \$3.23B (~ target + 10%)
 - Target (100% payout) – \$2.94B
 - Threshold (0% payout) – \$2.79B (~ target - 5%)



Strategic Initiatives (18% Weight)

Business Transformation (continued)

- These goals support AEP's strategic initiative of investing \$1B in renewables over 3 the next years

- **AEP OnSite Partners (2% weight) - newly signed renewable contracts during 2017 that commit capital to be spent**

- **Threshold (0% payout) - \$75M of investment commitments**
- **Target (100% payout) - \$125M of investment commitments**
- **Maximum (200% payout) - \$175M of investment commitments**

- **AEP Renewables Growth (2% weight) - Capital associated with existing projects that achieve COD during 2017 plus newly signed contracts during 2017 that commit capital to be spent**

- **Threshold (33.3% payout) - \$100M of investment commitments**
- **Target (100% payout) - \$300M of investment commitments**
- **Maximum (200% payout) - \$400M of investment commitments**



Strategic Initiatives (18% Weight)

Customer Experience and Quality of Service (6% total weight)

- SAIDI (System Average Interruption Duration Index) – (2% Weight)
 - Represents the total number of minutes the average customer has experienced interruption over a 12 month time period excluding major events
 - The SAIDI measure definition, major event exclusions, and targets vary by Operating Company/Jurisdiction due to PUC preference and regional differences
 - Opco Thresholds (0% payout) – 80% of target or 75% of target for KY Power due to historic volatility
 - Opco Targets (100% payout) – Regulatory targets where applicable or year 2 of a 10 year glide path to the regional peer group average or, if the average has already been achieved, maintain this average
 - Opco Maximums (200% payout) – 120% of target or 125% of target for KY Power due to historic volatility
- AEP performance will be determined based on a customer weighted average of Operating Company performance scores



Strategic Initiatives (18% Weight)

Customer Experience and Quality of Service (continued)

- J.D. Power Residential Overall Customer Satisfaction Index (CSI) – (2% Weight)
 - AEP's goal is to achieve top quartile regional peer group performance within 3 years for each operating company
 - For 2017 and 2018 the 2.0 maximum will be a glide path to projected 2019 top quartile performance
 - Operating Company ICP measures and targets are aligned to the four waves of the study conducted during the calendar year
 - Opco Thresholds (0% payout) – Achieve higher of 2016 performance or target CSI score less target to maximum bandwidth
 - Opco Targets (100% payout) – Achieve year 1 CSI score of 3 year glide path to projected 2019 top quarter CSI score
 - Opco Maximums (200% payout) – Achieve projected top quartile CSI score
 - AEP performance will be determined based on a customer weighted average of the Operating Company performance scores
 - AEP Texas is excluded because Texas is a full choice retail state and AEP does not bill customers directly, which reduces interaction with customers



Strategic Initiatives (18% Weight)

Customer Experience and Quality of Service (continued)

- Mobile Alert Penetration – (2% weight)
- Threshold (0% payout) – Current customer penetration
- Target (100% payout) – 25% customer penetration (double current customer penetration)
- Maximum (200% payout) – 38% customer penetration
- Excludes AEP Texas due to difficulty getting email addresses and text numbers for these customers who do not purchase services directly from AEP Texas



Strategic Initiatives (18% Weight)

Culture & Employee Engagement (4% total weight)

- Gallup Pulse Survey (2% weight) - Achieve a year over year improvement in our culture and engagement as demonstrated by Gallup Survey Results (Overall Company Grand Mean)

- The 2017 AEP Employee Culture Survey will be conducted as a census survey, meaning all employees will be invited to participate in the survey
- Analysis from Gallup shows that companies, on average, achieve a .06 improvement in Overall Company Grand Mean between their third and fourth administration of the survey

- Additionally, only 25% of companies achieve a .07 improvement

■ Current Grand Mean: 3.97*

- 4.03* Threshold (.06 improvement) - 0% of target payout
- 4.07* Target (.10 improvement) - 100% of target payout
- 4.17* Maximum (.20 improvement) - 200% of target payout



Strategic Initiatives (18% Weight)

Culture & Employee Engagement (continued)

- **Diversity (2% weight) – Increase the representation of women and minorities to ultimately achieve parity between internal representation and external availability for all AEP positions**
- **Diversity Metric is based on an employee weighted average of female and minority representation rates for all EEO categories, except Officials and Managers, which are double weighted**

- **Threshold, target and maximum levels no lower than current representation rates**

- **Threshold (0% payout): AEP's current representation rates + placement at 80% of the availability* rates for the positions AEP expects to recruit - attrition at AEP's current representation rates**
- **Target (100% payout): AEP's current representation rates + placement at 100% of the availability* rates for the positions AEP expects to recruit - attrition at AEP's current representation rates**
- **Maximum (200% payout): AEP's current representation rates + placement at 120% of the availability* rates for the positions AEP expects to recruit - attrition at AEP's current representation rates**

*Availability is the weighted internal and external availability for the historical mix of internal and external candidates selected for each opportunity. External availability is based on census data for the local, regional or national area from which AEP expects to select for each position. Internal availability is based on AEP's representation rates for the internal positions from which AEP historically recruits for each opportunity.

American Electric Power

Annual Incentive Compensation Plan

Generation

Introduction

The objectives of AEP's Annual Incentive Compensation Plan (the Plan) are to:

- Attract, retain, engage and motivate employees to further the objectives of the company, its customers and the communities it serves;
- Enable high performance by communicating and aligning employee efforts with the Plan's performance objectives; and
- Foster the creation of sustainable shareholder value through achievement of AEP's goals.

2017 Overview

For 2017 the Executive Council, each Operating Company, Customer and Distribution Services (C&DS), Regulated Generation, Competitive Generation, Transmission, Nuclear Generation, and Energy Supply (non-generation), have an annual incentive compensation plan (ICP) with separate goals. All staff groups participate in the ICP program based on the funding measures described below and do not have separate function level incentive goals.

The Plan provides annual incentive compensation to motivate and reward employees based on AEP's performance, business unit performance (if applicable) and, for employees whose payout is discretionary, their individual performance. Annual incentive funding for all plans is tied to AEP's Operating Earnings per Share (70% weight), safety (10% weight) and strategic initiatives (15% weight).

Linking annual incentive compensation to AEP's earnings aligns it with the value employees have created and ensures that AEP meets its commitments to all other stakeholders before setting aside dollars for employee rewards. Relative individual performance is reflected in managers' discretionary allocations from their award pool for all employees in positions in the new (SP20) and exempt salary plans. Group or team performance may also be reflected through discretionary adjustments in the allocation of funding from the annual incentive pool at higher organizational levels.

Each ICP includes a balanced scorecard of performance measures in four categories:

- Financial
- Customer
- Safety and Compliance
- Culture and Employee Engagement

The Plan is intended to drive the achievement of these objectives by clearly communicating them, conveying their importance, aligning employee efforts toward their achievement and further motivating employees to achieve them. This balanced scorecard encourages the

achievement of all types of objectives, rather than the achievement of a few objectives, such as financial objectives, at the expense of others, such as customer service, reliability, safety or compliance.

Performance measures are selected, whenever practical, to provide a “line of sight” that enables employees to see how the work they perform affects their annual incentive award. Objective and quantifiable performance measures are used when they are available but the Plan also includes subjective assessments of performance in less quantifiable areas and for individual performance assessments.

Safety remains the first priority irrespective of the ICP goals and other objectives the Company establishes. To help ensure that all employees have a personal stake in maintaining safe work practices a substantial portion of every plan is tied to safety for both AEP employees and contract workers.

Operating Performance Measures and Weights

Specific performance measures vary by business unit and operating company. The score for each performance measure may range from 0% to 200% of target.

Refer to Appendix A

2017 Funding Measures

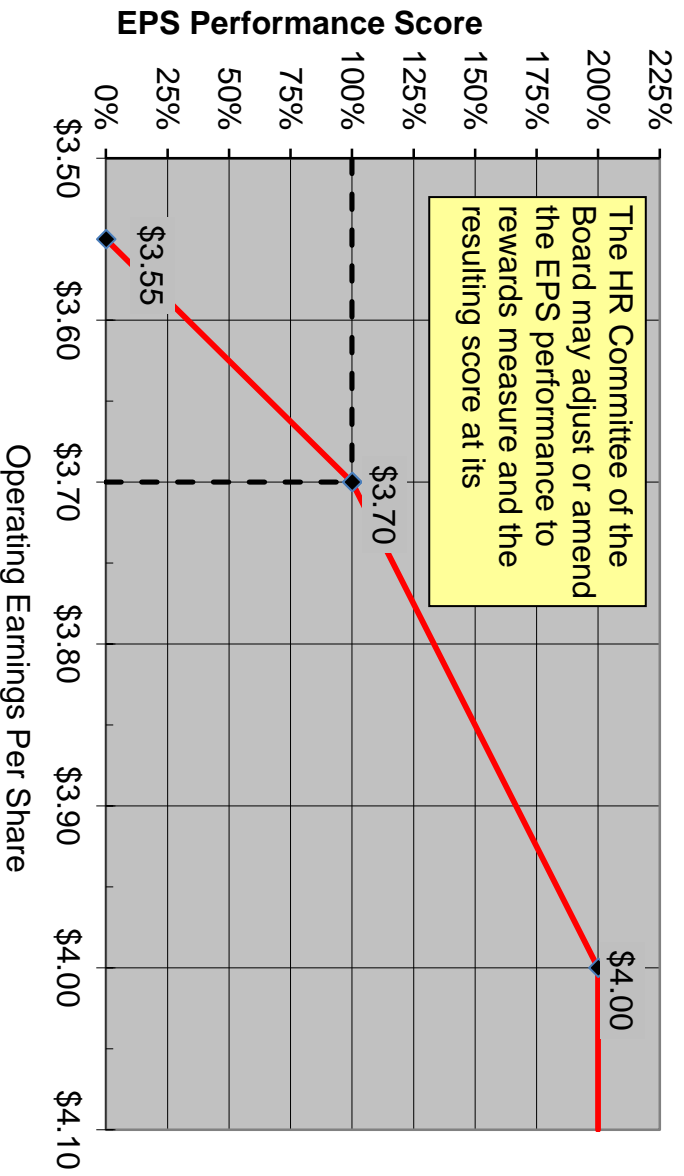
The 2017 funding measures were established by the HR Committee of the Board early in 2017. The maximum funding available is 200% of target funding. As in past years, the CEO and HR Committee of the Board have discretion to adjust annual incentive funding. All incentive plan funding is contingent on AEP achieving operating earnings of at least \$3.55 per share for 2017.

Operating Earnings Per Share – 70%

AEP is committed to generating sustainable value for all its stakeholders through its earnings and growth. Therefore 70% of annual incentive funding is tied to AEP’s Operating Earnings per Share. This ensures that funding is commensurate with the Company’s operating earnings and the extent to which the company can afford to pay annual incentive compensation while also serving the interests of its shareholders, customers and other stakeholders. It also:

- Aligns employee interests with those of customers by strongly encouraging expense discipline;
- Ensures that adequate earnings are generated for AEP’s shareholders and continued investment in AEP’s business before employees are rewarded with annual incentive compensation; and
- Further aligns the financial interests of all AEP employees with the results employees deliver to the Company and all its stakeholders.

2017 Performance to Rewards Measure



Safety and Compliance – 12% Weight
AEP is transforming our safety culture from “Good to Great” by building the systems and culture needed to support and sustain world-class safety performance. This includes building a safety culture based on proactive measures and continuous improvement.

For 2017 DART rate improvement will be measured to focus our attention on incidents with potentially serious consequences. DART stand for Days Away, Restricted or job Transfer and is an industry accepted measure that allows companies to focus on more serious events.

DART Rate Improvement for Employees and Contractors (7% weight)

- DART Rate = (Total Number of DART incidents x 200,000) ÷ Total Hours Worked
 - Threshold (0% payout) – 0% improvement vs. three-year average
 - Target (100% payout) – 10% Improvement vs. three-year average
 - Maximum (200% payout) – 20% Improvement vs. three-year average

Zero Harm (3% weight)

- Zero Employee Fatalities (1.5% weight)
 - Threshold (0% payout) – 1 or more fatalities
 - Maximum (200% payout) – No Fatalities
- Zero Contractor Fatalities (1.5% weight)
 - Threshold (0% payout) – 1 or more fatalities
 - Maximum (200% payout) – No Fatalities

Environmental Stewardship (1% weight) - Defined as the number of resolved formal enforcement actions with a fine > \$1,000

- Resolved means the fine is paid within the current calendar year for an event within that calendar year or the previous year
- Maximum (200% payout) – 0 resolved formal enforcement actions
- Target (100% payout) – 2 resolved formal enforcement actions
- Threshold (0% payout) – 4 or more resolved formal enforcement actions

NERC Compliance (1% weight) - The number of self-reported NERC violations as a percentage of the total number of violations

- Maximum (200% payout) – 100% of NERC violations were self-reported
- Target (100% payout) – 90% of NERC violations were self-reported
- Threshold (0% payout) – 80% or less of NERC violations were self-reported

2017 Strategic Initiatives (18% weight)

There are three areas of focus for AEP's 2017 strategic initiatives: Business Transformation, Customer Experience, and Culture and Employee Engagement. These are the major areas in which AEP needs to make progress in order to enable our future success. Each of these areas of focus includes several performance measures (shown in the table below) that reflect some of the many transformative initiatives the company is undertaking.

	2017 Strategic Initiatives	Weight
Business Transformation		8%
Transmission Business Expansion	4%	
AEP OnSite Partners	2%	
AEP Renewables	2%	
Customer Experience		6%
Quality of Service: SAIDI	2%	
Quality of Service: J.D. Power Residential Overall Customer Satisfaction Index	2%	
Mobile Alert Penetration	2%	
Culture & Employee Engagement		4%
Gallup Pulse Survey	1%	
Diversity	1%	
	Total Strategic Initiative Weight	18%

Business Transformation (8% total weight)

Transmission Business Expansion (4% weight)

- **Plant in Service (2% weight)**
 - Maximum (200% payout) – \$2.3B (~ target plus 10%)
 - Target (100% payout) – \$2.1B
 - Threshold (0% payout) – \$2.0B (~ target less 5%)
- **Capital Investment (2% weight)**
 - Maximum (200% payout) – \$3.23B (~ target plus 10%)

- Target (100% payout) – \$2.94B
- Threshold (0% payout) – \$2.79B (~ target less 5%)

The following goals for AEP Onsite Partners and AEP Renewables support AEP's strategic initiative of investing \$1B in renewables over 3 the next years.

- **AEP OnSite Partners (2% weight)** - newly signed renewable contracts during 2017 that commit capital to be spent
 - Threshold (0% payout) - \$75M of investment commitments
 - Target (100% payout) - \$125M of investment commitments
 - Maximum (200% payout) - \$175M of investment commitments
- **AEP Renewables Growth (2% weight)** - Capital associated with existing projects that achieve COD during 2017 plus newly signed contracts during 2017 that commit capital to be spent
 - Threshold (33.3% payout) - \$100M of investment commitments
 - Target (100% payout) - \$300M of investment commitments
 - Maximum (200% payout) - \$400M of investment commitments

Customer Experience and Quality of Service (6% total weight)

Quality of Service - SAIDI (System Average Interruption Duration Index) – (2% Weight)

SAIDI represents the total number of minutes the average customer has experienced interruption over a 12 month time period excluding major events. Major event exclusions and targets vary by Operating Company or jurisdiction due to PUC preference and regional differences.

- OpCo Thresholds (0% payout) – 80% of target or 75% of target for KY Power due to historic volatility
- OpCo Targets (100% payout) – Regulatory targets where applicable or a 2 year glide path to the regional peer group average or, if the average has already been achieved, maintaining this average
- OpCo Maximums (200% payout) – 120% of target or 125% of target for KY Power due to historic volatility

AEP performance will be determined based on a customer weighted average of the operating company performance scores.

Quality of Service - J.D. Power and Associates (JDPA) Residential Overall Customer

Satisfaction Index (CSI) – (2% Weight)

AEP's goal is to achieve top quartile regional peer group performance within 3 years for each operating company. Operating Company ICP measures and targets are aligned to the four waves of the study conducted during the calendar year

- OpCo Thresholds (0% payout) – Achieve the higher of 2016 performance or the target CSI score less the target to maximum bandwidth
- OpCo Targets (100% payout) – Achieve the year 1 target CSI score on the 3 year glide path to the projected 2019 top quarter CSI score
- OpCo Maximums (200% payout) – Achieve projected top quartile CSI score

AEP performance will be determined based on a customer weighted average of the Operating

Company performance scores. AEP Texas is excluded because Texas is a full choice retail state and AEP does not bill customers directly, which reduces interaction with customers.

Mobile Alert Penetration – (2% weight)

- Threshold (0% payout) – Current customer penetration
- Target (100% payout) – 25% customer penetration (double current customer penetration)
- Maximum (200% payout) – 38% customer penetration

This measure excludes AEP Texas due to difficulty getting email addresses and text numbers for these customers who do not purchase services directly from AEP Texas

Culture & Employee Engagement (4% total weight)

Gallup Pulse Survey (2% weight) - Achieve a year over year improvement in our culture and engagement as demonstrated by Gallup Survey Results (Overall Company Grand Mean). The 2017 AEP Employee Culture Survey will be conducted as a census survey, meaning all employees will be invited to participate in the survey.

- 4.03 Threshold (.06 improvement) - 0% of target payout
- 4.07 Target (.10 improvement) - 100% of target payout
- 4.17 Maximum (.20 improvement) - 200% of target payout

Diversity (2% weight) - AEP's diversity goal is to increase the representation of women and minorities to ultimately achieve parity between internal representation and external availability for all AEP positions. To achieve this goal AEP will need to improve hiring rates for women and minorities for all open positions and take steps to reduce attrition from these groups.

- Threshold (0% payout) for each female and minority category is the higher of: a. AEP's current representation rate plus placements at 80% of the hiring availability rate less attrition at AEP's current representation rate or b. AEP's current representation rate
- Target (100% payout) for each female and minority category is the higher of a. AEP's current representation rate plus placements at 100% of the hiring availability rate less attrition at AEP's current representation rate or b. AEP's current representation rate
- Maximum (200% payout) for each female and minority category is the higher of a.

AEP's current representation rate plus placements at 120% of the hiring availability rate less attrition at AEP's current representation rate or b. AEP's current representation rate

The overall diversity measure is the employee weighted average of female and minority representation rates for all Equal Employment Opportunity (EEO) categories, except Officials and Managers, which are double weighted.

Modifier

The Modifier is a normalizing function that allocates the available funding to each business unit and operating company based on the group's performance relative to the performance of all other business units and operating companies. This results in performance differentiated Overall Scores that fully utilize but never exceed the funding available.

The modifier is calculated as the Overall Score for the Funding Measures divided by the Average

Operating Performance Score (AOPS)¹ for all business units and operating companies as shown below:

$$\frac{\text{Overall Funding Score}}{\text{AOPS}} = \text{Modifier}$$

Maximum Score

If the application of the Modifier results in an Overall Score² for the Plan that exceeds 200% of target, then the Overall Score is capped at 200% of target.

Performance Adjustment

A Performance Adjustment may be used to increase or decrease the Overall Score for the Plan to the extent that the Plan Compensation Committee determines that the Overall Score does not appropriately reflect the group's performance for the year. Such adjustments may be used to capture those aspects of a group's performance that are difficult to quantify or that were not adequately included in the performance measures established at the beginning of the year. For example, a Performance Adjustment might be used to reward a group for successfully completing an important project that was not anticipated at the time the ICP goals were established.

Individual Performance Factor

Management determines individual awards for all employees in positions in the new SP20 salary plan as well as those in exempt positions in the old salary structure. These determinations are based on an assessment of each employee's relative individual performance, the value of their contribution to AEP, business unit, department and individual goals and other business factors, potentially including recent and pending employment changes. Individual performance factors have a lower limit of 0% and no upper limit. However, the approval of a member of the Executive Council is required for individual awards in excess of a participant's maximum award opportunity (see the Target and Maximum Awards section below). In addition managers cannot exceed their award pool.

In determining individual performance factors, managers are expected to assess employee performance and contribution relative to other employees in the same position or grade level as well as the performance expectations for that position. Managers are also expected to avoid a bias in favor of positions at either higher or lower salary grade levels in the organization.

Eligible Earnings

ICP Eligible Earnings include the following:

1. Regular Earnings – Straight Rate
2. Paid Vacation
3. Paid Holidays

¹ AOPS is the average of the Operating Performance Scores for all incentive groups weighted by the aggregate target incentive award for all participants in each incentive group (see attached scorecard for an example).

² See Sample Scorecard for the definition and an example of the calculation of the Overall Score.

4. Paid Personal Days Off
5. Sick Pay (Non-occupational & Occupational)
6. Paid Jury Duty
7. Paid Death in Family
8. Paid Rest Period
9. Inclement Weather Pay
10. Lump Sum Merit Increase
11. Lump Sum General Increase
12. Grievance Settlement for Wages
13. Overtime – Nonexempt and Exempt
14. Shift Premium
15. Sunday Premium
16. Military Pay
17. Trip Pay (River)
18. Paid Union Business

Earnings not classified as one of the above types in AEP's payroll system are not considered for award calculation purposes.

Target and Maximum Award Opportunity

A participant's target award percent is based on the salary grade for his/her position **as of the last day of the last pay period that will be paid during the Plan Year**, as shown in the chart below, except as discussed below for employees in positions at or above SP20 salary plan grade 12 or EXEM salary plan grade 30 at any point during the Plan Year who change targets during the Plan Year:

New Grade Structure		
Salary Plan	Grade	Target %*
SP20	1	5%
	2	5%
	3	5%
	4	6%
	5	8%
	6	9%
	7	10%
	8	10%
	9	15%
	10	20%
	11	25%
	12	30%
	13	35%
	14	40%
	15	45%
	16	50%
	17	55%

New Grade Structure		
Salary Plan	Grade	Target %*
	18	60%
	19	80%
	20 (CEO)	125%

* As a percent of eligible earnings.

Old Grade Structures		
Salary Plan	Grade	Target %*
All nonexempt salary structures and wage schedules except SP20	All grades	5%
	1 - 6	5%
	7 - 12	7%
	13 - 20	10%
	21 - 24	15%
	25 - 26	17%
	27	20%
	28	22%
	29	25%
	30 - 32	27%
EXEM (Old Exempt Structure)	33	30%
	34-35	35%
	36	40%
	38	45%
* As a percent of eligible earnings.	40	50%

A participant's maximum individual award percent is the greater of two times his or her target award percent or the Overall Score for the Plan plus 50% of the target score. This enables managers to positively differentiate awards by up to 50% of an employee's target award to reflect strong individual employee performance even if the Overall Score for the Plan is between 150% and the 200% of target maximum score. A participant's target and maximum award opportunity is their target or maximum award percentage multiplied by their eligible earnings. The approval of a member of AEP's Executive Council in the participant's chain of command is required for awards in excess of a participant's maximum award opportunity.

The award opportunity for employees in SP20 grade 12 or EXEM grade 30 and higher positions at any point during the Plan Year whose target changes will be prorated on a monthly basis and calculated as the total of the independently calculated award opportunities for each position held during the Plan Year, including the earnings, target award percent, and Overall Score for each

such position. This calculation will be performed as shown in the example below:

$$\begin{aligned} \text{Position 1: Earnings} & * \text{Target Award \%} * \text{Overall Score} = \$ \text{Pos 1} \\ \text{Position 2: Earnings} & * \text{Target Award \%} * \text{Overall Score} = \$ \text{Pos 2} \\ \text{Position 3: Earnings} & * \text{Target Award \%} * \text{Overall Score} = \underline{\$ \text{Pos 3}} \\ & = \text{Total Award Opportunity} \end{aligned}$$

The target awards for employees in positions below SP20 salary plan grade 12 or EXEM salary plan grade 30 for the entire Plan Year will be calculated based on the target percent and Overall Score for the position held as of the last day of the last full pay period of the Plan Year.

Award Calculation

Because the Plan includes several discretionary factors, attainment of performance objectives does not guarantee the payment of awards. An award pool will be calculated for each group based on the scores for each performance measure as soon as practical after the conclusion of the Plan Year. The final score for each performance objective is rounded to three decimal places.

The Modifier is computed as follows:

- AEP's funding measures are compared to their performance targets to determine their performance scores, which are rounded to three decimal places (e.g., 105.5% or 1.055). The Weighted Average Score is then calculated based on the weight assigned to each funding measure.
- The Average Operating Performance Score (AOPS) is the average of the Operating Performance Scores for all annual incentive plans (each of which is rounded to three decimal places) weighted by the sum of the incentive targets for all participants in each plan. AOPS is then rounded to three decimal places (e.g., 125.7% or 1.257).
- The Modifier is the Weighted Average Score for the Funding Measures divided by AOPS, the result of which is rounded to three decimal places (e.g., 1.055 / 1.257 = .839)

Board Policy on Recouping Incentive Compensation

This policy applies to all executive officers of the Company as well as all other employees of the Company or any of its subsidiaries at salary grade 15 or equivalent and higher, regulated operating company presidents and officer direct reports to the Company's Chief Executive Officer (collectively, the "Covered Employees").

This policy relates to incentive compensation paid or payable to such Covered Employees, whether under this Plan, the Company's Long Term Incentive Plan or otherwise.

The Board of Directors believes, subject to the exercise of its discretion based on the facts and circumstances of a particular case, that incentive compensation provided by the Company should be reimbursed to the Company if, in the Board's determination:

- Such incentive compensation was received by a Covered Employee where the payment or the award was predicated upon the achievement of financial or other results that were subsequently materially restated or corrected, and
- Incentive compensation would have been materially lower had the achievement been

calculated on such restated or corrected financial or other results.

Therefore, the Plan, hereby, requires Cover Employees to reimburse the Company, if and to the extent that, in the Board's view, such reimbursement is warranted by the facts and circumstances of the particular case or if the applicable legal requirements impose more stringent requirements on the Company to obtain reimbursement of such compensation. The Company also may retain any deferred compensation credited to a Covered Employee, including earnings thereon, if, when and to the extent that it otherwise would become payable.

This right to reimbursement is in addition to, and not in substitution for, any and all other rights the Company might have to pursue reimbursement or such other remedies against a Covered Employee in the course of employment by the Company or otherwise based on applicable legal considerations, all of which are expressly retained by AEP.

Administration

Plan Compensation Committee

The Plan is administered by the HR Committee of the Board of Directors with respect to executives in the HR Committee Review Group and a Plan Compensation Committee consisting of AEP's CEO, COO, CFO, General Counsel and Chief Administrative Officer with respect to all other employees, in either case ("the Committee"). The CEO of American Electric Power Company, Inc. may change the composition and number of members of the Plan Compensation Committee at any time for any reason. The Committee may delegate day-to-day authority to administer the Plan, as they deem appropriate. In lieu of an official meeting, the Committee may act by written or electronic consent of a majority of its members. The Committee's interpretations of the Plan provisions are conclusive and binding on all Participants.

The Committee has sole authority to amend or terminate the Plan and may do so at any time, for any reason, either with or without notice. The Committee may adopt, delete, modify or adjust performance objectives, metrics and weights at any time, including after the conclusion of a Plan Year, should the Committee determine that changes in AEP's structure or other significant business situations would produce an Overall Score or awards for a Plan Year that are not reflective of the underlying economics or performance of the business. The Committee may also modify the eligibility criteria for the Plan, add or delete individual participants or groups of participants and adjust any or all award payouts.

Executive Council members with management responsibility for a business unit or staff function served by the Plan have the authority to increase or decrease the award pool for any group under their purview, provided that such adjustments do not increase the total of all award pools under their purview.

Plan Year

A "Plan Year" begins on January 1st and ends on December 31st of each year for which the Plan is in effect.

Participation

All full-time and regular part-time AEP employees who are actively employed during the Plan Year will be “Participants” in the Plan for such Plan Year except:

1. Employees participating in any other **annual** AEP incentive plan,
2. Employees participating in any other plan or agreement that explicitly excludes their participation in the Plan or annual incentive compensation plans in general,
3. Employees represented by unions that decline the opportunity to participate in the Plan or all similar incentive plans,
4. Temporary employees and contract workers, and
5. Employees hired by AEP on or after December 1 of such Plan Year.

Participation in an incentive compensation plan in any Plan Year shall not confer any right to continued employment or to continued participation in the Plan for any subsequent Plan Year.

Participant Responsibility

Plan Participants are expected to comply with all applicable company policies and directives as well as all applicable laws and regulations. Failure to do so may have many serious consequences, including but not limited to forfeiture of award eligibility in the current and future Plan Years.

Award Eligibility

Participants must be **actively** employed on the last day of a Plan Year to be eligible to receive an award for that Plan Year, except as otherwise noted below.

If a Participant transfers during the Plan Year to a position that is ineligible to participate in the Plan, then such Participant will be ineligible to receive an award for such Plan Year from the Plan, unless the participant was SP20 salary plan grade 12 or EXEM salary plan grade 30 or higher during the Plan Year. In which case, the participant will be eligible for a prorated award for the Plan Year as specified in the “Target and Maximum Award Opportunity” section above.

If a participant is on Leave of Absence status as of the last day of the Plan Year, the Participant will be eligible to receive an award for the Plan Year to the extent that they have eligible earnings for the Plan Year.

Employees who become inactive during the Plan Year due to participation in an AEP long-term disability plan will be eligible to receive an award for that Plan Year to the extent that they have eligible earnings for the Plan Year, although long-term disability benefits are not ICP eligible earnings.

Participants forfeit their incentive plan eligibility if they are discharged for cause or resign in lieu of being “discharged for cause” at any time prior to the award payment date, unless the Plan Compensation Committee approves an award payment to such employee.

Satisfaction of eligibility criteria does not guarantee the payment of any awards.

Termination Due to Death or Retirement

Participants remain **eligible** for an award, based on their eligible earnings for a Plan Year, if their employment with AEP is terminated during the Plan Year due to their death or retirement and they were employed by AEP through at least the first 3 months of the Plan Year. In the event of a Participant's death, any award to which they would otherwise be entitled will become payable to the Participant's estate. For the purposes of the Plan, "retirement" is defined as termination of employment for any reason other than for cause or as part of a voluntary or involuntary severance or layoff, after the Participant attains at least age 55 and five years of AEP service.

Termination Due to Voluntary and Involuntary Severance and Layoffs

Due to the severe financial constraints that generally give rise to the need for employee severances and layoffs, Participants with both discretionary and non-discretionary award opportunities are **ineligible** for an award if they would have a separation from service with AEP during the Plan Year as part of a voluntary or involuntary severance program or a layoff as defined under a collective bargaining agreement or the Supplemental Handbook and they are not rehired during the Plan Year. Severed employees are ineligible for an award even if, in connection with their severance, they are (a) placed on a Leave of Absence or (b) offered, but fail to meet the qualifications to be paid a severance benefit (e.g., if they would fail to timely sign and return, a Severance and Release of All Claims Agreement). In the event a severed employee is rehired during the Plan Year, such Participant will be eligible for an award only to the extent of their earnings for the period after they were rehired.

Resignations after the Plan Year

Participants who are **actively** employed on the last day of a Plan Year but who subsequently voluntarily resign their employment remain eligible for an award. However, for discretionary participants, their actual or pending voluntary resignation is a business factor that management may consider in determining their award payment, if any.

Award Payment

Award payment will be made within 2-1/2 months after the end of the year or as soon as practical thereafter if it is impractical, either administratively or economically, to make payments within this time period.

The Plan is hereby approved by:

EVP or Higher Name	Date
EVP Title	

Values	Strategic Focus Areas			ICP METRIC	WEIGHT	UNITS			
Zero Harm	Live the Culture Playbook and Links for Success	Generation DART Rate (Incl Employees & Contractors)*	10%	Rate	0.41	0.00			
		Vehicle and Equipment Operation*	4%	Milestone Completion	Attend and participate in Driving Summit				
		Top 5 Risks*	4%	Milestone Completion	Did not implement remaining High Risk Mitigation work process identified in 2016				
		Site Inspection Program*	4%	Milestone Completion	Mitigation Plan and Budgets developed for all sites with High Risk hazards				
		Core Visit Quality & Participation*	4%	Average of Participation & Quality Scores	Mitigation Plan and Budgets developed for all sites with High Risk hazards				
		Good Catch Quality*	4%	%	Mitigation Plan and Budgets developed for all sites with High Risk hazards				
		Integrity and Stewardship	Maintain & improve commitment to environmental stewardship	Environmental Event Recordable Reduction*	10%		% Reduction	44 = 0% Reduction	37 = 15% Reduction 30 = 30% Reduction
				NERC Compliance	5%		Notice of Violation Factor	>5	
				Identify and manage Risk				5	
				0					
Customer Focus	Use capital to benefit customers & grow returns	Project Schedule Adherence	5%	Count	4	100%			
		SCPP (Strategic Capital Prioritization Process) Adherence	5%	%	80%				
		Procurement Savings	2.5%	Capital \$ Target	\$2.4M				
		\$8.8M							
Adapt & Achieve	Achieve asset performance targets (revenue/cost)	Procurement Savings	2.5%	O&M \$ Target	\$1.4M	100.00%			
		EFORv	12.5%	% +/- 1.0 Target	8.0				
		EFORd	7.5%	% +/- 1.0 Target	8.8				
		5.9							
Grouped Strategic Goals	Live the Culture playbook & Links for Success	ILMS - Intro to Lean Management System*	5%	Count of ILMS events	10	20			
		Develop & Deploy new, high-value technologies	2.5%	Quarterly Reporting	Subjective				
		Achieve asset performance targets	5%	Quarterly Reporting	Subjective				
		Maintain & improve commitment to environmental stewardship	2.5%	Quarterly Reporting	Subjective				
Discretionary Adjustments	ICP Metric Related KPIs	Employee Recordable	Monthly			30			
		Employee DART	Monthly						
		Employee Severity	Monthly						
		Contractor Recordable	Monthly						
		Contractor DART	Monthly						
		<p>* Denotes metrics that are shared between Regulated and Unregulated Note: Refer to the metric definitions for further details No one gets hurt and everyone goes home in the same or better condition than they came to work.</p>							
		Generation Leadership team will subjectively assess Grouped Strategic Goals. The team performance may be reflected through discretionary adjustments in the allocation of funding from the annual Generation incentive pool*							
		2017 TARGETS 1.00 2.00							

2017 Generation ICP Master Scorecard-Competitive Generation

Values	Strategic Focus Areas	ICP METRIC	WEIGHT	UNITS	
		Generation DART Rate (Incl Employees & Contractors)	10%	Rate	
	Zero Harm	Vehicle and Equipment Operation	4%	Milestone Completion	
		Top 5 Risks	4%	Milestone Completion	
		Site Inspection Program	4%	Milestone Completion	
		Core Visit Quality & Participation	4%	Average of Participation & Quality Scores	
		Good Catch Quality	4%	%	
		Integrity and Stewardship	Environmental Event Recordable Reduction*	10%	% Reduction
			NERC Compliance*	5%	Count
	Customer Focus	ACP Energy Supply EBITDA	50.0%	Earnings	
		Achieve asset performance targets			
	Grouped Strategic Goals	Live the Culture Playbook and Links for Success			
		Links for Success & Live the Culture Playbook & Links for Success		Count of ILMs events	
		Develop & Deploy new, high-value technologies	5.0%	Quarterly Reporting	
	Adapt & Achieve	Maintain & improve commitment to environmental stewardship		Quarterly Reporting	
		Identify and manage Risk		Quarterly Reporting	
		Maintain & improve commitment to environmental stewardship		Subjective	
	Grouped Strategic Goals	Live the Culture Playbook & Links for Success		Count of ILMs events	
		Links for Success & Live the Culture Playbook & Links for Success		20	
		Develop & Deploy new, high-value technologies		30	
	Strategic Focus Areas	2017 TARGETS	1.00		
		2017 TARGETS	2.00		

ZERO Harm

No one gets hurt and everyone goes home in the same or better condition than they came to work.

* Denotes metrics that are shared between Regulated and Unregulated
Note: Refer to the metric definitions for further details

ICP Metric Related KPIs

Employee Recordable	Monthly
Employee DART	Monthly
Employee Severity	Monthly
Contractor Recordable	Monthly
Contractor DART	Monthly

Discretionary Adjustments

Generation Leadership team will subjectively assess Grouped Strategic Goals. The team performance may be reflected through discretionary adjustments in the allocation of funding from the annual Generation incentive pool*

Measure Description:

This measure will track the rate of DART incidents for employees (does not include Hearing Loss Cases).

DART – Days, Away, Restricted, or Transfer

DART is calculated by adding up the number of incidents that had one or more lost days, (includes fatalities), one or more restricted days or that resulted in an employee or contractor transferring to a different job within the company, and multiplying that number by 200,000, then dividing that number by the number of employee & contractor labor hours at the company.

The DART rate is a single employee and contractor Dart rate improvement. Employee and contractor performance will be combined.

Formula: DART Rate = (Total Number of DART incidents x 200,000) ÷ Total Hours Worked.

Behavior Metric is intended to drive & why it is important to Generation.
AFP is using DART rate to place additional emphasis and focus on those events that are causing the most serious harm and have life-altering consequences.



Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Corporate Safety & Health
Unit: Milestone Completion

- Implement 5 Recommendations
- Develop Recommendations & Get Recommendation Approval & Develop Implementation Plans
- 0 - Attend & Participate in Driving Summit

Measure Description:

Complete Driving Summit Q2 2017. Business Units to implement agreed upon recommendations from the 2017 Driving Summit.

Target audience will include 2-3 Generation representatives from the Grand Central Safety Committees along with several members of the Telematics Strike Team and several Contractor Representatives.

Approximately 15 - 30 individuals are expected to attend the Driving Summit in addition to the Facilitators.

Attendance at the 2017 Driving Summit will be tracked in the KEY Learning Management System.

This ICP is a shared measurement across business units.

Behavior Metric is intended to drive & why it is important to Generation.

The safety of our personnel is top priority. In 2016, AEP suffered two vehicle related fatalities. The intent is to focus on driving safety and develop and implement plans that will improve driving safety across all of AEP, working together with other business units to obtain better results.



Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Generation Representative
Unit: Milestone Completion

Targets
 Implement 2 new high risk processes or two from another BU or one of each.
 1 – Implemented remaining High Risk work processes identified in 2016.
 0 – Did not implement remaining High Risk Mitigation work process identified in 2016.

Measure Description:

Teams consisting of Generation and Safety and Health representatives will identify additional high risk activity/s and complete the remaining high risks activity identified in 2016. Implemented = Identification of gaps in procedure, develop processes and standardize work procedures to address gaps/risks for identified high risks.

Activity	2016 Status	2017 Status
Racking Circuit Breakers / Opening / Closing Breakers Arc Flash Switch	Done	Done
Natural Gas Piping Prevention Maintenance	Done	Done
Air Break Switch Operation	Done	Done
Poppet Valves	Done	Done
Confined Space Entry	2016 Remaining	2016 Remaining
Barge Safety	New	New
TBD	New	New

Behavior Metric is intended to drive & why it is important to Generation.

The intent of this metric is to improve AEP's risk management system through standard application and use of risk matrices and hazard controls. Additionally, this metric places emphasis on severity of risks over frequency to further reduce safety events associated with such activities.



Metric Applies to: Regulated, Shared,

Competitive

Metric Owner: Generation Representative

Unit: Milestone Completion

Targets

Work practices implemented for all sites with High Risk hazards and mitigation plans requiring on-site physical work implemented for 25% of sites with High Risk hazards

1 – Mitigation Plan and Budgets developed for all sites with High Risk hazards

0 – Mitigation Plan and Budgets not developed for all sites with High Risk hazards

Measure Description:

In 2016 a multi-year effort to evaluate, prioritize, and mitigate high risk hazards across Generation began. A team of Generation and Corporate Safety personnel performed inspections of AEP generating plants to identify high risk hazards and prioritize their findings. In 2017, the effort will continue with focus on development of mitigation plans and budgetary needs to address high risk hazards. Additionally, in 2017 Generation will work towards implementation of work practices and mitigation plans for all high risk hazards that require on-site physical work to implement.

Behavior Metric is intended to drive & why it is important to Generation. The goal is to identify and implement processes and physical change needed to mitigate high risk hazards across Generation to make work environments safer. Additionally, to understand the budgetary needs required and ensure they are incorporated into facility budgets.



Measure Description:

CORE - Coaching through Observation, Recognition, and Engagement

Core visit training was rolled out in 2016 to introduce a standard methodology across AEP for leaders to improve engagement and provide coaching and recognition for those performing the work. This metric measures both participation and quality of observed visits.

Quality - Each observed visit completed is required to be scored on a CORE Visit Evaluation Form and entered into the applicable (**competitive** or **regulated**) database, which is located on Generation's AEPNow Intranet page for Performance, under Core Evaluation Submittals.

Participation - Dependent upon when the leader was trained, each leader that has completed training will be assigned a number of required observed visits to complete. (see next page.)

Behavior Metric is intended to drive & why it is important to Generation.
Core visits drive engagement and a structured approach to providing coaching and recognition. Engagement facilitates a positive employee leader environment that improves every aspect of our safety, work, and culture.



Participation Requirements:

Training Attended	Observed Visits Required
2016	2
2017 Q1	3
2017 Q2	2
2017 Q3	1
2017 Q4	1

Formula:

Average : ((Quality score Received Total / Quality Score Available Total)+
 (Participation % = Participation score Received Total / Participation Score Available Total))

* Participation is based on each participant and no extra credit is available. (i.e. If John is required to complete 3 visits and does 4 his participation score is 100%. If John is required to complete 2 and has completed 1 his participation score is 50%.)

Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Corporate Safety and Health
Unit: %

Measure Description:

Generation has been reporting Good Catches in the SHEMS system for several years. A Good Catch is "recognizing, correcting, and reporting a situation or condition that appears to have the potential to cause harm or damage". [Link to Good Catch Video](#).

The Quality metric is assessed by Corporate Safety and Health who randomly select 10% of good catches submitted on a monthly basis by Generation and scoring them on the following quality components. (See page 2 for quality component definitions)

- Proper Classification of Event
- Understandable Description / Information
- Event Sharing
- Corrective/Preventative Action
- Closeout of Report

Formula: % = Sum of Points Received from Assessment Score/ Sum of Total Points Available

Behavior Metric is intended to drive & why it is important to Generation. Identification and follow up on good catches is an important part of our Zero Harm journey. It is a true leading indicator and is used to prevent harm and share across all of AEP.



Quality Component Definitions

1. **Proper Classification of Event** - The event is properly classified. This quality component consists of: appropriate sub-classification as Good Catch/Hazard Recognition; work activity; and S&H event type. An injury, illness, vehicle accident or equipment damage event should not be classified as a Good Catch.
2. **Understandable Description/Information** - Describe the event so that others can easily understand what happened. Fields evaluated include employee & supervisor description; immediate actions taken; and S&H professional comments.
3. **Event Sharing** - Local management should determine other locations that should know about the Good Catch (OPCO, entire BU, all AEP, etc.) and document in supervisor comment field. Below are examples for sharing: Local area only- event determined to be area specific only. Example: employee saw deer on side of road while driving into work.
- A corrective action could be as simple as a notice about deer and good driving practices covered in the morning briefing. Location specific- event determined to be location specific only. Example: contract work to fix roads leading to/from the location has caused narrowed the roadway. This is corrected by general announcement throughout the affected location and the placement of warning devices. Business Unit specific- event determined to potentially affect the entire BU or multiple business units. Example: a specific tool utilized for maintenance activities in generation is determined to have a flaw that needs to be shared across all of generation.
- Company wide- events determined to potentially affect the entire organization and coordinated through the VP- Safety & Health.
4. **Corrective/Preventative Action** – Successfully addressing the Good Catch results in the event's closure. This means when an event is reported, it is evaluated and action taken for correction and/or prevention. If the situation was only guarded at the time of discovery and Corrective/Preventative Action (CAPA) has to be scheduled for any reason, this shall be documented in the CAPA section of SHEMS. When immediate, the CAPA is and should be documented in the employee and/or supervisor description. If an event analysis is required, the location management shall assure all information is completed in accordance with the S&H Event Analysis Policy and documented in SHEMS.
5. **Closure of Report** - S&H Professional shall close the event report within 14 days of completion of all CAPA and/or event analysis.

Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Fossil/Hydro Generation/Environmental Services
Unit: % Reduction from Baseline

Measure Description:

The Opacity Exceedance measure is the number of stacks with greater than 2% calendar time with excess opacity, including startup, shutdown and out of service time.
The Oil and Chemical Spills measure is the number of reportable spills.
The Wastewater Exceptions (NDPES) measure is the number of reportable operating water permits exceptions.

The Notices of Violation measure is the number of formal environmental enforcement actions resolved with a fine >\$1000 levied against Generation and Regulated Commercial Operations facilities. Environmental NOV's will be counted that are the result of an action or programmatic deficiency that occurred beginning up to 24 months prior to the start of the plan year. NOV's that meet this definition will count twice toward the metric.

Baseline – average of # of stacks exceeding opacity target (Opac), reportable spills and NDPES permit exceptions (EER) and formal enforcement actions (NOV) for 2014 - 16 adjusted for unit retirements and divestments.

Behavior Metric is intended to drive & why it is important to Generation

Generation's environmental reputation is driven in part by the total number of incidents reported to agencies. The total number of reportable events has not improved in recent years. Focusing this metric on total reportable events should drive efforts to identify the underlying causes of all events and proactive measures to take actions to prevent them.



Exclusions:

NOVs that will be excluded: minor environmental impact resulting in fines of less than \$1,000; NOV enforcement actions that result from activities outside of the Generation organization; NOVs associated with non-AEP Operated facility; NOVs associated with the mining process (non-environmental)

Formula: Opacity Formula

$$\left[\frac{\sum_{i=1}^N \text{TotalExceedanceTime}(\text{Min_or_Hours})}{\sum_{i=1}^N \text{TotalCalendarTime}(\text{Min_or_Hours})} \right]$$

Where, Total Exceedance Time = Hours or Minutes with Opacity Greater than the Allowed Limit.
 Total Calendar Time = Hours or Minutes within each reporting period.

Formula for Metric: Total = $N_{\text{Opac}} + N_{\text{ERR}} + 2*N_{\text{NOV}}$
Total_{Baseline} = Average (Total₂₀₁₄, Total₂₀₁₅, Total₂₀₁₆)

Total Baseline = 44
 $[0+(33-0)+2*1]_{2014} + [0+(46-1)+2*2]_{2015} + [0+(42-2)+2*4]_{2016} = 35 + 49 + 48 = 132$

This metric will include the total count of Opacity, Spills, NPDES and NOV events as described above

Metric Applies to: Regulated, Shared
Metric Owner: Engineering Services
Unit: Notice of Violation Factor

Targets
0 NOV Factor
5 NOV Factor
0 - > 5 NOV Factor

Measure Description:

Notice of Violation (NOV) Factor is the sum of NERC Potential Violations (PV) identified by Regional Entity Auditors (External Discovery) multiplied by the Risk Assessment Committee Ranking (RAC Determination) for the Generation and Regulated Commercial Operations compliance programs. The RAC Determination grades the severity of the violation based on Bulk Electric System Harm and Risk factors.

PV's that will be counted are documented incidents in ARCS as External Discovery with the Causing BU as Generation or Regulated Commercial Operations, and a Discovery Date falling within the plan year. Each PV is reviewed by the AEP Risk Assessment Committee, and assigned a Risk/Harm Determination that aligns to the RAC Ranking Factor.

Exceptions: PVs that result from activities outside of the Generation organization; PVs associated with non-AEP Operated facilities; and PVs that have been self-identified and self-reported by AEP (Internal Discovery).

Variances from the definition or listed exceptions will require Generation EVP approval.

Formula: NOV Factor = SUM (PV) x (RAC Factor)

Behavior Metric is intended to drive & why it is important to Generation
Raised issue awareness and self-reporting behavior that will mitigate risks or NERC violations.



RAC Ranking Factor

RAC Factor	HARM	RISK
0	Minor	Low
1	Minor	Moderate
2	Minor	High
3	Intermediate	Low
4	Intermediate	Moderate
5	Substantial	Low
6	Intermediate	High
7	Substantial	Moderate
8	Extreme	Low
9	Substantial	High
10	Extreme	Moderate
11	Extreme	High

Incident 1	External Discovery Causing BU: Generation RAC Determination: low/minor	NOV = 0
Incident 2	External Discovery Causing BU: Commercial Operations (REG) RAC Determination: high/minor	NOV = 1
Incident 3	Internal Discovery Causing BU: Generation RAC Determination: low/minor	NOV = 2
Incident 4	External Discovery Causing BU: IT RAC Determination: low/intermediate	NOV = 3
Incident 5	External Discovery Causing BU: Commercial Operations (REG) RAC Determination: moderate/minor	NOV = 4

$$NOV = (1 \times 0) + (1 \times 2) + (0 \times 0) + (0 \times 3) + (1 \times 1)$$

$$NOV = 0 + 2 + 0 + 0 + 1$$

$$NOV = 3$$

PV's caused outside of the Generation organization (Incident 4) or Discovered Internally and Self-Reported (Incident 3) are not counted in the NOV Factor formula (0).

Example

Targets
 0 missed milestones
 100 - 2 missed milestones
 0.00 - 4 missed milestones

Item No. 30
 Attachment 1
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Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Project, Controls, & Construction
Unit: Count

Metric Description: The Project Schedule Adherence metric will measure the number of milestones completed versus a defined milestone schedule. The hard-copy signed list of projects to be included in this measure is kept with the 2017 ICP documentation in the Generation Business Planning and Performance group.

The milestone list includes selected projects for Regulated and GenCo. Facilities (Engineering, Environmental, and Major Plant projects managed by Projects, Controls, & Construction and Engineering Services).

This measure will track the number of milestones that are completed on time. Key project milestones will be defined by the Vice Presidents of Engineering Services and Projects, Controls, & Construction for all projects included in this measure. There are a total of 50 milestones.

* Variance and waiver requests, for events outside of the organizations' control, may be submitted to the EVP - Generation for review and approval.

Formula: # of Key Project Milestones missed according to schedule

Behavior Metric is intended to drive & why it is important to Generation.

Our success relies on the success of our customers. The schedule adherence metric for Generation capital projects focuses and engages the organization to implement projects in a timely manner that meets the needs of our customers, whether its meeting an environmental compliance date or an outage date to return a plant to service.



Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Generation Business Units
Unit: %

Targets:
1 - 100%
2 - 90%
0 - 80%

Measure Description: % Conforming Improvement Requisitions (IR's) The Annual SCBP Meetings will provide Number of Conforming (C¹) and Non-conforming (NC) counts. NC and Emergent conforming (EC) will then be impacted by emergent project meetings held the remainder of the year. The NC and EC classification will be assigned on a per project basis by the SCPB Board following the Emergent meeting.

**If Generation's capital spend is significantly increased or decreased due to corporate initiatives and the number of projects are adversely impacted, those projects will be excluded from the calculation.

Behavior Metric is intended to drive & why it is important to Generation.
Utilize the annual regulated OpCo SCPP board meetings to plan and budget a 3-year capital plan utilizing all known system/equipment liability assessments to continue to increase confidence and predictability in the capital plan.



Formula:

% Conforming Improvement Requisitions (IR's) The Annual SCB Meetings will provide Number of Conforming (C¹) and Non-conforming (NC) counts. NC and Emergent conforming (EC) will then be impacted by emergent project meetings held the remainder of the year. The NC and EC classification will be assigned on a per project basis by the SCB Board after the emergent meeting is held.

Process Adherence - % Conforming IR projects: % = (C¹+EC) / (NC+C¹+EC)*(100) %

● NC - Number of Non-Conforming (NC) IR projects

● EC - Number of Emergent Conforming (EC) IR projects the SCB Board classifies as conforming. Projects that are conforming to the SCB process but are emergent due to equipment failures, environmental rule changes, or other causes outside of Generation's control)

● C¹ - Number of Conforming (C) IR projects 1st time (Annual SCB Meetings)

Reference – QMSU-OI-710.01.01 Strategic Capital Prioritization Process

Metric Applies to: Regulated & Shared
Metric Owner: Procurement & GBS
Unit: \$ Targets

Measure Description:

This metric will be evaluated on the effectiveness of implementing and utilizing the following key procurement initiatives; as well as the final cost savings associated with these initiatives.

- GE Steam and Gas Turbine purchases
- Non-Destructive Engineering Sourcing Event
- Painting and Coating Sourcing Event
- Safety Services Sourcing Event
- Motor, Pump, Valve, and Gearbox Repair Sourcing Events
- ARA Blankets – Increase competitiveness

Original savings targets were established in 2015 for the period 2015-2023, based on projected spend for materials, supplies, and outside services for each of these years. These targets are adjusted yearly based on the current years projected spend for materials, supplies, and outside services. The adjusted target is the 1.0 ICP target. The 2.0 ICP target is the 1.0 target +10%, and the 0 ICP target is 30% of the 1.0 target.

Formula: Sum of \$ Savings as tracked by Generation Procurement

Behavior Metric is intended to drive & why it is important to Generation.
Leverage the buying power of AEP over all Business Units and Operating Companies by utilizing blanket purchase agreements. This will increase competition among AEP's vendors which will yield cost savings to Generation, as well as AEP.



Targets
0.0 - O&M 5.1 M / Capital 8.8 M
1.0 - O&M 4.6 M / Capital 8.0 M
2.0 - O&M 1.4 M / Capital 2.4 M

Metric Applies to: Regulated & Shared

Metric Owner: Commercial Operations

Unit: % +/- 1.0 target

Measure Description:

- EFOR_v is an AEP defined metric designed to represent a measure of the value lost due to forced outages.
- EFOR (Equivalent Forced Outage Rate) is a NERC defined performance metric representing the percentage of time a unit is in a Forced Outage state.
- Neither EFOR nor EFOR_v are impacted by planned and maintenance outages. Individual units will be weighted based on generation YTD 2017 plus preceding two calendar years to determine fleet ICP result with the following exception:
 - Wilkes 2 & 3 will be excluded until return from known Forced/Planned Outage
- Variances from the definition or listed exceptions will require Generation EVP approval.

Formula: $EFOR_v = 1 - \text{Actual Available Revenue Rate} / \text{Base Available Revenue Rate}$

Behavior Metric is intended to drive & why it is important to Generation:

- Take advantage of every opportunity to safely ensure the reliability of the plants.
- Customers' success relies on our ability to maintain plant availability during periods of peak power prices.
- Meeting EFOR targets requires us to pursue greatness by owning the challenges that the plants face and individually being part of creative solutions.



Base
Available Revenue Rate

Total Hours in Period

Less

Planned Outages

Less

Maintenance Outages

Multiplied times

LMP_{Hour/Unit}

Actual
Available Revenue Rate

Total Hours in Period

Less

Planned Outages

Less

Maintenance Outages

Less

Forced Outages

Multiplied times

LMP_{Hour/Unit}

Metric Applies to: Regulated & Shared
Metric Owner: Commercial Operations
Unit: % +/- 1.0 target

Measure Description: Metric is intended to recognize the value of managing unit level forced outages in relationship to AEP/RTO capacity planning.

- EFORd (Equivalent Forced Outage Rate Demand) is a NERC defined performance metric representing the percentage of time a unit is forced out but in demand by the RTO.
- AEP will utilize NERC methodology for all RTO's (PJM, SPP, and ERCOT) to calculate EFORd utilizing Power GADS data.
- Planned outage and maintenance outages are not factored in the EFORd metric.
- Individual units will be weighted using a NERC methodology (capacity based) to determine fleet ICP result with the following exceptions:
 - Wilkes 2 & 3 will be excluded until return from known Forced/Planned Outage
- Variances from the definition or listed exceptions will require Generation EVP approval.

Formula: $EFORD = ((FOHD+EFDHD)/(SH+FOHD))*100\%$ - see page 2 for more detail.

- Behavior Metric is intended to drive & why it is important to Generation:
- Take advantage of every opportunity to safely ensure the reliability of the plants.
- Customers' success relies on our ability to maintain plant availability when in demand.
- Meeting EFOR targets requires us to pursue greatness by owning the challenges that the plants face and individually being part of creative solutions.



Metric Applies to: Regulated & Shared
Metric Owner: Commercial Operations
Unit: % of YTD

Measure Description: The Cost Recovery metric will measure the total actual fuel related costs (as defined below) approved for recovery in all Public Service Commission (PSC) rulings(s) received during the year for the AEP Operating Companies as compared to the total amount of such costs originally sought for recovery in the applicable case(s).

Cost components measured in Fuel Cost Recovery metric include those subject to a Fuel Adjustment Clause (FAC). These costs include direct coal, natural gas, and fuel oil supply and lignite mining costs incurred to support the AEP Operating Companies' fossil fuel generation requirements. Long-Term purchased power (LTPP), transportation and related services costs, such as direct freight charges, affiliate barge transportation costs, the cost of reagents, coal terminal/trans loading costs, railcar maintenance costs, and fuel handling are also subject to the Fuel Cost Recovery metric; to the extent these items are included in the FAC in the various jurisdictions.

Any disallowances for items, which have not been deemed imprudent by the respective PSC, will not be included as a disallowance for purposes of this metric. Any disallowance incurred and deemed imprudent by PSC Order will be recognized in the year that the order was received, unless challenged by the Company or Intervener through the PSC and/or the courts. When challenged, the disallowance will be recorded in the year when the matter reaches the point where all regulatory and legal challenges have been exhausted.



Any disallowance incurred for a specific multi-year transaction/activity will only be recognized in the applicable single year. Any future disallowance for this same activity will not be recognized by this metric.

Variances from the definition or listed exceptions should be routed through the SVP, Commercial Operations to the Manager of Planning & Performance for final review and approval by the Generation EVP.

Formula: Approved Fuel and LTPP \$ (as defined) YTD/Actual Fuel and LTPP \$ (as defined) Requested for Recovery = % Cost Recovered.

In the event there are multiple Cost Recovery Orders from the various state and federal agencies having jurisdiction over the AEP Operating Companies, the metric will aggregate the jurisdictional costs for all cases in which a Final Order is received during the current year.

Behavior Metric is intended to drive & why it is important to Generation:

- Prudency and Commission approval of FAC items demonstrates our focus on the customer and their success
- Successful FAC outcomes build trust with our Commission and supports our efforts to do the right thing every time
- The FAC process is a highly coordinated effort between various teams that requires the team to ask for help, give help and value each other's help.

Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Generation Business Units
Unit: # of LMS Events Completed

Measure Description: Continue the continuous improvement cultural transformation using the Lean Management System (LMS) as the framework for the sustainment strategy.

The LMS event, at minimum, will result in

- **One or more improvements** to either Standard Work or Visual Management and the implementation of basic Leader Standard Work
- **Creation** of Standard Work or Visual Management and the implementation of basic Leader Standard Work
- A charter or event overview
- A list of participants
- A initial list of action items developed at the event

Behavior Metric is intended to drive & why it is important to Generation.

Continuous improvement is critical to generation's cultural transformation. Utilizing the LMS system and tools will foster employee engagement, build accountability systems that align with corporate strategy and provide visual workplace that incorporates leader standard work and behaviors to coach, support, and teach continuous improvement. The LMS workshops are business centered workshops designed to utilize elements of the LMS to solve the event charter's objective and prevent the problem from returning.

Targets

30 LMS Events completed
 1 - 20 LMS Events completed
 0 - 10 LMS Events completed



Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Generation Business Units
Unit: Quarterly Reporting

Targets = Subjective

Measure Description:

Each organization will report out quarterly on areas they are involved in related to Developing & Deploying New High Value Technologies (Applications, Renewables, etc...)

Examples / BU Lead

- Columbus Collaboratory/Lessons Learned Sharing – Performance Improvement
- Customer Related solutions/contacts made – All BUs
- WAM – Generation Business Services
- Innovation Blitz's - New Technology Development & Technology Support
- Risk Management – Operational Risk Management

Note: Generation Leadership will subjectively assess this Grouped Strategic Goal.

Behavior Metric is intended to drive & why it is important to Generation.

The purpose is to encourage engagement, ownership, and communication, foster idea generation, and overall drive towards an improved customer experience.



Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Generation Business Units
Unit: Quarterly Reporting

Targets = Subjective

Measure Description: Net Book Value (NBV) "Coal Plant Mortgage" charts have been developed to depict the relationship between Capital Investment and NBV over a plant's depreciable life. This initiative will use the NBV charts to help optimize capital spend while maintaining an alignment between the plant's NBV and its retirement date.

Significant Milestones

- Complete true-up of NBV and alignment with approved 10 year budget.
- Complete Amos pilot by the NBV team which focuses on Risk Balance Technical Options (RBO) and operating levers.
- Share and implement recommendations/best practices from Amos Pilot.
- Incorporate NBV charts into the Strategic Capital Prioritization Process (SCPP).
- Complete NBV updates after budget input for alignment with IRC meetings.

NOTE: Generation Leadership will subjectively assess this Grouped Strategic Goal.

Behavior Metric is intended to drive & why it is important to Generation.

To ensure capital investments are prudent, cost effective, and optimized while maintaining an alignment between the plants NBV and its retirement date. This will enable the plants to effectively mitigate the risk affiliated with plant liabilities and cost recovery, and redeploy unused capital in a timely manner so it can be effectively utilized within AEP.



Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Fossil/Hydro Generation/Environmental Services
Unit: Quarterly Reporting

Target: Subjective

Measure Description: In addition to changing the focus of the quantitative metric to total reportable events, proactive measures to continue to increase awareness of environmental risks at the operating facilities are needed to better identify operational and equipment risks and bring about improvement in environmental performance.

Milestones:

- Complete implementation of the CCR and Mercury VSA event recommendations
- Begin implementation of the recommendations from the ILMIS Environmental Deep Dive
- Develop a "Good Catch" environmental program modeled on the safety good catch program and an implementation plan for 2018 roll-out
- Expand the scope and application of the Environmental Event Reporting system to capture activity beyond the ICP metric events to increase awareness of events and corrective actions across Generation.

Note: Generation Leadership will subjectively assess this Grouped Strategic Goal.

Behavior Metric is intended to drive & why it is important to Generation

Generation environmental performance as measured by the quantitative performance metric has declined over the past two years. A more proactive approach to identifying environmental risks is needed, including identifying human performance issues as well as operational issues. Improving environmental performance is important for Generation's and AEP's external reputation with regulatory agencies and customers.



Values	Strategic Focus Areas			ICP METRIC	WEIGHT	UNITS			
Zero Harm	Live the Culture Playbook and Links for Success	Generation DART Rate (Incl Employees & Contractors)*	10%	Rate	0.41	0.00			
		Vehicle and Equipment Operation*	4%	Milestone Completion	0.37				
		Top 5 Risks*	4%	Milestone Completion	0.37				
		Site Inspection Program*	4%	Milestone Completion	0.37				
		Core Visit Quality & Participation*	4%	Average of Participation & Quality Scores	0.37				
		Good Catch Quality*	4%	%	0.37				
		Integrity and environmental stewardship	Maintain & improve commitment to environmental stewardship	10%	% Reduction		44 = 0% Reduction	37 = 15% Reduction	30 = 30% Reduction
		Stewardship	Identify and manage Risk	5%	NERC Compliance		Notice of Violation Factor	>5	5
Customer Focus	Use capital to benefit customers & grow returns	Project Schedule Adherence	5%	Count	4	2	0		
		SCPP (Strategic Capital Prioritization Process) Adherence	5%	%	80%	90%	100%		
		Procurement Savings	2.5%	O&M \$ Target	\$1.4M	\$4.6M	\$5.1M		
Adapt & Achieve	Achieve asset performance targets (revenue/cost)	EFORv	12.5%	% +/- 1.0 Target	8.0	6.7	5.3		
		EFORd	7.5%	% +/- 1.0 Target	8.8	7.3	5.9		
		Regulatory Cost Recovery	5%	%	99.50%	99.75%	100.00%		
		Live the Culture playbook & Links for Success	ILMS - Intro to Lean Management System*	5%	Count of ILMS events	10	20	30	
Grouped Strategic Goals	Live the Culture playbook & Links for Success	Develop & Deploy new, high-value technologies	2.5%	Quarterly Reporting	Subjective	Subjective	Subjective		
		Achieve asset performance targets	5%	Quarterly Reporting	Subjective	Subjective	Subjective		
		Maintain & improve commitment to environmental stewardship	2.5%	Quarterly Reporting	Subjective	Subjective	Subjective		
		Grouped Strategic Goals	Net Book Value	5%	Quarterly Reporting	Subjective	Subjective	Subjective	
Discretionary Adjustments	Grouped Strategic Goals	Live the Culture playbook & Links for Success	ILMS - Intro to Lean Management System*	5%	Count of ILMS events	10	20	30	
		Maintain & improve commitment to environmental stewardship	Environmental Compliance*	2.5%	Quarterly Reporting	Subjective	Subjective	Subjective	

2017 TARGETS

0.00

1.00

2.00

0.33

0.37

0.41

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No one gets hurt and everyone goes home in the same or better condition than they came to work.

* Denotes metrics that are shared between Regulated and Unregulated

Note: Refer to the metric definitions for further details

Generation Leadership team will subjectively assess Grouped Strategic Goals. The team performance may be reflected through discretionary adjustments in the allocation of funding from the annual Generation incentive pool*

Report Only

Employee Recordable

Employee DART

Employee Severity

Contractor Recordable

Contractor DART

Monthly

Monthly

Monthly

Monthly

Monthly

Monthly

Monthly

Monthly

Monthly

Monthly

Monthly

Monthly

Monthly

Monthly

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Monthly

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Monthly

Monthly

Monthly

Monthly

2017 Generation ICP Master Scorecard-Competitive Generation

Values	Strategic Focus Areas	ICP METRIC	WEIGHT	UNITS	2017 TARGETS	2017 TARGETS		
Zero Harm	Live the Culture Playbook and Links for Success	Generation DART Rate (incl Employees & Contractors)	10%	Rate	0.41	0.37		
		Vehicle and Equipment Operation	4%	Milestone Completion	Attend and participate in Driving Summit	Develop Recommendations	Implement 5 Recommendations	
		Top 5 Risks	4%	Milestone Completion	Did not implement remaining High Risk Mitigation work process identified in 2016	Implemented remaining High Risk work processes identified in 2016	Implement 2 new high risk processes or two from another BU or one of each	
		Site Inspection Program	4%	Milestone Completion	Mitigation Plan and Budgets not developed for all sites with High Risk hazards	Mitigation Plan and Budgets developed for all sites with High Risk hazards	Work practices implemented for all sites with High Risk hazards and mitigation plans requiring on-site physical work implemented for 25% of sites with High Risk hazards	
		Core Visit Quality & Participation	4%	Average of Participation & Quality Scores	80%	90%	95%	
		Good Catch Quality	4%	%	80%	90%	95%	
		Integrity and Stewardship	Maintain & improve commitment to environmental stewardship	Environmental Event Recordable Reduction*	10%	% Reduction	0%	15%
				NERC Compliance*	5%	Count	>5	5
Customer Focus	Achieve asset performance targets	ACP Energy Supply EBITDA	50.0%	Earnings				
		Live the Culture Playbook & Links for Success	ILMS - Intro to Lean Management System	Count of ILMS events	10	20	30	
Develop & Deploy new, high-value technologies	Maintain & improve commitment to environmental stewardship				Quarterly Reporting	Quarterly Reporting	Subjective	
					Quarterly Reporting	Quarterly Reporting	Subjective	
Grouped Strategic Goals	Develop & Deploy new, high-value technologies	Maintain & improve commitment to environmental stewardship	5.0%	Quarterly Reporting	Quarterly Reporting	Subjective		
							ICP Metric Related KPIs	Report Only
Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly		
Discretionary Adjustments		Generation Leadership team will subjectively assess Grouped Strategic Goals. The team performance may be reflected through discretionary adjustments in the allocation of funding from the annual Generation incentive pool*						

ZERO Harm

No one gets hurt and everyone goes home in the same or better condition than they came to work.

* Denotes metrics that are shared between Regulated and Unregulated
 Note: Refer to the metric definitions for further details

Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Generation Business Services
Unit: Rate

Measure Description:

This measure will track the rate of DART incidents for employees (does not include Hearing Loss Cases).

DART – Days, Away, Restricted, or Transfer

DART is calculated by adding up the number of incidents that had one or more lost days, (includes fatalities), one or more restricted days or that resulted in an employee or contractor transferring to a different job within the company, and multiplying that number by 200,000, then dividing that number by the number of employee & contractor labor hours at the company.

The DART rate is a single employee and contractor Dart rate improvement. Employee and contractor performance will be combined.

Formula: DART Rate = (Total Number of DART incidents x 200,000) ÷ Total Hours Worked.

Behavior Metric is intended to drive & why it is important to Generation.
AEP is using DART rate to place additional emphasis and focus on those events that are causing the most serious harm and have life-altering consequences.



Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Corporate Safety & Health
Unit: Milestone Completion

Implement 5 Recommendations
Develop Recommendations &
Get Recommendation Approval &
Develop Implementation Plans
0 - Attend & Participate in Driving Summit

Measure Description:

Complete Driving Summit Q2 2017. Business Units to implement agreed upon recommendations from the 2017 Driving Summit.

Target audience will include 2-3 Generation representatives from the Grand Central Safety Committees along with several members of the Telematics Strike Team and several Contractor Representatives.

Approximately 15 - 30 individuals are expected to attend the Driving Summit in addition to the Facilitators.

Attendance at the 2017 Driving Summit will be tracked in the KEY Learning Management System.

This ICP is a shared measurement across business units.

Behavior Metric is intended to drive & why it is important to Generation.

The safety of our personnel is top priority. In 2016, AEP suffered two vehicle related fatalities. The intent is to focus on driving safety and develop and implement plans that will improve driving safety across all of AEP, working together with other business units to obtain better results.



Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Generation Representative
Unit: Milestone Completion

Implement 2 new high risk processes or two from another BU or one of each.
 1 – Implemented remaining High Risk work processes identified in 2016.
 0 – Did not implement remaining High Risk Mitigation work process identified in 2016.

Measure Description:

Teams consisting of Generation and Safety and Health representatives will identify additional high risk activity/s and complete the remaining high risks activity identified in 2016.
 Implemented = Identification of gaps in procedure, develop processes and standardize work procedures to address gaps/risks for identified high risks.

Activity	2016 Status	2017 Status
Racking Circuit Breakers / Opening / Closing Breakers Arc Flash Switch	Done	Done
Natural Gas Piping Prevention Maintenance	Done	Done
Air Break Switch Operation	Done	Done
Poppet Valves	Done	Done
Confined Space Entry	2016 Remaining	2016 Remaining
Barge Safety	New	New
TBD	New	New

Behavior Metric is intended to drive & why it is important to Generation.

The intent of this metric is to improve AEP's risk management system through standard application and use of risk matrices and hazard controls. Additionally, this metric places emphasis on severity of risks over frequency to further reduce safety events associated with such activities.



Metric Applies to: Regulated, Shared,

Competitive

Metric Owner: Generation Representative

Unit: Milestone Completion

- Work practices implemented for all sites with High Risk hazards and mitigation plans requiring on-site physical work implemented for 25% of sites with High Risk hazards
- 1 – Mitigation Plan and Budgets developed for all sites with High Risk hazards
 - 0 – Mitigation Plan and Budgets not developed for all sites with High Risk hazards

Measure Description:

In 2016 a multi-year effort to evaluate, prioritize, and mitigate high risk hazards across Generation began. A team of Generation and Corporate Safety personnel performed inspections of AEP generating plants to identify high risk hazards and prioritize their findings. In 2017, the effort will continue with focus on development of mitigation plans and budgetary needs to address high risk hazards. Additionally, in 2017 Generation will work towards implementation of work practices and mitigation plans for all high risk hazards that require on-site physical work to implement.

Behavior Metric is intended to drive & why it is important to Generation. The goal is to identify and implement processes and physical change needed to mitigate high risk hazards across Generation to make work environments safer. Additionally, to understand the budgetary needs required and ensure they are incorporated into facility budgets.



Measure Description:

CORE - Coaching through Observation, Recognition, and Engagement

Core visit training was rolled out in 2016 to introduce a standard methodology across AEP for leaders to improve engagement and provide coaching and recognition for those performing the work. This metric measures both participation and quality of observed visits.

Quality - Each observed visit completed is required to be scored on a CORE Visit Evaluation Form and entered into the applicable (**competitive** or **regulated**) database, which is located on Generation's AEPNow Intranet page for Performance, under Core Evaluation Submittals.

Participation - Dependent upon when the leader was trained, each leader that has completed training will be assigned a number of required observed visits to complete. (see next page.)

Behavior Metric is intended to drive & why it is important to Generation.
Core visits drive engagement and a structured approach to providing coaching and recognition. Engagement facilitates a positive employee leader environment that improves every aspect of our safety, work, and culture.



Participation Requirements:

Training Attended	Observed Visits Required
2016	2
2017 Q1	3
2017 Q2	2
2017 Q3	1
2017 Q4	1

Formula:

Average : ((Quality score Received Total / Quality Score Available Total)+
 (Participation % = Participation score Received Total / Participation Score Available Total))

* Participation is based on each participant and no extra credit is available. (i.e. If John is required to complete 3 visits and does 4 his participation score is 100%. If John is required to complete 2 and has completed 1 his participation score is 50%.)

Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Corporate Safety and Health
Unit: %

Targets
95%
90%
0 - 80%

Attachment 1
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Item No. 30

KPSC Case No. 2017-00179
KUC's First Set of Data Requests Dated August 14th, 2017

Measure Description:

Generation has been reporting Good Catches in the SHEMS system for several years. A Good Catch is "recognizing, correcting, and reporting a situation or condition that appears to have the potential to cause harm or damage". [Link to Good Catch Video](#).

The Quality metric is assessed by Corporate Safety and Health who randomly select 10% of good catches submitted on a monthly basis by Generation and scoring them on the following quality components. (See page 2 for quality component definitions)

- Proper Classification of Event
- Understandable Description / Information
- Event Sharing
- Corrective/Preventative Action
- Closeout of Report

Formula: % = Sum of Points Received from Assessment Score/ Sum of Total Points Available

Behavior Metric is intended to drive & why it is important to Generation. Identification and follow up on good catches is an important part of our Zero Harm journey. It is a true leading indicator and is used to prevent harm and share across all of AEP.



Quality Component Definitions

- 1. Proper Classification of Event** - The event is properly classified. This quality component consists of: appropriate sub-classification as Good Catch/Hazard Recognition; work activity; and S&H event type. An injury, illness, vehicle accident or equipment damage event should not be classified as a Good Catch.
- 2. Understandable Description/Information** - Describe the event so that others can easily understand what happened. Fields evaluated include employee & supervisor description; immediate actions taken; and S&H professional comments.
- 3. Event Sharing** - Local management should determine other locations that should know about the Good Catch (OPCO, entire BU, all AEP, etc.) and document in supervisor comment field. Below are examples for sharing: Local area only- event determined to be area specific only. Example: employee saw deer on side of road while driving into work.
- A corrective action could be as simple as a notice about deer and good driving practices covered in the morning briefing. Location specific- event determined to be location specific only. Example: contract work to fix roads leading to/from the location has caused narrowed the roadway. This is corrected by general announcement throughout the affected location and the placement of warning devices. Business Unit specific- event determined to potentially affect the entire BU or multiple business units. Example: a specific tool utilized for maintenance activities in generation is determined to have a flaw that needs to be shared across all of generation.
- Company wide- events determined to potentially affect the entire organization and coordinated through the VP- Safety & Health.
- 4. Corrective/Preventive Action** - Successfully addressing the Good Catch results in the event's closure. This means when an event is reported, it is evaluated and action taken for correction and/or prevention. If the situation was only guarded at the time of discovery and Corrective/Preventative Action (CAPA) has to be scheduled for any reason, this shall be documented in the CAPA section of SHEMS. When immediate, the CAPA is and should be documented in the employee and/or supervisor description. If an event analysis is required, the location management shall assure all information is completed in accordance with the S&H Event Analysis Policy and documented in SHEMS.
- 5. Closure of Report** - S&H Professional shall close the event report within 14 days of completion of all CAPA and/or event analysis.

Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Fossil/Hydro Generation/Environmental Services
Unit: % Reduction from Baseline

Measure Description:

The Opacity Exceedance measure is the number of stacks with greater than 2% calendar time with excess opacity, including startup, shutdown and out of service time.
The Oil and Chemical Spills measure is the number of reportable spills.
The Wastewater Exceptions (NDPES) measure is the number of reportable operating water permits exceptions.

The Notices of Violation measure is the number of formal environmental enforcement actions resolved with a fine >\$1000 levied against Generation and Regulated Commercial Operations facilities. Environmental NOV's will be counted that are the result of an action or programmatic deficiency that occurred beginning up to 24 months prior to the start of the plan year. NOV's that meet this definition will count twice toward the metric.

Baseline – average of # of stacks exceeding opacity target (Opac), reportable spills and NDPES permit exceptions (EER) and formal enforcement actions (NOV) for 2014 - 16 adjusted for unit retirements and divestments.

Behavior Metric is intended to drive & why it is important to Generation

Generation's environmental reputation is driven in part by the total number of incidents reported to agencies. The total number of reportable events has not improved in recent years. Focusing this metric on total reportable events should drive efforts to identify the underlying causes of all events and proactive measures to take actions to prevent them.



Targets
30% reduction
15% reduction
0 - 0% reduction

Exclusions:

NOVs that will be excluded: minor environmental impact resulting in fines of less than \$1,000; NOV enforcement actions that result from activities outside of the Generation organization; NOVs associated with non-AEP Operated facility; NOVs associated with the mining process (non-environmental)

Formula: Opacity Formula

$$\left[\frac{\sum_{i=1}^N \text{TotalExceedanceTime}(\text{Min_or_Hours})}{\sum_{i=1}^N \text{TotalCalendarTime}(\text{Min_or_Hours})} \right]$$

Where, Total Exceedance Time = Hours or Minutes with Opacity Greater than the Allowed Limit.
 Total Calendar Time = Hours or Minutes within each reporting period.

Formula for Metric: Total = $N_{\text{Opac}} + N_{\text{ERR}} + 2*N_{\text{NOV}}$
Total_{Baseline} = Average (Total₂₀₁₄, Total₂₀₁₅, Total₂₀₁₆)

Total Baseline = 44
 $[0+(33-0)+2*1]_{2014} + [0+(46-1)+2*2]_{2015} + [0+(42-2)+2*4]_{2016} = 35 + 49 + 48 = 132$

This metric will include the total count of Opacity, Spills, NPDES and NOV events as described above

Metric Applies to: Regulated, Shared
Metric Owner: Engineering Services
Unit: Notice of Violation Factor

Targets
0 NOV Factor
5 NOV Factor
0 - > 5 NOV Factor

Measure Description:

Notice of Violation (NOV) Factor is the sum of NERC Potential Violations (PV) identified by Regional Entity Auditors (External Discovery) multiplied by the Risk Assessment Committee Ranking (RAC Determination) for the Generation and Regulated Commercial Operations compliance programs. The RAC Determination grades the severity of the violation based on Bulk Electric System Harm and Risk factors.

PV's that will be counted are documented incidents in ARCS as External Discovery with the Causing BU as Generation or Regulated Commercial Operations, and a Discovery Date falling within the plan year. Each PV is reviewed by the AEP Risk Assessment Committee, and assigned a Risk/Harm Determination that aligns to the RAC Ranking Factor.

Exceptions: PVs that result from activities outside of the Generation organization; PVs associated with non-AEP Operated facilities; and PVs that have been self-identified and self-reported by AEP (Internal Discovery).

Variances from the definition or listed exceptions will require Generation EVP approval.

Formula: NOV Factor = SUM (PV) x (RAC Factor)

Behavior Metric is intended to drive & why it is important to Generation
Raised issue awareness and self-reporting behavior that will mitigate risks or NERC violations.



RAC Ranking Factor

RAC Factor	HARM	RISK
0	Minor	Low
1	Minor	Moderate
2	Minor	High
3	Intermediate	Low
4	Intermediate	Moderate
5	Substantial	Low
6	Intermediate	High
7	Substantial	Moderate
8	Extreme	Low
9	Substantial	High
10	Extreme	Moderate
11	Extreme	High

Incident 1	External Discovery Causing BU: Generation RAC Determination: low/minor	NOV = 0
Incident 2	External Discovery Causing BU: Commercial Operations (REG) RAC Determination: high/minor	NOV = 1
Incident 3	Internal Discovery Causing BU: Generation RAC Determination: low/minor	NOV = 2
Incident 4	External Discovery Causing BU: IT RAC Determination: low/intermediate	NOV = 3
Incident 5	External Discovery Causing BU: Commercial Operations (REG) RAC Determination: moderate/minor	NOV = 4

$$NOV = (1 \times 0) + (1 \times 2) + (0 \times 0) + (0 \times 3) + (1 \times 1)$$

$$NOV = 0 + 2 + 0 + 0 + 1$$

$$NOV = 3$$

PV's caused outside of the Generation organization (Incident 4) or Discovered Internally and Self-Reported (Incident 3) are not counted in the NOV Factor formula (0).

Example

- 0.00 - 0 missed milestones
- 1.00 - 2 missed milestones
- 0.00 - 4 missed milestones

Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Project, Controls, & Construction
Unit: Count

Measure Description: The Project Schedule Adherence metric will measure the number of milestones completed versus a defined milestone schedule. The hard-copy signed list of projects to be included in this measure is kept with the 2017 ICP documentation in the Generation Business Planning and Performance group.

The milestone list includes selected projects for Regulated and GenCo. Facilities (Engineering, Environmental, and Major Plant projects managed by Projects, Controls, & Construction and Engineering Services).

This measure will track the number of milestones that are completed on time. Key project milestones will be defined by the Vice Presidents of Engineering Services and Projects, Controls, & Construction for all projects included in this measure. There are a total of 50 milestones.

* Variance and waiver requests, for events outside of the organizations' control, may be submitted to the EVP - Generation for review and approval.

Formula: # of Key Project Milestones missed according to schedule

Behavior Metric is intended to drive & why it is important to Generation.

Our success relies on the success of our customers. The schedule adherence metric for Generation capital projects focuses and engages the organization to implement projects in a timely manner that meets the needs of our customers, whether its meeting an environmental compliance date or an outage date to return a plant to service.



Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Generation Business Units
Unit: %

Targets:
1 - 100%
2 - 90%
0 - 80%

Measure Description: % Conforming Improvement Requisitions (IR's) The Annual SCBP Meetings will provide Number of Conforming (C¹) and Non-conforming (NC) counts. NC and Emergent conforming (EC) will then be impacted by emergent project meetings held the remainder of the year. The NC and EC classification will be assigned on a per project basis by the SCPB Board following the Emergent meeting.

**If Generation's capital spend is significantly increased or decreased due to corporate initiatives and the number of projects are adversely impacted, those projects will be excluded from the calculation.

Behavior Metric is intended to drive & why it is important to Generation.
Utilize the annual regulated OpCo SCPP board meetings to plan and budget a 3-year capital plan utilizing all known system/equipment liability assessments to continue to increase confidence and predictability in the capital plan.



Formula:

% Conforming Improvement Requisitions (IR's) The Annual SCB Meetings will provide Number of Conforming (C¹) and Non-conforming (NC) counts. NC and Emergent conforming (EC) will then be impacted by emergent project meetings held the remainder of the year. The NC and EC classification will be assigned on a per project basis by the SCB Board after the emergent meeting is held.

Process Adherence - % Conforming IR projects: % = (C¹+EC) / (NC+C¹+EC)*(100) %

● NC - Number of Non-Conforming (NC) IR projects

● EC - Number of Emergent Conforming (EC) IR projects the SCB Board classifies as conforming. Projects that are conforming to the SCB process but are emergent due to equipment failures, environmental rule changes, or other causes outside of Generation's control)

● C¹ - Number of Conforming (C) IR projects 1st time (Annual SCB Meetings)

Reference – QMSU-OI-710.01.01 Strategic Capital Prioritization Process

Metric Applies to: Regulated & Shared
Metric Owner: Procurement & GBS
Unit: \$ Targets

Measure Description:

This metric will be evaluated on the effectiveness of implementing and utilizing the following key procurement initiatives; as well as the final cost savings associated with these initiatives.

- GE Steam and Gas Turbine purchases
- Non-Destructive Engineering Sourcing Event
- Painting and Coating Sourcing Event
- Safety Services Sourcing Event
- Motor, Pump, Valve, and Gearbox Repair Sourcing Events
- ARA Blankets – Increase competitiveness

Original savings targets were established in 2015 for the period 2015-2023, based on projected spend for materials, supplies, and outside services for each of these years. These targets are adjusted yearly based on the current years projected spend for materials, supplies, and outside services. The adjusted target is the 1.0 ICP target. The 2.0 ICP target is the 1.0 target +10%, and the 0 ICP target is 30% of the 1.0 target.

Formula: Sum of \$ Savings as tracked by Generation Procurement

Behavior Metric is intended to drive & why it is important to Generation.
Leverage the buying power of AEP over all Business Units and Operating Companies by utilizing blanket purchase agreements. This will increase competition among AEP's vendors which will yield cost savings to Generation, as well as AEP.



Attachment 1	Page 30 of 392
0 - O&M 5.1 M / Capital 8.8 M	
1 - O&M 4.6 M / Capital 8.0 M	
0.0 - O&M 1.4 M / Capital 2.4 M	

Metric Applies to: Regulated & Shared

Metric Owner: Commercial Operations

Unit: % +/- 1.0 target

Measure Description:

- EFOR_v is an AEP defined metric designed to represent a measure of the value lost due to forced outages.
- EFOR (Equivalent Forced Outage Rate) is a NERC defined performance metric representing the percentage of time a unit is in a Forced Outage state.
- Neither EFOR nor EFOR_v are impacted by planned and maintenance outages. Individual units will be weighted based on generation YTD 2017 plus preceding two calendar years to determine fleet ICP result with the following exception:
 - Wilkes 2 & 3 will be excluded until return from known Forced/Planned Outage
- Variances from the definition or listed exceptions will require Generation EVP approval.

Formula: EFOR_v = 1-Actual Available Revenue Rate/Base Available Revenue Rate

Behavior Metric is intended to drive & why it is important to Generation:

- Take advantage of every opportunity to safely ensure the reliability of the plants.
- Customers' success relies on our ability to maintain plant availability during periods of peak power prices.
- Meeting EFOR targets requires us to pursue greatness by owning the challenges that the plants face and individually being part of creative solutions.



Base
Available Revenue Rate

Total Hours in Period

Less

Planned Outages

Less

Maintenance Outages

Multiplied times

LMP_{Hour/Unit}

Actual

Available Revenue Rate

Total Hours in Period

Less

Planned Outages

Less

Maintenance Outages

Less

Forced Outages

Multiplied times

LMP_{Hour/Unit}

Metric Applies to: Regulated & Shared
Metric Owner: Commercial Operations
Unit: % +/- 1.0 target

Measure Description: Metric is intended to recognize the value of managing unit level forced outages in relationship to AEP/RTO capacity planning.

- EFORd (Equivalent Forced Outage Rate Demand) is a NERC defined performance metric representing the percentage of time a unit is forced out but in demand by the RTO.
- AEP will utilize NERC methodology for all RTO's (PJM, SPP, and ERCOT) to calculate EFORd utilizing Power GADS data.
- Planned outage and maintenance outages are not factored in the EFORd metric.
- Individual units will be weighted using a NERC methodology (capacity based) to determine fleet ICP result with the following exceptions:
 - Wilkes 2 & 3 will be excluded until return from known Forced/Planned Outage
- Variances from the definition or listed exceptions will require Generation EVP approval.

Formula: $EFORD = ((FOHD+EFDHD)/(SH+FOHD))*100\%$ - see page 2 for more detail.

- Behavior Metric is intended to drive & why it is important to Generation:
- Take advantage of every opportunity to safely ensure the reliability of the plants.
- Customers' success relies on our ability to maintain plant availability when in demand.
- Meeting EFOR targets requires us to pursue greatness by owning the challenges that the plants face and individually being part of creative solutions.



$$EFORD = \frac{[FOHD + (EFDHD)]}{[SH + FOHD]} \times 100\%$$

where

$$FOHD = f \times FOH$$

EFDHD = (EFDH – EFDHRS) if reserve shutdown events reported, or

= (fp × EFDH) if no reserve shutdown events reported – an approximation.

$$fp = (SH/AH)$$

$$f = \left(\frac{1}{1} + \frac{I}{1} \right) \left(\frac{1}{1} + \frac{I}{1} + \frac{D}{1} \right)$$

r=Average Forced outage deration = (FOH) / (# of FO occurrences)

D=Average demand time = (SH) / (# of unit actual starts)

T=Average reserve shutdown time = (RSH) / (# of unit attempted starts)

Metric Applies to: Regulated & Shared
Metric Owner: Commercial Operations
Unit: % of YTD

Measure Description: The Cost Recovery metric will measure the total actual fuel related costs (as defined below) approved for recovery in all Public Service Commission (PSC) rulings(s) received during the year for the AEP Operating Companies as compared to the total amount of such costs originally sought for recovery in the applicable case(s).

Cost components measured in Fuel Cost Recovery metric include those subject to a Fuel Adjustment Clause (FAC). These costs include direct coal, natural gas, and fuel oil supply and lignite mining costs incurred to support the AEP Operating Companies' fossil fuel generation requirements. Long-Term purchased power (LTPP), transportation and related services costs, such as direct freight charges, affiliate barge transportation costs, the cost of reagents, coal terminal/trans loading costs, railcar maintenance costs, and fuel handling are also subject to the Fuel Cost Recovery metric; to the extent these items are included in the FAC in the various jurisdictions.

Any disallowances for items, which have not been deemed imprudent by the respective PSC, will not be included as a disallowance for purposes of this metric. Any disallowance incurred and deemed imprudent by PSC Order will be recognized in the year that the order was received, unless challenged by the Company or Intervener through the PSC and/or the courts. When challenged, the disallowance will be recorded in the year when the matter reaches the point where all regulatory and legal challenges have been exhausted.



Any disallowance incurred for a specific multi-year transaction/activity will only be recognized in the applicable single year. Any future disallowance for this same activity will not be recognized by this metric.

Variances from the definition or listed exceptions should be routed through the SVP, Commercial Operations to the Manager of Planning & Performance for final review and approval by the Generation EVP.

Formula: Approved Fuel and LTPP \$ (as defined) YTD/Actual Fuel and LTPP \$ (as defined) Requested for Recovery = % Cost Recovered.

In the event there are multiple Cost Recovery Orders from the various state and federal agencies having jurisdiction over the AEP Operating Companies, the metric will aggregate the jurisdictional costs for all cases in which a Final Order is received during the current year.

Behavior Metric is intended to drive & why it is important to Generation:

- Prudence and Commission approval of FAC items demonstrates our focus on the customer and their success
- Successful FAC outcomes build trust with our Commission and supports our efforts to do the right thing every time
- The FAC process is a highly coordinated effort between various teams that requires the team to ask for help, give help and value each other's help.

Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Generation Business Units
Unit: # of LMS Events Completed

Measure Description: Continue the continuous improvement cultural transformation using the Lean Management System (LMS) as the framework for the sustainment strategy.

The LMS event, at minimum, will result in

- **One or more improvements** to either Standard Work or Visual Management and the implementation of basic Leader Standard Work
- **Creation** of Standard Work or Visual Management and the implementation of basic Leader Standard Work
- A charter or event overview
- A list of participants
- A initial list of action items developed at the event

Behavior Metric is intended to drive & why it is important to Generation.

Continuous improvement is critical to generation's cultural transformation. Utilizing the LMS system and tools will foster employee engagement, build accountability systems that align with corporate strategy and provide visual workplace that incorporates leader standard work and behaviors to coach, support, and teach continuous improvement. The LMS workshops are business centered workshops designed to utilize elements of the LMS to solve the event charter's objective and prevent the problem from returning.

Targets

30 LMS Events completed
 1 - 20 LMS Events completed
 0 - 10 LMS Events completed



Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Generation Business Units
Unit: Quarterly Reporting

Targets = Subjective

Measure Description:

Each organization will report out quarterly on areas they are involved in related to Developing & Deploying New High Value Technologies (Applications, Renewables, etc...)

Examples / BU Lead

Columbus Collaboratory/Lessons Learned Sharing – Performance Improvement
Customer Related solutions/contacts made – All BUs
WAM – Generation Business Services
Innovation Blitz's - New Technology Development & Technology Support
Risk Management – Operational Risk Management

Note: Generation Leadership will subjectively assess this Grouped Strategic Goal.

Behavior Metric is intended to drive & why it is important to Generation.

The purpose is to encourage engagement, ownership, and communication, foster idea generation, and overall drive towards an improved customer experience.



Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Generation Business Units
Unit: Quarterly Reporting

Targets = Subjective

Measure Description: Net Book Value (NBV) "Coal Plant Mortgage" charts have been developed to depict the relationship between Capital Investment and NBV over a plant's depreciable life. This initiative will use the NBV charts to help optimize capital spend while maintaining an alignment between the plant's NBV and its retirement date.

Significant Milestones

- Complete true-up of NBV and alignment with approved 10 year budget.
- Complete Amos pilot by the NBV team which focuses on Risk Balance Technical Options (RBO) and operating levers.
- Share and implement recommendations/best practices from Amos Pilot.
- Incorporate NBV charts into the Strategic Capital Prioritization Process (SCPP).
- Complete NBV updates after budget input for alignment with IRC meetings.

NOTE: Generation Leadership will subjectively assess this Grouped Strategic Goal.

Behavior Metric is intended to drive & why it is important to Generation.

To ensure capital investments are prudent, cost effective, and optimized while maintaining an alignment between the plants NBV and its retirement date. This will enable the plants to effectively mitigate the risk affiliated with plant liabilities and cost recovery, and redeploy unused capital in a timely manner so it can be effectively utilized within AEP.



Metric Applies to: Regulated, Shared, Competitive
Metric Owner: Fossil/Hydro Generation/Environmental Services
Unit: Quarterly Reporting

Target: Subjective

Measure Description: In addition to changing the focus of the quantitative metric to total reportable events, proactive measures to continue to increase awareness of environmental risks at the operating facilities are needed to better identify operational and equipment risks and bring about improvement in environmental performance.

Milestones:

- Complete implementation of the CCR and Mercury VSA event recommendations
- Begin implementation of the recommendations from the ILMIS Environmental Deep Dive
- Develop a "Good Catch" environmental program modeled on the safety good catch program and an implementation plan for 2018 roll-out
- Expand the scope and application of the Environmental Event Reporting system to capture activity beyond the ICP metric events to increase awareness of events and corrective actions across Generation.

Note: Generation Leadership will subjectively assess this Grouped Strategic Goal.

Behavior Metric is intended to drive & why it is important to Generation

Generation environmental performance as measured by the quantitative performance metric has declined over the past two years. A more proactive approach to identifying environmental risks is needed, including identifying human performance issues as well as operational issues. Improving environmental performance is important for Generation's and AEP's external reputation with regulatory agencies and customers.



AMERICAN ELECTRIC POWER SYSTEM 2015 LONG-TERM INCENTIVE PLAN

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American Electric Power System 2015 Long-Term Incentive Plan

ARTICLE 1 - ESTABLISHMENT, EFFECTIVENESS, PURPOSE AND DURATION

Section 1.01. Establishment. American Electric Power Company, Inc., a New York corporation (hereinafter referred to as the “Company”), establishes an incentive compensation plan to be known as the American Electric Power System 2015 Long-Term Incentive Plan (hereinafter referred to as this “Plan”), as set forth in this document.

Section 1.02. Effectiveness. This Plan shall become effective upon shareholder approval (the “Effective Date”) and shall remain in effect as provided in Section 1.04. Subject to the approval of the Company’s shareholders of this Plan, no further awards shall be granted under the Prior Plan as of the Effective Date.

Section 1.03. Purpose of This Plan. The purposes of the Plan are to: (a) strengthen the alignment of interests between those Employees and Directors of the Company and its Subsidiaries who share responsibility for the success of the business and those of the Company’s shareholders, (b) facilitate the use of long-term incentive compensation and the provisions of market competitive total compensation to Employees, (c) increase Employee ownership of shares of the Company’s common stock to encourage ownership behaviors, and (d) encourage Plan Participant retention. This Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Cash-Based Awards and Other Stock-Based Awards.

Section 1.04. Duration of This Plan. Unless sooner terminated as provided herein, this Plan shall terminate ten years from the Effective Date. After this Plan is terminated, no Awards may be granted but Awards previously granted shall remain outstanding in accordance with their applicable terms and conditions and this Plan’s terms and conditions. Notwithstanding the foregoing, no Incentive Stock Options may be granted more than ten years after the earlier of (a) adoption of this Plan by the Board, or (b) the Effective Date.

ARTICLE 2 - DEFINITIONS

Whenever used in this Plan, the following terms shall have the meanings set forth below, and when the meaning is intended, the initial letter of the word shall be capitalized.

“**Affiliate**” means any corporation or other entity (including, but not limited to, a partnership or a limited liability company) that is affiliated with the Company through stock or equity ownership or otherwise, including each Subsidiary and any other corporation or entity designated as an Affiliate for purposes of this Plan by the Committee.

“**Aggregate Share Authorization**” has the meaning set forth in Section 4.01.

“**Annual Award Limit**” has the meaning set forth in Section 4.03.

“**Award**” means, individually or collectively, a grant under this Plan of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Cash-Based Awards, or Other Stock-Based Awards, in each case subject to the terms of this Plan.

“**Award Agreement**” means either (i) an agreement entered into by the Company and a Participant setting forth the terms and provisions applicable to an Award granted under this Plan, or (ii) a written or electronic statement issued by the Company to a Participant describing the terms and provisions of such Award, including any amendment or modification thereof. The Committee may provide for the use of electronic, Internet, or other non-paper Award Agreements, and the use of electronic, Internet, or other non-paper means for the acceptance thereof and actions thereunder by a Participant.

“**Board**” or “**Board of Directors**” means the Board of Directors of the Company.

“**Cash-Based Award**” means an Award, denominated in cash, granted to a Participant as described in Article 10.

“**Code**” means the U.S. Internal Revenue Code of 1986, as amended from time to time. For purposes of this Plan, references to sections of the Code shall be deemed to include references to any applicable regulations or other published guidance thereunder and any successor or similar provision.

“**Committee**” means the Human Resources Committee of the Board or a subcommittee thereof, or any other committee designated by the Board to administer this Plan. The members of the Committee shall be appointed from time to time by the Board. The Committee shall consist of three or more persons, each of whom qualifies as a “non-employee director” within the meaning of Rule 16b-3 of the Exchange Act and as an “outside director” within the meaning of Code Section 162 (m).

“**Company**” has the meaning set forth in Section 1.01, and any successor thereto as provided in Article 21.

“**Covered Employee**” means any Participant who, in the sole judgment of the Committee, could be treated as a “covered employee” under Section 162(m) at the time income

may be recognized by such Participant in connection with an Award that is intended to qualify for exemption under Section 162(m).

“**Director**” means any individual who is a member of the Board of Directors of the Company and who is not an Employee of the Company.

“**Director Award**” means any Award granted, whether singly, in combination, or in tandem, to a Participant who is a Director pursuant to such applicable terms, conditions, and limitations as the Board may establish in accordance with this Plan.

“**Effective Date**” has the meaning set forth in Section 1.02.

“**Employee**” means any individual designated as an employee of the Company, its Affiliates, and/or its Subsidiaries on any of their payroll records.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended from time to time. For purposes of this Plan, references to sections of the Exchange Act shall be deemed to include references to any applicable regulations or other published guidance thereunder and any successor or similar provision.

“**Fair Market Value**” or “**FMV**” means a price that is based on the opening, closing, actual, high, low, or average selling prices of a Share reported on the New York Stock Exchange (“**NYSE**”) or other established stock exchange (or exchanges) on the applicable date, the preceding trading day, the next succeeding trading day, or an average of trading days, as determined by the Committee in its discretion. Unless the Committee determines otherwise or unless otherwise specified in an Award Agreement, Fair Market Value shall be the closing price of a Share on the date in question (or, if there is no reported sale on such date, on the last preceding date on which Shares were publicly traded). In the event that Shares are not publicly traded at the time a determination of their value is required to be made hereunder, the determination of their Fair Market Value shall be made by the Committee in such manner as it deems appropriate.

“**Full Value Award**” means an Award other than an Award in the form of a Nonqualified Stock Option, Incentive Stock Option or Stock Appreciation Right, and which is settled by the issuance of Shares.

“**Grant Price**” means the price established at the time of grant of an SAR pursuant to Article 7, used to determine whether there is any payment due upon exercise of the SAR.

“**Incentive Stock Option**” or “**ISO**” means an Option to purchase Shares granted under Article 6 to an Employee that is designated as an Incentive Stock Option and intended to meet the requirements of Code Section 422.

“**Nonqualified Stock Option**” or “**NQSO**” means an Option that is not intended to meet the requirements of Code Section 422, or that otherwise does not meet such requirements.

“**Option**” means an Incentive Stock Option or a Nonqualified Stock Option, as granted pursuant to Article 6.

“**Option Price**” means the price at which a Share may be purchased by a Participant pursuant to an Option.

“**Option Term**” means the period of time during which an Option is exercisable as the Committee shall determine at the time of grant; provided, however, no Option shall be exercisable later than the tenth anniversary of its grant date.

“**Other Stock-Based Award**” means an equity-based or equity-related Award not otherwise described by the terms of this Plan, granted pursuant to Article 10.

“**Participant**” means any eligible individual as set forth in Article 5 to whom an Award is granted.

“**Performance-Based Compensation**” means compensation under an Award that is intended to satisfy the requirements of Code Section 162(m) for certain performance-based compensation paid to Covered Employees.

“**Performance Measures**” means measures as described in Article 12 on which the performance goals are based and which are approved by the Company’s shareholders pursuant to this Plan in order to satisfy the requirements for Performance-Based Compensation.

“**Performance Period**” means the period of time during which pre-established performance goals must be met in order to determine the degree of payout and/or vesting with respect to an Award.

“**Performance Share**” means an Award granted pursuant to Article 9 that is denominated in Shares, the value of which at the time it is payable is determined based on achievement of corresponding performance criteria.

“**Performance Unit**” means an Award granted under Article 9 that is denominated in dollars, the value of which at the time it is payable is determined based on achievement of corresponding performance criteria.

“**Period of Restriction**” means the period when Restricted Stock or Restricted Stock Units are subject to a substantial risk of forfeiture (based on the performance of services, the achievement of performance goals, or the occurrence of other events as determined by the Committee, in its discretion), as provided in Article 8.

“**Person**” shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a “group” as defined in

Section 13(d) thereof.

“**Plan**” has the meaning set forth in Section 1.01, as the same may be amended from time to time.

“**Plan Year**” means the calendar year.

“**Prior Plan**” means the Amended and Restated American Electric Power System Long-Term Incentive Plan, last approved by shareholders on April 27, 2010, as amended.

“**Prior Plan Award**” means an award granted under the Prior Plan that is outstanding as of the Effective Date.

“**Restricted Stock**” means an Award granted pursuant to Article 8, as set forth therein.

“**Restricted Stock Unit**” means an Award granted pursuant to Article 8, as set forth therein.

“**Share**” means a share of common stock of the Company.

“**Stock Appreciation Right**” or “**SAR**” means an Award, designated as an SAR, granted pursuant to Article 7.

“**Stock Ownership Participant**” means any eligible individual as set forth in Article 5 to whom an Award is granted that is subject to the Stock Ownership Requirement Plan.

“**Stock Ownership Requirement Plan**” means the American Electric Power System Stock Ownership Requirement Plan that imposes minimum stock ownership requirements on certain executives of the Company or an Affiliate.

“**Subsidiary**” means any corporation or other entity, whether domestic or foreign, in which the Company has or obtains, directly or indirectly, a proprietary interest of 50% or more by reason of stock ownership or otherwise.

ARTICLE 3 - ADMINISTRATION

Section 3.01. General. The Committee shall be responsible for administering this Plan, subject to this Article 3 and the other provisions of this Plan. The Committee may employ attorneys, consultants, accountants, agents, and other individuals, any of whom may be an Employee, and the Committee, the Company, and its officers and Directors shall be entitled to rely upon the advice, opinions, or valuations of any such individuals. All actions taken and all interpretations and determinations made by the Committee shall be final and binding upon the Participants, the Company, and all other interested persons.

Section 3.02. Authority of the Committee. The Committee shall have full discretionary power to interpret the terms and the intent of this Plan and any Award Agreement or other agreement or document ancillary to or in connection with this Plan, to determine eligibility for Awards and to adopt such rules, regulations, forms, instruments, and guidelines for administering this Plan as the Committee may deem necessary or proper. Such authority shall include, but not be limited to, selecting Award recipients, establishing all Award terms and conditions, including the terms and conditions set forth in Award Agreements, granting Awards as an alternative to or as the form of payment for grants or rights earned or due under compensation plans or arrangements of the Company, construing any ambiguous provision of the Plan or any Award Agreement, and, subject to Article 18, adopting modifications and amendments to this Plan or any Award Agreement, including without limitation, any that are necessary to comply with or qualify for the laws of the countries and other jurisdictions in which the Company, its Affiliates, and/or its Subsidiaries operate.

Section 3.03 Delegation. To the extent permitted under applicable law, the Committee may delegate to one or more of its members or to one or more employees of the Company and/or its Subsidiaries, such administrative duties or powers as it may deem advisable, and the Committee or any individuals to whom it has delegated duties or powers as aforesaid may employ one or more individuals to render advice with respect to any responsibility that the Committee or such individuals may have under this Plan. The Committee may, by resolution, authorize one or more persons who are members of the Committee, members of the Board of Directors of the Company, or an officer of the Company to do one or both of the following on the same basis as can the Committee: (a) designate Employees to be recipients of Awards; and (b) determine the size of any such Awards; provided, however, (i) the Committee shall not delegate such responsibilities to any such person for Awards granted to an Employee who is, on the relevant date, a Covered Employee or an officer or Director for purposes of Section 16 of the Exchange Act; (ii) the resolution providing such authorization sets forth the total number of Shares underlying Awards such person(s) may grant; and (iii) the person(s) shall report periodically to the Committee regarding the nature and scope of the Awards granted pursuant to the authority delegated.

ARTICLE 4 - SHARES SUBJECT TO THIS PLAN AND MAXIMUM AWARDS

Section 4.01. Number of Shares Available for Awards. (a) Subject to adjustment as provided in Section 4.04, the maximum number of Shares available for grant to Participants under this Plan (the "Aggregate Share Authorization") shall be 10 million Shares. No further Awards may be granted under the Prior Plan as of the Effective Date. The number of shares issuable under the Prior Plan may, however, increase due to dividend shares and performance shares issued in connection with awards outstanding under the Prior Plan.

(b) To the extent that a Share is issued pursuant to the grant or exercise of a Full Value Award, it shall reduce the Aggregate Share Authorization by one Share; and, to the extent that a Share is issued pursuant to the grant or exercise of an Award other than a Full Value Award, it shall reduce the Aggregate Share Authorization by 0.286 of a Share.

(c) The maximum number of Shares that may be issued pursuant to ISOs under this Plan shall be equal to the Aggregate Share Authorization.

(d) The maximum aggregate value of Awards that may be granted to any Director under this Plan during any calendar year shall not exceed \$700,000, as determined by the Board based on the value of any Award at the time of grant.

Section 4.02. Share Usage. (a) Shares covered by an Award shall be counted as used only to the extent they are actually issued. Except as provided in Section 4.02(b), any Shares related to Awards that terminate by expiration, forfeiture, cancellation, or otherwise without the issuance of such Shares, are settled in cash in lieu of Shares, or are exchanged with the Committee's permission (prior to the issuance of Shares) for Awards not involving Shares, shall be available again for grant under this Plan.

(b) Any Award Shares tendered, exchanged or withheld to cover Option exercise costs, any Award Shares withheld to cover taxes, and all Shares underlying an Award of Stock Appreciation Rights once such Stock Appreciation Rights are exercised, shall be taken into account as Shares issued under this Plan.

Section 4.03. Annual Award Limits. The following limits (each an "Annual Award Limit" and, collectively, "Annual Award Limits") shall apply to grants of Awards under this Plan:

(a) **Options.** The maximum aggregate number of Shares subject to Options granted in any one Plan Year to any one Participant shall be 2,000,000.

(b) **SARs.** The maximum aggregate number of Shares subject to Stock Appreciation Rights granted in any one Plan Year to any one Participant shall be 2,000,000.

(c) **Restricted Stock or Restricted Stock Units.** The maximum aggregate grant with respect to Awards of Restricted Stock or Restricted Stock Units in any one Plan Year to any one Participant shall be 400,000 Shares.

(d) **Performance Units or Performance Shares.** The maximum aggregate number of Performance Units or Performance Shares that a Participant may be awarded in any one Plan Year shall be 400,000 Shares. As provided in Section 9.03, up to 2 Shares (or the cash value of 2 Shares) may be issued with respect to a Performance Unit or Performance Share, depending on the level of performance, plus any applicable Dividend Equivalents.

(e) **Cash-Based Awards.** The maximum aggregate amount awarded with respect to Cash-Based Awards to any one Participant in any one Plan Year may not exceed \$15,000,000, determined as of the date of payment.

(f) ***Other Stock-Based Awards.*** The maximum aggregate grant with respect to Other Stock- Based Awards pursuant to Section 10.02 in any one Plan Year to any one Participant shall be 400,000 Shares.

Section 4.04. Adjustments in Authorized Shares. (a) In the event of any corporate event or transaction (including, but not limited to, a change in the Shares or capitalization of the Company) such as a merger, consolidation, reorganization, recapitalization, separation, partial or complete liquidation, stock dividend, stock split, reverse stock split, split up, spin-off, or other distribution of stock or property of the Company, combination of Shares, exchange of Shares, dividend in kind, or other like change in capital structure, number of outstanding Shares, or distribution (other than normal cash dividends) to shareholders of the Company, or any similar corporate event or transaction, or in the event of unusual or nonrecurring events affecting the Company or the financial statements of the Company or of changes in applicable laws, regulations, or accounting principles, the Committee, in order to prevent dilution or enlargement of Participants' rights under this Plan, shall substitute or adjust, as applicable, the number and kind of Shares that may be granted under this Plan or under particular forms of Awards, the number and kind of Shares subject to outstanding Awards, the Option Price or Grant Price applicable to outstanding Awards, the Annual Award Limits, and other value determinations applicable to outstanding Awards. The Committee, in its discretion, shall determine the methodology or manner of making such substitution or adjustment.

(b) The Committee, in its sole discretion, may also make appropriate adjustments in the terms of any Awards under this Plan to reflect, or that relate to, the changes or distributions described in Section 4.04 and to modify any other terms of outstanding Awards, including modifications of performance goals and changes in the length of Performance Periods. The Committee shall not make any adjustment pursuant to this Section 4.04. that would (i) prevent Performance-Based Compensation from satisfying the requirements of Code Section 162(m), (ii) cause an Award that is otherwise exempt from Code Section 409A to become subject to Section 409A, or (iii) cause an Award that is subject to Code Section 409A to fail to satisfy the requirements of Section 409A. The determination of the Committee as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under this Plan.

(c) Subject to the provisions of Article 18 and notwithstanding anything else herein to the contrary, without affecting the number of Shares reserved or available hereunder, the Committee may authorize the issuance or assumption of benefits under this Plan in connection with any merger, consolidation, acquisition of property or stock, or reorganization upon such terms and conditions as it may deem appropriate.

Section 4.05. Source of Shares. The Shares available for issuance under this Plan may be authorized and unissued Shares, treasury Shares or Shares acquired in the open market.

ARTICLE 5 - ELIGIBILITY AND PARTICIPATION

Section 5.01. Eligibility. Individuals eligible to participate in this Plan include all Employees and Directors.

Section 5.02. Actual Participation. Subject to the provisions of this Plan, the Committee may, from time to time, select from all eligible individuals those individuals to whom Awards shall be granted and shall determine, in its sole discretion, the nature of any and all terms permissible by law, and the amount of each Award.

ARTICLE 6 - STOCK OPTIONS

Section 6.01. Grant of Options. Subject to the terms and provisions of this Plan, Options may be granted to Participants in such number, and upon such terms, and at any time and from time to time as shall be determined by the Committee, in its sole discretion; *provided* that ISOs may be granted only to eligible Employees of the Company or of any parent or subsidiary corporation (to the extent permitted under Code Sections 422 and 424).

Section 6.02. Award Agreement. Each Option grant shall be evidenced by an Award Agreement that shall specify the Option Price, the maximum duration of the Option, the number of Shares to which the Option pertains, the conditions upon which an Option shall become vested and exercisable, and such other provisions as the Committee shall determine which are not inconsistent with the terms of this Plan.

Section 6.03. Option Price. The Option Price for each grant of an Option under this Plan shall be determined by the Committee in its sole discretion and shall be specified in the Award Agreement; *provided, however*, the Option Price must be at least equal to 100% of the FMV of Shares on the date of grant, subject to adjustment as provided for in Section 4.04.

Section 6.04. Term of Options. Each Option granted to a Participant shall expire at such time as the Committee shall determine and set forth in the Award Agreement at the time of grant; *provided, however*, no Option shall be exercisable later than the tenth anniversary date of its grant.

Section 6.05. Exercise of Options. Options granted under this Article 6 shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which terms and restrictions need not be the same for each grant or for each Participant; *provided, however*, that no Option shall be exercisable within three (3) years from its grant date (but may vest no sooner than pro-rata during such period), *provided*, that up to five percent (5%) of the maximum number of Shares available for

issuance under this Plan may be granted without being subject to the foregoing restriction and the restriction set forth in Section 7.05. The foregoing five percent (5%) share issuance limit shall be subject to adjustment consistent with the adjustment provisions of Section 4.04.

Section 6.06. Payment. (a) Subject to Section 6.09, Options granted under this Article 6 shall be exercised by the delivery of a notice of exercise to the Company or an agent designated by the Company in a form specified or accepted by the Committee, or by complying with any alternative procedures which may be authorized by the Committee, setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares. The Shares shall become the property of the Participant on the exercise date, subject to any forfeiture conditions specified in the Option.

(b) A condition of the issuance of the Shares as to which an Option shall be exercised shall be the payment of the Option Price at the time of the exercise. The Option Price of any Option shall be payable to the Company in full either (i) in cash or its equivalent; (ii) by tendering (either by actual delivery or attestation) previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the Option Price; (iii) by a cashless (broker-assisted) exercise; (iv) by a combination of (i), (ii) and/or (iii); or (v) any other method approved or accepted by the Committee in its sole discretion. Unless otherwise determined by the Committee, all payments under all of the methods indicated above shall be paid in United States dollars.

(c) Subject to any governing rules or regulations, as soon as practicable after receipt of written notification of exercise and full payment (including satisfaction of any applicable tax withholding), the Company shall deliver or cause to be delivered to the Participant a statement of holdings as evidence of book entry uncertificated Shares, or at the sole discretion of the Committee upon the Participant's request, Share certificates in an appropriate amount based upon the number of Shares purchased under the Option(s).

Section 6.07. Restrictions on Share Transferability. The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option granted under this Article 6 as it may deem advisable, including, without limitation, minimum holding period requirements, restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed and/or traded, or under any blue sky or state securities laws applicable to such Shares.

Section 6.08. Termination of Employment. Each Participant's Award Agreement shall set forth the extent, if any, to which the Participant shall have the right to exercise the Option following termination of the Participant's employment or provision of services to the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Options granted pursuant to this Article 6, and may reflect distinctions based on the reasons for termination.

Section 6.09. Automatic Option Exercise. An Award Agreement may provide that if, on the last day of the term of an Option, the Fair Market Value of one Share exceeds the Option Price plus associated fees, if the Participant has not exercised the Option, and the Option Price has not otherwise expired, the Option shall be deemed to have been exercised by the Participant on such day. In such event, the Company shall deliver Shares to the Participant in accordance with this Section 6.09, reduced by the number of Shares required for payment of the exercise price and for payment of withholding taxes; any fractional Share shall be settled in cash.

Section 6.10. Stock Retention. So long as a Stock Ownership Participant has not met all applicable stock ownership requirements under the Stock Ownership Requirement Plan, the Stock Ownership Participant will be required to hold the Shares received upon the exercise of Options (net of any Shares used for payment of the exercise price of the Option and withholding taxes).

ARTICLE 7 - STOCK APPRECIATION RIGHTS

Section 7.01. Grant of SARs. Subject to the terms and conditions of this Plan, SARs may be granted to Participants at any time and from time to time as shall be determined by the Committee. Subject to the terms and conditions of this Plan, the Committee shall have complete discretion in determining the number of SARs granted to each Participant and, consistent with the provisions of this Plan, the terms and conditions pertaining to such SARs.

Section 7.02. SAR Award Agreement. Each SAR grant shall be evidenced by an Award Agreement that shall specify the Grant Price, the maximum duration of the SAR, the number of Shares to which the SAR pertains, the conditions upon which an SAR shall become vested and exercisable, and such other provisions as the Committee shall determine which are not inconsistent with the terms of this Plan.

Section 7.03. Grant Price. The Grant Price for each grant of an SAR shall be determined by the Committee and shall be specified in the Award Agreement; *provided, however,* the Grant Price on the date of grant must be at least equal to 100% of the FMV of the Shares as determined on the date of grant.

Section 7.04. Term of SAR. The term of an SAR granted under this Plan shall be determined by the Committee, in its sole discretion, and set forth in the Award Agreement at the time of grant; *provided, however,* that no SAR shall be exercisable later than the tenth anniversary date of its grant.

Section 7.05. Exercise of SARs. SARs granted under this Article 7 shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which terms and restrictions need not be the same for each

grant or for each Participant; *provided, however*, that no SAR shall be exercisable within three (3) years from its grant date (but may vest no sooner than pro-rata during such period), provided, that up to five percent (5%) of the maximum number of Shares available for issuance under this Plan may be granted without being subject to the foregoing restriction and the restriction set forth in Section 6.05. The foregoing five percent (5%) share issuance limit shall be subject to adjustment consistent with the adjustment provisions of Section 4.04.

Section 7.06. Settlement of SARs. Upon the exercise of an SAR, a Participant shall be entitled to receive payment from the Company on the exercise date in an amount determined by multiplying: (a) the excess of the Fair Market Value of a Share on the date of exercise over the Grant Price; by (b) the number of Shares with respect to which the SAR is exercised.

At the discretion of the Committee, the payment upon SAR exercise may be in cash, Shares, or any combination thereof, or in any other manner approved by the Committee in its sole discretion. The Committee's determination regarding the form of SAR payout shall be set forth in the Award Agreement pertaining to the grant of the SAR.

Section 7.07. Termination of Employment. Each Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the SAR following termination of the Participant's employment with or provision of services to the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with Participants, need not be uniform among all SARs granted pursuant to this Article 7, and may reflect distinctions based on the reasons for termination.

Section 7.08. Other Restrictions. The Committee shall impose such other conditions and/or restrictions on any Shares received upon exercise of an SAR granted pursuant to this Plan as it may deem advisable or desirable. These restrictions may include, but shall not be limited to, a requirement that the Participant hold the Shares received upon exercise of an SAR for a specified period of time.

Section 7.09. Automatic SAR Exercise. An Award Agreement may provide that if, on the last day of the term of an SAR, the Fair Market Value of one Share exceeds the Grant Price of the SAR plus associated fees, if the Participant has not exercised the SAR, and the SAR has not otherwise expired, the SAR shall be deemed to have been exercised by the Participant on such day. In such event, the Company shall deliver payment to the Participant in accordance with the terms of settlement set forth in Section 7.06.

Section 7.10. Stock Retention. So long as a Stock Ownership Participant has not met all applicable stock ownership requirements under the Stock Ownership Requirement Plan, the Stock Ownership Participant will be required to hold the Shares received upon the exercise of any SAR (net of any Shares used for payment of withholding taxes).

ARTICLE 8 - RESTRICTED STOCK AND RESTRICTED STOCK UNITS

Section 8.01. Grant of Restricted Stock or Restricted Stock Units. Subject to the terms and provisions of this Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock and/or Restricted Stock Units to Participants in such amounts as the Committee shall determine. Restricted Stock Units shall be similar to Restricted Stock except that no Shares are actually awarded to the Participant on the date of grant.

Section 8.02. Restricted Stock or Restricted Stock Unit Award

Agreement. Each Restricted Stock and/or Restricted Stock Unit grant shall be evidenced by an Award Agreement that shall specify the Period (s) of Restriction, the number of Shares of Restricted Stock or the number of Restricted Stock Units granted, and such other provisions as the Committee shall determine.

Section 8.03. Other Restrictions. (a) The Committee shall impose such other conditions and/or restrictions on any Shares of Restricted Stock or Restricted Stock Units granted pursuant to this Plan as it may deem advisable including, without limitation, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock or each Restricted Stock Unit, restrictions based upon the achievement of specific performance goals, time-based restrictions on vesting following the attainment of the performance goals, time-based restrictions, and/or restrictions under applicable laws or under the requirements of any stock exchange or market upon which such Shares are listed or traded, or holding requirements or sale restrictions placed on the Shares by the Company upon vesting of such Restricted Stock or Restricted Stock Units.

(b) To the extent deemed appropriate by the Committee, the Company may retain any certificates or statements of holdings representing Shares of Restricted Stock in the Company's possession until such time as all conditions and/or restrictions applicable to such Shares have been satisfied or lapse.

(c) Except as otherwise provided in this Article 8, Shares of Restricted Stock covered by each Restricted Stock Award shall become freely transferable by the Participant after all conditions and restrictions applicable to such Shares have been satisfied or lapse (including satisfaction of any applicable tax withholding obligations), and Restricted Stock Units shall be paid in cash, Shares, or a combination of cash and Shares as the Committee, in its sole discretion, shall determine.

Section 8.04. Certificate Legend. In addition to any legends placed on certificates or statements of holdings pursuant to Section 8.03, each certificate or statement of holdings representing Shares of Restricted Stock granted pursuant to this Plan may bear a legend restricting the transfer of such Shares.

Section 8.05. Voting Rights. Unless otherwise determined by the Committee and

set forth in a Participant's Award Agreement, to the extent permitted or required by law, as determined by the Committee, Participants holding Shares of Restricted Stock granted hereunder may be granted the right to exercise full voting rights with respect to those Shares during the Period of Restriction. A Participant shall have no voting rights with respect to any Restricted Stock Units granted hereunder.

Section 8.06. Termination of Employment. Each Award Agreement shall set forth the extent to which the Participant shall have the right to retain Restricted Stock and/or Restricted Stock Units following termination of the Participant's employment with or provision of services to the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Shares of Restricted Stock or Restricted Stock Units granted pursuant to this Article 8, and may reflect distinctions based on the reasons for termination.

ARTICLE 9 - PERFORMANCE UNITS / PERFORMANCE SHARES

Section 9.01. Grant of Performance Units / Performance Shares.

Subject to the terms and provisions of this Plan, the Committee, at any time and from time to time, may grant Performance Units and/or Performance Shares to Participants in such amounts and upon such terms as the Committee shall determine.

Section 9.02. Value of Performance Units / Performance Shares. Each

Performance Unit shall have an initial value that is established by the Committee at the time of grant. Each Performance Share shall have an initial value equal to the Fair Market Value of a Share on the date of grant. The Committee shall set performance goals in its discretion which, depending on the extent to which they are met, will determine the value and/or number of Performance Units/Performance Shares that will be paid out to the Participant.

Section 9.03. Earning of Performance Units / Performance Shares.

Subject to the terms of this Plan, after the applicable Performance Period has ended, the holder of Performance Units/Performance Shares shall be entitled to receive payout as provided in Section 9.04 on the value and number of Performance Units/Performance Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance goals have been achieved. Regardless of the level of performance achieved, in no event will the number of Shares issued (or the amount of cash paid) with respect to a Performance Unit/Performance Share exceed 2 Shares (or the value of 2 Shares), plus any applicable Dividend Equivalents.

Section 9.04. Form and Timing of Payment of Performance Units /

Performance Shares. Payment of earned Performance Units/Performance Shares shall be as determined by the Committee and as evidenced in the Award Agreement. Any Shares may be granted subject to any restrictions deemed appropriate by the Committee. The

determination of the Committee with respect to the form of payout of such Awards shall be set forth in the Award Agreement pertaining to the grant of the Award.

Section 9.05. Termination of Employment. Each Award Agreement shall set forth the extent to which the Participant shall have the right to retain Performance Units and/or Performance Shares following termination of the Participant's employment with or provision of services to the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Awards of Performance Units or Performance Shares awarded pursuant to this Article 9, and may reflect distinctions based on the reasons for termination.

ARTICLE 10 - CASH-BASED AWARDS AND OTHER STOCK-BASED AWARDS

Section 10.01. Grant of Cash-Based Awards. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Cash-Based Awards to Participants in such amounts and upon such terms as the Committee may determine.

Section 10.02. Other Stock-Based Awards. The Committee may grant other types of equity-based or equity-related Awards not otherwise described by the terms of this Plan (including the grant or offer for sale of unrestricted Shares) in such amounts and subject to such terms and conditions as the Committee shall determine. Such Awards may involve the transfer of actual Shares to Participants, or payment in cash or otherwise of amounts based on the value of Shares and may include, without limitation, Awards designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States.

Section 10.03. Value of Cash-Based and Other Stock-Based Awards. Each Cash-Based Award shall specify a payment amount or payment range as determined by the Committee. Each Other Stock-Based Award shall be expressed in terms of Shares or units based on Shares, as determined by the Committee. The Committee may establish performance goals in its discretion. If the Committee exercises its discretion to establish performance goals, the number and/or value of Cash-Based Awards or Other Stock-Based Awards that will be paid out to the Participant will depend on the extent to which the performance goals are met.

Section 10.04. Payment of Cash-Based Awards and Other Stock-Based Awards. Payment, if any, with respect to a Cash-Based Award or an Other Stock-Based Award shall be made in accordance with the terms of the Award, in cash or Shares as the Committee determines.

Section 10.05. Termination of Employment. The Committee shall determine

the extent to which the Participant shall have the right to receive Cash-Based Awards or Other Stock-Based Awards following termination of the Participant's employment with or provision of services to the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Committee. Such provisions may be included in the Award Agreement, but need not be uniform among all Awards of Cash-Based Awards or Other Stock-Based Awards granted pursuant to this Article 10, and may reflect distinctions based on the reasons for termination.

ARTICLE 11 - TRANSFERABILITY OF AWARDS

Except to the extent specifically provided by the terms of an Award Agreement, Awards shall be nontransferable. During the lifetime of a Participant, Awards shall be exercised only by such Participant or by his guardian or legal representative. Notwithstanding the foregoing, the Committee may provide in the terms of an Award Agreement that the Participant shall have the right to designate a beneficiary or beneficiaries who shall be entitled to any rights, payments or other benefits specified under an Award Agreement following the Participant's death.

ARTICLE 12 - PERFORMANCE MEASURES

Section 12.01. Awards Under This Article 12. If an Award (other than an Option or SAR) is intended to qualify as Performance-Based Compensation, the Award shall be granted in accordance with the terms of this Article 12 and shall vest or be paid solely on account of the attainment of an objective performance goal based on one or more of the Performance Measures listed in Section 12.03.

Section 12.02. Performance Goals. The Committee shall establish the performance goal in writing not later than 90 days after the commencement of the Performance Period (or, if earlier, before 25% of the Performance Period has elapsed), and at a time when the outcome of the performance goal is still substantially uncertain. The performance goal shall state, in terms of an objective formula or standard, the method for determining the amount of compensation payable to the Participant if the performance goal is attained.

Section 12.03. Performance Measures. (a) The Performance Measures used to establish performance goals for Performance-Based Compensation shall be limited to the following business measures, which may be applied with respect to AEP, any Subsidiary or any business unit, and which may be measured on an absolute or relative-to-peer-group basis: earnings measures (including, for example, primary earnings per share, fully diluted earnings per share, net income, pre-tax income, operating income, earnings before interest, taxes, depreciation and amortization or any combination thereof, and net operating profits after taxes); expense control (including, for example, operations & maintenance expense, total expenditures, expense ratios, and expense reduction); customer measures (including, for

example, customer satisfaction, service cost, service levels, responsiveness, bad debt collections or losses, and reliability—such as outage frequency, outage duration, and frequency of momentary outages); safety measures (including, for example, recordable case rate, severity rate, and vehicle accident rate); diversity measures (including, for example, minority placement rate and utilization); environmental measures (including, for example, emissions, project completion milestones, regulatory/legislative/cost recovery goals, and notices of violation), revenue measures (including, for example, revenue and direct margin); stakeholder return measures (including, for example, total shareholder return, economic value added, cumulative shareholder value added, return on equity, return on capital, return on assets, dividend payout ratio and cash flow(s) – such as operating cash flows, free cash flow, discounted cash flow return on investment and cash flow in excess of cost of capital or any combination thereof); valuation measures (including, for example, stock price increase, price to book value ratio, and price to earnings ratio); capital and risk measures (including, for example, debt to equity ratio, dividend payout as percentage of net income and diversification of business opportunities); employee satisfaction; project measures (including, for example, completion of key milestones); production measures (including, for example, generating capacity factor, performance against the INPO index, generating equivalent availability, heat rates and production cost); and such other individual performance objective that is measured solely in terms of quantitative targets related to the Company, any Subsidiary or the Company's or Subsidiary's business.

(b) Any Performance Measure(s) may be used in a quantitative manner to measure the performance of the Company, Subsidiary, and/or Affiliate as a whole or any business unit of the Company, Subsidiary, and/or Affiliate or any combination thereof, as the Committee may deem appropriate. Any of the above Performance Measures may be used to measure performance relative to specified performance levels; a group of comparator companies; a published or special index that the Committee, in its sole discretion, deems appropriate; or various stock market indices. The Committee also has the authority to provide for accelerated vesting of any Award based on the achievement of a performance goal or goals pursuant to the Performance Measures specified in this Article 12.

Section 12.04. Evaluation of Performance. Any Performance Measure(s) may be made subject to pre-specified adjustments to remove the effects of restructurings, dispositions, changes in tax or accounting rules, or similar non-recurring or extraordinary events to the extent consistent with the requirements of Code Section 162(m) for Performance-Based Compensation.

Section 12.05. Certification of Performance. No vesting or payment shall occur under an Award that is intended to qualify as Performance-Based Compensation until the Committee certifies that the performance goal and any other material terms of the Award have been satisfied.

Section 12.06. Adjustment of Performance-Based Compensation. Awards that are intended to qualify as Performance-Based Compensation may not be adjusted upward.

The Committee shall retain the discretion to adjust such Awards downward, either on a formula or discretionary basis or any combination, as the Committee determines.

Section 12.07. Committee Discretion. For the avoidance of doubt, in the event that the Committee determines that it is advisable to grant Awards that shall not qualify as Performance-Based Compensation, the Committee may make such grants without satisfying the requirements of Code Section 162(m) and the terms of this Article 12. In such event, among other things, the Committee may base the vesting or payment of such Awards on performance measures other than those set forth in Section 12.03.

ARTICLE 13 - DIRECTOR AWARDS

Subject to Section 4.01(d), the Board shall determine all Awards to Directors. The terms and conditions of any grant to any such Director shall be set forth in an Award Agreement.

ARTICLE 14 - DIVIDEND EQUIVALENTS

Any Participant selected by the Committee may be granted dividend equivalents based on the dividends declared on Shares that are subject to any Full Value Award, to be credited as of the dividend payment dates, during the period between the date on which the Full Value Award is granted and the date on which the Award vests or expires, as determined by the Committee. Such dividend equivalents shall be converted to cash or additional Shares by such formula and at such time and subject to such limitations as may be determined by the Committee; *provided* that such dividend equivalents shall be subject to any performance conditions that apply to the underlying Award. Participants shall not accrue, be granted or be paid any dividends or dividend equivalents with respect to Shares that are subject to any Option or Stock Appreciation Right.

ARTICLE 15 - BENEFICIARY DESIGNATION

In the absence of any applicable beneficiary designation, benefits remaining unpaid or rights remaining unexercised at the Participant's death shall be paid to or exercised by the Participant's executor, administrator, or legal representative on behalf of the Participant's estate.

ARTICLE 16 - RIGHTS OF PARTICIPANTS

Section 16.01. Employment. (a) Nothing in this Plan or an Award Agreement shall interfere with or limit in any way the right of the Company, its Affiliates, and/or its Subsidiaries to terminate any Participant's employment or service on the Board or to the

Company at any time or for any reason not prohibited by law, nor confer upon any Participant any right to continue his employment or service as a Director for any specified period of time.

(b) Neither an Award nor any benefits arising under this Plan shall constitute an employment contract with the Company, its Affiliates, and/or its Subsidiaries.

Section 16.02. Participation. No individual shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

Section 16.03. Rights as a Shareholder. Except as otherwise provided herein, a Participant shall have none of the rights of a shareholder with respect to Shares covered by any Award unless and until the Participant becomes the record holder of any Shares associated with such Award.

ARTICLE 17 - CHANGE OF CONTROL

17.01. Effect of Change in Control. The Committee may, in an Award Agreement, provide for the effect of a Change in Control on an Award. Such provisions may include any one or more of the following: (a) the acceleration or extension of time periods for purposes of exercising, vesting in, or realizing gain from any Award, (b) the waiver or modification of performance or other conditions related to the payment or other rights under an Award; (c) provision for the cash settlement of an Award for an equivalent cash value, as determined by the Committee, or (d) such other modification or adjustment to an Award as the Committee deems appropriate to maintain and protect the rights and interests of Participants upon or following a Change in Control.

17.02. Definition of Change in Control. For purposes hereof, a “Change in Control” shall be deemed to have occurred if:

(a) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934 (“Exchange Act”)), other than any company owned, directly or indirectly, by the shareholders of AEP in substantially the same proportions as their ownership of shares Common Stock or a trustee or other fiduciary holding securities under an employee benefit plan of AEP, becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 33-1/3 percent of the then outstanding voting stock of AEP;

(b) AEP consummates a merger or consolidation with any other entity, other than a merger or consolidation which would result in the voting securities of AEP outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 66-2/3% percent of the total voting power represented by the voting securities of AEP or such surviving entity outstanding immediately after such merger or consolidation; or

(c) the shareholders of AEP approve a plan of complete liquidation of AEP, or an agreement for the sale or disposition by AEP (in one transaction or a series of transactions) of all or substantially all of AEP's assets.

ARTICLE 18 - AMENDMENT AND TERMINATION

18.01 Amendment and Termination of the Plan and Awards. (a) Subject to subparagraphs (b) and (c) of this Section 18.01 and Section 18.03 of the Plan, the Board or the Committee may at any time amend or terminate the Plan or amend or terminate any outstanding Award.

(b) Except as provided for in Section 4.04, the terms of an outstanding Award may not be amended, without prior shareholder approval, to: (i) reduce the Option Price of an outstanding Option or to reduce the Grant Price of an outstanding SAR, or (ii) cancel an outstanding Option or SAR in exchange for other Options or SARs with an Option Price or Grant Price, as applicable, that is less than the Option Price of the cancelled Option or the Grant Price of the cancelled SAR, as applicable, or (iii) cancel an outstanding Option with an Option Price that is less than the Fair Market Value of a Share on the date of cancellation or cancel an outstanding SAR with a Grant Price that is less than the Fair Market Value of a Share on the date of cancellation in exchange for cash or another Award.

(c) Notwithstanding the foregoing, no amendment of this Plan shall be made without shareholder approval if shareholder approval is required pursuant to rules promulgated by any stock exchange or quotation system on which Shares are listed or quoted or by applicable U.S. state corporate laws or regulations, applicable U.S. federal laws or regulations and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.

18.02 Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. Subject to Section 12.05, the Committee may make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 4.04) affecting the Company or the financial statements of the Company or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent unintended dilution or enlargement of the benefits or potential benefits intended to be made available under this Plan. The determination of the Committee as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under this Plan. By accepting an Award under this Plan, a Participant agrees to any adjustment to the Award made pursuant to this Section 18.02 without further consideration or action.

18.03 Awards Previously Granted. Notwithstanding any other provision of this Plan to the contrary, other than Sections 18.02, 18.04 and 21.15, no termination or

amendment of this Plan or an Award Agreement shall adversely affect in any material way any Award previously granted under this Plan, without the written consent of the Participant holding such Award.

18.04 Amendment to Conform to Law. Notwithstanding any other provision of this Plan to the contrary, the Board or Committee may amend the Plan or an Award Agreement, to take effect retroactively or otherwise, as deemed necessary or advisable for the purpose of conforming the Plan or an Award Agreement to any law relating to plans of this or similar nature, and to the administrative regulations and rulings promulgated thereunder. By accepting an Award under this Plan, a Participant agrees to any amendment made pursuant to this Section 18.04 to the Plan and any Award without further consideration or action.

ARTICLE 19 - WITHHOLDING

The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, the minimum statutory amount to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan. Participants may elect to satisfy the withholding requirements, in whole or in part, by having the Company withhold shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax that could be imposed on the transaction. The Participant shall remain responsible at all times for paying any federal, state, and local income or employment tax due with respect to any Award, and the Company shall not be liable for any interest or penalty that a Participant incurs by failing to make timely payments of tax.

ARTICLE 20 - SUCCESSORS

All obligations of the Company under this Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

ARTICLE 21 - GENERAL PROVISIONS

Section 21.01. Forfeiture Events. (a) The Committee may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, termination of employment for cause (as defined in the Award Agreement), termination of the Participant's provision of services to the Company, Affiliate, and/or Subsidiary, violation of material Company, Affiliate, and/or Subsidiary policies, breach of noncompetition, confidentiality, or

other restrictive covenants that may apply to the Participant, or other conduct by the Participant that is detrimental to the business or reputation of the Company, its Affiliates, and/or its Subsidiaries.

(b) All Awards shall be subject to the Company's compensation recoupment policy as such policy may be in effect from time to time.

Section 21.02. Legend. The certificates or statements of holdings for Shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer of such Shares.

Section 21.03. Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

Section 21.04. Severability. In the event any provision of this Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of this Plan, and this Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

Section 21.05. Requirements of Law. The granting of Awards and the issuance of Shares under this Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

Section 21.06. Delivery of Title. The Company shall have no obligation to issue or deliver evidence of title for Shares issued under this Plan prior to: (a) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and (b) completion of any registration or other qualification of the Shares under any applicable national or foreign law or ruling of any governmental body that the Company determines to be necessary or advisable.

Section 21.07. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

Section 21.08. Investment Representations. The Committee may require any individual receiving Shares pursuant to an Award under this Plan to represent and warrant in writing that the individual is acquiring the Shares for investment and without any present intention to sell or distribute such Shares.

Section 21.09. Uncertificated Shares. To the extent that this Plan provides for issuance of certificates to reflect the transfer or issuance of Shares, the transfer or issuance of such Shares may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the rules of any stock exchange upon which the Shares are listed.

Section 21.10. Unfunded Plan. Participants shall have no right, title, or interest whatsoever in or to any investments that the Company, and/or its Subsidiaries, and/or its Affiliates may make to aid it in meeting its obligations under this Plan. Nothing contained in this Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Participant, beneficiary, legal representative, or any other individual. To the extent that any individual acquires a right to receive payments from the Company, its Subsidiaries, and/or its Affiliates under this Plan, such right shall be no greater than the right of an unsecured general creditor of the Company, a Subsidiary, or an Affiliate, as the case may be. All payments to be made hereunder shall be paid from the general funds of the Company, a Subsidiary, or an Affiliate, as the case may be, and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts.

Section 21.11. No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to this Plan or any Award unless authorized by the Committee. If the Committee does not authorize the issuance or delivery of fraction shares, then the Committee shall determine whether cash, Awards, or other property shall be granted or paid in lieu of fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

Section 21.12. Retirement and Welfare Plans. Neither Awards made under this Plan nor Shares or cash paid pursuant to such Awards may be included as “compensation” for purposes of computing the benefits payable to any Participant under the Company’s or any Subsidiary’s or Affiliate’s retirement plans (both qualified and non-qualified) or welfare benefit plans unless such other plan expressly provides that such compensation shall be taken into account in computing a Participant’s benefit.

Section 21.13. Deferred Compensation. With respect to Awards subject to Code Section 409A, the Plan is intended to comply with the requirements of Code Section 409A, and the provisions of the Plan and any Award Agreement shall be interpreted in a manner that satisfies the requirements of Code Section 409A, and the Plan is intended to be operated accordingly. The Committee may make changes in the terms or operation of the Plan and/or Awards (including changes that may have retroactive effect) deemed necessary or desirable to comply with Code Section 409A. The Company, however, makes no representation or covenants that the Plan or Awards will comply with Section 409A.

Section 21.14. Non-exclusivity of this Plan. The adoption of this Plan shall not be construed as creating any limitations on the power of the Board or Committee to adopt such other compensation arrangements as it may deem desirable for any Participant.

Section 21.15. No Constraint on Corporate Action. Nothing in this Plan shall be construed to: (a) limit, impair, or otherwise affect the Company's or a Subsidiary's or an Affiliate's right or power to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets; or (b) limit the right or power of the Company or a Subsidiary or an Affiliate to take any action which such entity deems to be necessary or appropriate.

Section 21.16. Governing Law. The Plan and each Award Agreement shall be governed by the laws of the state of Ohio, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Plan to the substantive law of another jurisdiction. Unless otherwise provided in the Award Agreement, recipients of an Award under this Plan are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of Ohio, to resolve any and all issues that may arise out of or relate to this Plan or any related Award Agreement.

Section 21.17. Indemnification. (a) Subject to requirements and limitations of applicable law, each individual who is or shall have been a member of the Board, or a Committee appointed by the Board, or an officer of the Company, a Subsidiary, or an Affiliate to whom authority was delegated in accordance with Article 3, shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him in connection with or resulting from any claim, action, suit, or proceeding to which he may be a party or in which he may be involved by reason of any action taken or failure to act under this Plan and against and from any and all amounts paid by him in settlement thereof, with the Company's approval, or paid by him in satisfaction of any judgment in any such action, suit, or proceeding against him, provided he shall give the Company an opportunity, at its own expense, to handle and defend the same before he undertakes to handle and defend it on his own behalf, unless such loss, cost, liability, or expense is a result of his own willful misconduct or except as expressly provided by statute.

(b) The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such individuals may be entitled under the Company's Articles of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

Section 21.18. No Guarantee of Favorable Tax Treatment.

Notwithstanding any provision of the Plan to the contrary or any action taken by the Company, Subsidiaries, or the Board with respect to any income tax, social insurance, payroll tax, or other tax, the acceptance of an Award under the Plan represents the Participant's acknowledgement that the ultimate liability for any tax owed by the Participant is and remains the Participant's responsibility, and that the Company makes no representations or warranties about the tax treatment of any Award, and does not commit to structure any aspect of the Award to reduce or eliminate a Participant's tax liability, including without limitation, Code Section 409A.

American Electric Power

Annual Incentive Compensation Plan

Operating Company

Introduction

The objectives of AEP's Annual Incentive Compensation Plan (the Plan) are to:

- Attract, retain, engage and motivate employees to further the objectives of the company, its customers and the communities it serves;
- Enable high performance by communicating and aligning employee efforts with the Plan's performance objectives; and
- Foster the creation of sustainable shareholder value through achievement of AEP's goals.

2017 Overview

For 2017 the Executive Council, each Operating Company, Customer and Distribution Services (C&DS), Regulated Generation, Competitive Generation, Transmission, Nuclear Generation, and Energy Supply (non-generation), have an annual incentive compensation plan (ICP) with separate goals. All staff groups participate in the ICP program based on the funding measures described below and do not have separate function level incentive goals.

The Plan provides annual incentive compensation to motivate and reward employees based on AEP's performance, business unit performance (if applicable) and, for employees whose payout is discretionary, their individual performance. Annual incentive funding for all plans is tied to AEP's Operating Earnings per Share (70% weight), safety (10% weight) and strategic initiatives (15% weight).

Linking annual incentive compensation to AEP's earnings aligns it with the value employees have created and ensures that AEP meets its commitments to all other stakeholders before setting aside dollars for employee rewards. Relative individual performance is reflected in managers' discretionary allocations from their award pool for all employees in positions in the new (SP20) and exempt salary plans. Group or team performance may also be reflected through discretionary adjustments in the allocation of funding from the annual incentive pool at higher organizational levels.

Each ICP includes a balanced scorecard of performance measures in four categories:

- Financial
- Customer
- Safety and Compliance
- Culture and Employee Engagement

The Plan is intended to drive the achievement of these objectives by clearly communicating them, conveying their importance, aligning employee efforts toward their achievement and further motivating employees to achieve them. This balanced scorecard encourages the

achievement of all types of objectives, rather than the achievement of a few objectives, such as financial objectives, at the expense of others, such as customer service, reliability, safety or compliance.

Performance measures are selected, whenever practical, to provide a “line of sight” that enables employees to see how the work they perform affects their annual incentive award. Objective and quantifiable performance measures are used when they are available but the Plan also includes subjective assessments of performance in less quantifiable areas and for individual performance assessments.

Safety remains the first priority irrespective of the ICP goals and other objectives the Company establishes. To help ensure that all employees have a personal stake in maintaining safe work practices a substantial portion of every plan is tied to safety for both AEP employees and contract workers.

Operating Performance Measures and Weights

Specific performance measures vary by business unit and operating company. The score for each performance measure may range from 0% to 200% of target.

Refer to Appendix A

2017 Funding Measures

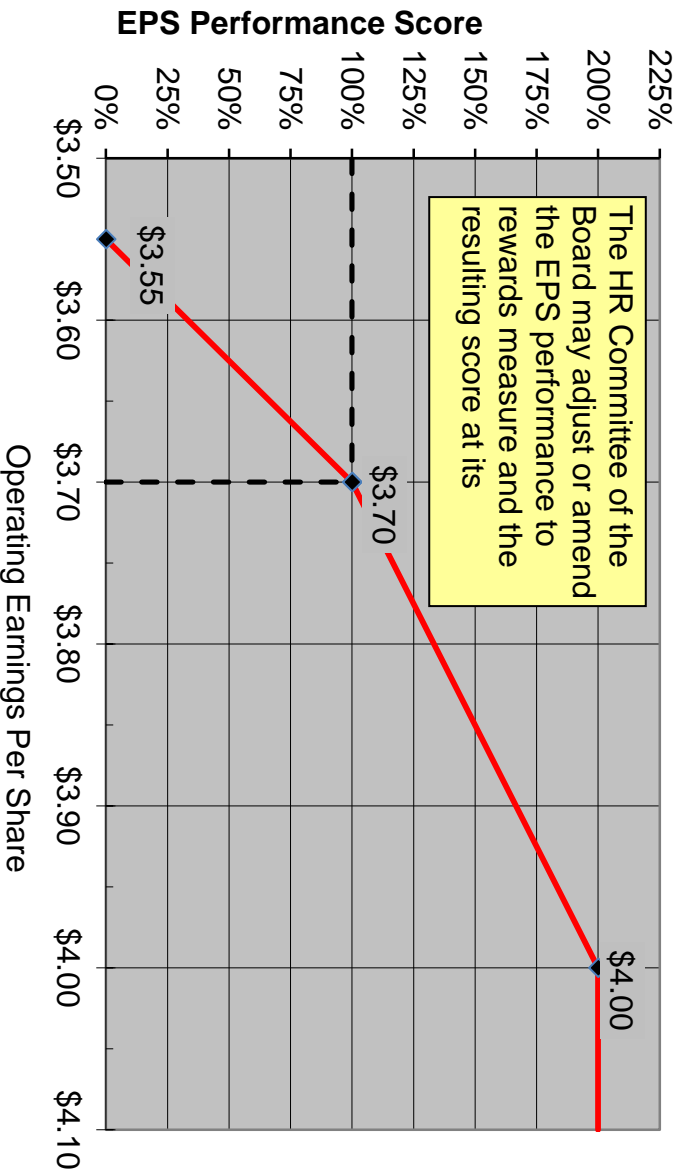
The 2017 funding measures were established by the HR Committee of the Board early in 2017. The maximum funding available is 200% of target funding. As in past years, the CEO and HR Committee of the Board have discretion to adjust annual incentive funding. All incentive plan funding is contingent on AEP achieving operating earnings of at least \$3.55 per share for 2017.

Operating Earnings Per Share – 70%

AEP is committed to generating sustainable value for all its stakeholders through its earnings and growth. Therefore 70% of annual incentive funding is tied to AEP’s Operating Earnings per Share. This ensures that funding is commensurate with the Company’s operating earnings and the extent to which the company can afford to pay annual incentive compensation while also serving the interests of its shareholders, customers and other stakeholders. It also:

- Aligns employee interests with those of customers by strongly encouraging expense discipline;
- Ensures that adequate earnings are generated for AEP’s shareholders and continued investment in AEP’s business before employees are rewarded with annual incentive compensation; and
- Further aligns the financial interests of all AEP employees with the results employees deliver to the Company and all its stakeholders.

2017 Performance to Rewards Measure



Safety and Compliance – 12% Weight
AEP is transforming our safety culture from “Good to Great” by building the systems and culture needed to support and sustain world-class safety performance. This includes building a safety culture based on proactive measures and continuous improvement.

For 2017 DART rate improvement will be measured to focus our attention on incidents with potentially serious consequences. DART stand for Days Away, Restricted or job Transfer and is an industry accepted measure that allows companies to focus on more serious events.

DART Rate Improvement for Employees and Contractors (7% weight)

- DART Rate = (Total Number of DART incidents x 200,000) ÷ Total Hours Worked
 - Threshold (0% payout) – 0% improvement vs. three-year average
 - Target (100% payout) – 10% Improvement vs. three-year average
 - Maximum (200% payout) – 20% Improvement vs. three-year average

Zero Harm (3% weight)

- Zero Employee Fatalities (1.5% weight)
 - Threshold (0% payout) – 1 or more fatalities
 - Maximum (200% payout) – No Fatalities
- Zero Contractor Fatalities (1.5% weight)
 - Threshold (0% payout) – 1 or more fatalities
 - Maximum (200% payout) – No Fatalities

Environmental Stewardship (1% weight) - Defined as the number of resolved formal enforcement actions with a fine > \$1,000

- Resolved means the fine is paid within the current calendar year for an event that occurred within that calendar year or the previous two calendar years
- Maximum (200% payout) – 0 resolved formal enforcement actions
- Target (100% payout) – 2 resolved formal enforcement actions
- Threshold (0% payout) – 4 or more resolved formal enforcement actions

NERC Compliance (1% weight) - The number of self-reported NERC violations as a percentage of the total number of violations

- Maximum (200% payout) – 100% of NERC violations were self-reported
- Target (100% payout) – 90% of NERC violations were self-reported
- Threshold (0% payout) – 80% or less of NERC violations were self-reported

2017 Strategic Initiatives (18% weight)

There are three areas of focus for AEP's 2017 strategic initiatives: Business Transformation, Customer Experience, and Culture and Employee Engagement. These are the major areas in which AEP needs to make progress in order to enable our future success. Each of these areas of focus includes several performance measures (shown in the table below) that reflect some of the many transformative initiatives the company is undertaking.

	2017 Strategic Initiatives	Weight
Business Transformation		8%
Transmission Business Expansion	4%	
AEP OnSite Partners	2%	
AEP Renewables	2%	
Customer Experience		6%
Quality of Service: SAIDI	2%	
Quality of Service: J.D. Power Residential Overall Customer Satisfaction Index	2%	
Mobile Alert Penetration	2%	
Culture & Employee Engagement		4%
Gallup Pulse Survey	1%	
Diversity	1%	
	Total Strategic Initiative Weight	18%

Business Transformation (8% total weight)

Transmission Business Expansion (4% weight)

- **Plant in Service (2% weight)**
 - Maximum (200% payout) – \$2.3B (~ target plus 10%)
 - Target (100% payout) – \$2.1B
 - Threshold (0% payout) – \$2.0B (~ target less 5%)
- **Capital Investment (2% weight)**
 - Maximum (200% payout) – \$3.23B (~ target plus 10%)

- Target (100% payout) – \$2.94B
- Threshold (0% payout) – \$2.79B (~ target less 5%)

The following goals for AEP Onsite Partners and AEP Renewables support AEP's strategic initiative of investing \$1B in renewables over 3 the next years.

- **AEP OnSite Partners (2% weight)** - newly signed renewable contracts during 2017 that commit capital to be spent
 - Threshold (0% payout) - \$75M of investment commitments
 - Target (100% payout) - \$125M of investment commitments
 - Maximum (200% payout) - \$175M of investment commitments
- **AEP Renewables Growth (2% weight)** - Capital associated with existing projects that achieve COD during 2017 plus newly signed contracts during 2017 that commit capital to be spent
 - Threshold (33.3% payout) - \$100M of investment commitments
 - Target (100% payout) - \$300M of investment commitments
 - Maximum (200% payout) - \$400M of investment commitments

Customer Experience and Quality of Service (6% total weight)

Quality of Service - SAIDI (System Average Interruption Duration Index) – (2% Weight)

SAIDI represents the total number of minutes the average customer has experienced interruption over a 12 month time period excluding major events. Major event exclusions and targets vary by Operating Company or jurisdiction due to PUC preference and regional differences.

- OpCo Thresholds (0% payout) – 120% of target or 110% for PSO and 125% for KY Power due to historic volatility
- OpCo Targets (100% payout) – Regulatory targets where applicable or a 2 year glide path to the regional peer group average or, if the average has already been achieved, maintaining this average
- OpCo Maximums (200% payout) – 80% of target or 90% for PSO and 75% for KY Power due to historic volatility

AEP performance will be determined based on a customer weighted average of the operating company performance scores.

Quality of Service - J.D. Power and Associates (JDPA) Residential Overall Customer

Satisfaction Index (CSI) – (2% Weight)

AEP's goal is to achieve top quartile regional peer group performance within 3 years for each operating company. Operating Company ICP measures and targets are aligned to the four waves of the study conducted during the calendar year

- OpCo Thresholds (0% payout) – Achieve the higher of 2016 performance or the target CSI score less the target to maximum bandwidth
- OpCo Targets (100% payout) – Achieve the year 1 target CSI score on the 3 year glide path to the projected 2019 top quarter CSI score
- OpCo Maximums (200% payout) – Achieve projected top quartile CSI score

AEP performance will be determined based on a customer weighted average of the Operating

Company performance scores. AEP Texas is excluded because Texas is a full choice retail state and AEP does not bill customers directly, which reduces interaction with customers.

Mobile Alert Penetration – (2% weight)

- Threshold (0% payout) – Current customer penetration
- Target (100% payout) – 25% customer penetration (double current customer penetration)
- Maximum (200% payout) – 38% customer penetration

This measure excludes AEP Texas due to difficulty getting email addresses and text numbers for these customers who do not purchase services directly from AEP Texas

Culture & Employee Engagement (4% total weight)

Gallup Pulse Survey (2% weight) - Achieve a year over year improvement in our culture and engagement as demonstrated by Gallup Survey Results (Overall Company Grand Mean). The 2017 AEP Employee Culture Survey will be conducted as a census survey, meaning all employees will be invited to participate in the survey.

- 4.03 Threshold (.06 improvement) - 0% of target payout
- 4.07 Target (.10 improvement) - 100% of target payout
- 4.17 Maximum (.20 improvement) - 200% of target payout

Diversity (2% weight) - AEP's diversity goal is to increase the representation of women and minorities to ultimately achieve parity between internal representation and external availability for all AEP positions. To achieve this goal AEP will need to improve hiring rates for women and minorities for all open positions and take steps to reduce attrition from these groups.

- Threshold (0% payout) for each female and minority category is the higher of: a. AEP's current representation rate plus placements at 80% of the hiring availability rate less attrition at AEP's current representation rate or b. AEP's current representation rate
- Target (100% payout) for each female and minority category is the higher of a. AEP's current representation rate plus placements at 100% of the hiring availability rate less attrition at AEP's current representation rate or b. AEP's current representation rate
- Maximum (200% payout) for each female and minority category is the higher of a.

AEP's current representation rate plus placements at 120% of the hiring availability rate less attrition at AEP's current representation rate or b. AEP's current representation rate

The overall diversity measure is the employee weighted average of female and minority representation rates for all Equal Employment Opportunity (EEO) categories, except Officials and Managers, which are double weighted.

Modifier

The Modifier is a normalizing function that allocates the available funding to each business unit and operating company based on the group's performance relative to the performance of all other business units and operating companies. This results in performance differentiated Overall Scores that fully utilize but never exceed the funding available.

The modifier is calculated as the Overall Score for the Funding Measures divided by the Average

Operating Performance Score (AOPS)¹ for all business units and operating companies as shown below:

$$\frac{\text{Overall Funding Score}}{\text{AOPS}} = \text{Modifier}$$

Maximum Score

If the application of the Modifier results in an Overall Score² for the Plan that exceeds 200% of target, then the Overall Score is capped at 200% of target.

Performance Adjustment

A Performance Adjustment may be used to increase or decrease the Overall Score for the Plan to the extent that the Plan Compensation Committee determines that the Overall Score does not appropriately reflect the group's performance for the year. Such adjustments may be used to capture those aspects of a group's performance that are difficult to quantify or that were not adequately included in the performance measures established at the beginning of the year. For example, a Performance Adjustment might be used to reward a group for successfully completing an important project that was not anticipated at the time the ICP goals were established.

Individual Performance Factor

Management determines individual awards for all employees in positions in the SP20, EXEM and (BSE) salary plans. These determinations are based on an assessment of each employee's relative individual performance, the value of their contribution to AEP, business unit, department and individual goals and other business factors, potentially including recent and pending employment changes. Individual performance factors have a lower limit of 0% and no upper limit. However, the approval of a member of the Executive Council is required for individual awards in excess of a participant's maximum award opportunity (see the Target and Maximum Awards section below). In addition managers cannot exceed their award pool.

In determining individual performance factors, managers are expected to assess employee performance and contribution relative to other employees in the same position or grade level as well as the performance expectations for that position. Managers are also expected to avoid a bias in favor of positions at either higher or lower salary grade levels in the organization.

Eligible Earnings

ICP Eligible Earnings include the following:

1. Regular Earnings – Straight Rate
2. Paid Vacation
3. Paid Holidays
4. Paid Personal Days Off

¹ AOPS is the average of the Operating Performance Scores for all incentive groups weighted by the aggregate target incentive award for all participants in each incentive group (see attached scorecard for an example).

² See Sample Scorecard for the definition and an example of the calculation of the Overall Score.

5. Sick Pay (Non-occupational & Occupational)
6. Paid Jury Duty
7. Paid Death in Family
8. Paid Rest Period
9. Inclement Weather Pay
10. Lump Sum Merit Increase
11. Lump Sum General Increase
12. Grievance Settlement for Wages
13. Overtime – Nonexempt and Exempt
14. Shift Premium
15. Sunday Premium
16. Military Pay
17. Trip Pay (River)
18. Paid Union Business

Earnings not classified and paid as one of the above types in AEP's payroll system are not considered for award calculation purposes.

Target and Maximum Award Opportunity

A participant's target award percent is based on the salary grade for his/her position **as of the last day of the last pay period that will be paid during the Plan Year**, as shown in the chart below, except as discussed below for employees in positions at or above SP20 salary plan grade 12 or EXEM salary plan grade 30 at any point during the Plan Year who change targets during the Plan Year:

New Grade Structure		
Salary Plan	Grade	Target %*
SP20	1	5%
	2	5%
	3	5%
	4	6%
	5	8%
	6	9%
	7	10%
	8	10%
	9	15%
	10	20%
	11	25%
	12	30%
	13	35%
	14	40%
	15	45%
	16	50%
	17	55%

New Grade Structure		
Salary Plan	Grade	Target %*
	18	60%
	19	80%
	20 (CEO)	125%

* As a percent of eligible earnings.

Old Grade Structures		
Salary Plan	Grade	Target %*
All nonexempt salary structures and wage schedules except SP20	All grades	5%
	1 - 6	5%
	7 - 12	7%
	13 - 20	10%
	21 - 24	15%
	25 - 26	17%
	27	20%
	28	22%
	29	25%
	30 - 32	27%
	33	30%
	34-35	35%
	36	40%
38	45%	
40	50%	
BSE	ALL Grades	Contact your manager
* As a percent of eligible earnings.		

A participant's maximum individual award percent is the greater of two times his or her target award percent or the Overall Score for the Plan plus 50% of the target score. This enables managers to positively differentiate awards by up to 50% of an employee's target award to reflect strong individual employee performance even if the Overall Score for the Plan is between 150% and the 200% of target maximum score. A participant's target and maximum award opportunity is their target or maximum award percentage multiplied by their eligible earnings. The approval of a member of AEP's Executive Council in the participant's chain of command is required for awards in excess of a participant's maximum award opportunity.

The award opportunity for employees in SP20 grade 12 or EXEM grade 30 and higher positions at any point during the Plan Year whose target changes will be prorated on a monthly basis and

calculated as the total of the independently calculated award opportunities for each position held during the Plan Year, including the earnings, target award percent, and Overall Score for each such position. This calculation will be performed as shown in the example below:

$$\begin{aligned} \text{Position 1: Earnings} & * \text{Target Award \%} * \text{Overall Score} = \$ \text{Pos 1} \\ \text{Position 2: Earnings} & * \text{Target Award \%} * \text{Overall Score} = \$ \text{Pos 2} \\ \text{Position 3: Earnings} & * \text{Target Award \%} * \text{Overall Score} = \$ \text{Pos 3} \\ & = \text{Total Award Opportunity} \end{aligned}$$

The target awards for employees in positions below SP20 grade 12 or EXEM grade 30 for the entire Plan Year will be calculated based on the target percent and Overall Score for the position held as of the last day of the last full pay period of the Plan Year.

Award Calculation

Because the Plan includes several discretionary factors, attainment of performance objectives does not guarantee the payment of awards. An award pool will be calculated for each group based on the scores for each performance measure as soon as practical after the conclusion of the Plan Year. The final score for each performance objective is rounded to three decimal places.

The Modifier is computed as follows:

- AEP's funding measures are compared to their performance targets to determine their performance scores, which are rounded to three decimal places (e.g., 105.5% or 1.055). The Weighted Average Score is then calculated based on the weight assigned to each funding measure.
- The Average Operating Performance Score (AOPS) is the average of the Operating Performance Scores for all annual incentive plans (each of which is rounded to three decimal places) weighted by the sum of the incentive targets for all participants in each plan. AOPS is then rounded to three decimal places (e.g., 125.7% or 1.257).
- The Modifier is the Weighted Average Score for the Funding Measures divided by AOPS, the result of which is rounded to three decimal places (e.g., $1.055 / 1.257 = .839$)

Board Policy on Recouping Incentive Compensation

This policy applies to all executive officers of the Company as well as all other employees of the American Electric Power Company, Inc. (the Company) or any of its subsidiaries at SP20 salary grade 15 or equivalent and higher, regulated operating company presidents and officer direct reports to the Company's Chief Executive Officer (collectively, the "Covered Employees").

This policy relates to incentive compensation paid or payable to such Covered Employees, whether under this Plan, the Company's Long Term Incentive Plan or otherwise.

The Board of Directors believes, subject to the exercise of its discretion based on the facts and circumstances of a particular case, that incentive compensation provided by AEP should be reimbursed to AEP if, in the Board's determination:

- Such incentive compensation was received by a Covered Employee where the payment or the award was predicated upon the achievement of financial or other results that were

- subsequently materially restated or corrected, and
Incentive compensation would have been materially lower had the achievement been calculated on such restated or corrected financial or other results.

Therefore, the Plan, hereby, requires Cover Employees to reimburse AEP, if and to the extent that, in the Board's view, such reimbursement is warranted by the facts and circumstances of the particular case or if the applicable legal requirements impose more stringent requirements on AEP to obtain reimbursement of such compensation. AEP also may retain any deferred compensation credited to a Covered Employee, including earnings thereon, if, when and to the extent that it otherwise would become payable.

This right to reimbursement is in addition to, and not in substitution for, any and all other rights AEP might have to pursue reimbursement or such other remedies against a Covered Employee in the course of employment by AEP or otherwise based on applicable legal considerations, all of which are expressly retained by AEP.

Administration

Plan Compensation Committee

The Plan is administered by the HR Committee of the Board of Directors with respect to executives in the HR Committee Review Group and a Plan Compensation Committee consisting of the Company's CEO, COO, CFO, General Counsel and Chief Administrative Officer with respect to all other employees, in either case ("the Committee"). The CEO of the Company may change the composition and number of members of the Plan Compensation Committee at any time for any reason. The Committee may delegate day-to-day authority to administer the Plan, as they deem appropriate. In lieu of an official meeting, the Committee may act by written or electronic consent of a majority of its members. The Committee's interpretations of the Plan provisions are conclusive and binding on all Participants.

The Committee has sole authority to amend or terminate the Plan and may do so at any time, for any reason, either with or without notice. The Committee may adopt, delete, modify or adjust performance objectives, metrics and weights at any time, including after the conclusion of a Plan Year, should the Committee determine that changes in AEP's structure or other significant business situations would produce an Overall Score or awards for a Plan Year that are not reflective of the underlying economics or performance of the business. The Committee may also modify the eligibility criteria for the Plan, add or delete individual participants or groups of participants and adjust any or all award payouts.

Executive Council members with management responsibility for a business unit or staff function served by the Plan have the authority to increase or decrease the award pool for any group under their purview, provided that such adjustments do not increase the total of all award pools under their purview.

Plan Year

A "Plan Year" begins on January 1st and ends on December 31st of each year for which the Plan is in effect.

Participation

All full-time and regular part-time AEP employees who are actively employed on AEP's payroll during the Plan Year will be "Participants" in the Plan for such Plan Year except:

1. Employees participating in any other **annual** AEP incentive plan,
2. Employees participating in any other plan or agreement that explicitly excludes their participation in the Plan or annual incentive compensation plans in general,
3. Employees represented by unions that decline the opportunity to participate in the Plan or all similar incentive plans,
4. Temporary employees and contract workers, and
5. Employees hired by AEP on or after December 1 of such Plan Year.

Participation in an incentive compensation plan in any Plan Year shall not confer any right to continued employment or to continued participation in the Plan for any subsequent Plan Year.

Participant Responsibility

Plan Participants are expected to comply with all applicable AEP policies and directives as well as all applicable laws and regulations. Failure to do so may have many serious consequences, including but not limited to forfeiture of award eligibility in the current and future Plan Years.

Award Eligibility

Participants must be **actively** employed on the last day of a Plan Year to be eligible to receive an award for that Plan Year, except as otherwise noted below.

If a Participant transfers during the Plan Year to a position that is ineligible to participate in the Plan, then such Participant will be ineligible to receive an award for such Plan Year from the Plan, unless the participant was an SP20 salary plan grade 12 or (EXEM salary plan grade 30) or higher during the Plan Year. In which case, the participant will be eligible for a prorated award for the Plan Year as specified in the "Target and Maximum Award Opportunity" section above.

If a participant is on Leave of Absence status as of the last day of the Plan Year, the Participant will be eligible to receive an award for the Plan Year to the extent that they have eligible earnings for the Plan Year.

Employees who become inactive during the Plan Year due to participation in an AEP long-term disability plan will be eligible to receive an award for that Plan Year to the extent that they have eligible earnings for the Plan Year, although long-term disability benefits are not ICP eligible earnings.

Participants forfeit their incentive plan eligibility if they are discharged for cause or resign in lieu of being "discharged for cause" at any time prior to the award payment date, unless the Plan Compensation Committee approves an award payment to such employee.

Satisfaction of eligibility criteria does not guarantee the payment of any awards.

Termination Due to Death or Retirement

Participants remain **eligible** for an award, based on their eligible earnings for a Plan Year, if their employment with AEP is terminated during the Plan Year due to their death or retirement. In the event of a Participant's death, any award to which they would otherwise be entitled will become payable to the Participant's estate or as otherwise specified by applicable state law. For the purposes of the Plan, "retirement" is defined as termination of employment for any reason other than for cause or as part of a voluntary or involuntary severance or layoff, after the Participant attains at least age 55 and five years of AEP service.

Change for 2018 ICP: Beginning with the 2018 Plan Year, **terminating** participants will remain eligible for an award, based on their eligible earnings for a Plan Year, **only if** their employment with AEP terminates after the third month of the Plan Year due to their death or retirement (**as defined**).

Termination Due to Voluntary and Involuntary Severance and Layoffs

Due to the severe financial constraints that generally give rise to the need for employee severances and layoffs, Participants with both discretionary and non-discretionary award opportunities are **ineligible** for an award if they would have a separation from service with AEP during the Plan Year as part of a voluntary or involuntary severance program or a layoff as defined under a collective bargaining agreement or the Supplemental Handbook and they are not rehired during the Plan Year. Severed employees are ineligible for an award even if, in connection with their severance, they are (a) placed on a Leave of Absence or (b) offered, but fail to meet the qualifications to be paid a severance benefit (e.g., if they would fail to timely sign and return, a Severance and Release of All Claims Agreement). In the event a severed employee is rehired during the Plan Year, such Participant will be eligible for an award only to the extent of their earnings for the period after they were rehired.

Resignations after the Plan Year

Participants who are **actively** employed on the last day of a Plan Year but who subsequently voluntarily resign their employment remain eligible for an award. However, for discretionary participants, their actual or pending voluntary resignation is a business factor that management may consider in determining their award payment, if any.

Award Payment

Award payment will be made within 2-1/2 months after the end of the year or as soon as practical thereafter if it is impractical, either administratively or economically, to make payments within this time period.

The Plan is hereby approved by:



Lisa M Barton

Date: June 1, 2017

EVP AEP Transmission

Transmissions 2017 ICP Plan



2017 ICP Plan and Goals

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A. Transmission ICP Plan Overview

This Transmission Incentive Compensation Plan (ICP) provides information about the business unit's strategic goals and metrics in each measurable category identified for 2017. These categories are: Safety & Culture, Build Infrastructure, Customer Experience, and Strategic Initiatives. Please see the Transmission Performance Metrics website <http://tqm/> for the latest copy of this plan. Note that Tier 2 Goals will be provided in a supplemental document.

B. ICP Plan Summary

This section contains an abridged description of each measurable category in the *Transmission ICP Plan* for 2017.

B.1. Safety & Culture

AEP is transforming its safety culture from *good to great* by building the systems and processes needed to support and sustain world-class safety performance.

This transformation includes changes based on proactive measures and continuous improvement. Safety remains the first priority irrespective of the ICP goals and other objectives the Company establishes. To help ensure that all employees have a personal stake in maintaining safe work practices, a substantial portion of every plan is tied to safety for AEP employees and contract workers.

A healthy organizational culture - one that is collaborative, supporting, challenging, accountable and resilient - is essential to AEP's success as the utility of the future. We measure the health of our culture by conducting periodic Gallup surveys and by creating action plans that foster continuous improvements.

Category

Goal

Targets & Measures

Safety & Culture – 35%		%	35%	
Safety, Culture, and Employee Engagement	1. Reduce DART rate.	<ul style="list-style-type: none"> • 0.0 = 0% • 1.0 = 10% • 2.0 = 20% improvement in DART rate from prior 3-year average 		10%
	2. Establish a Vehicle Equipment Operation program.	<ul style="list-style-type: none"> • 0.0=Participate in Driving Summit. • 1.0= Develop recommendations and develop implementation plans based on approved recommendations. • 2.0= Develop recommendations and develop implementation plans for approved recommendations and implement five (5). 		4%
	3. Implement and perform quality CORE visits.	Quality measure is based on established criteria: <ul style="list-style-type: none"> • 0.0 = 80% • 1.0 = 90% • 2.0 = 95% 		4.0%
	4. Implement quality in Good Catch Program.	Quality measure is based on established criteria: <ul style="list-style-type: none"> • 0.0 = 80% • 1.0 = 90% • 2.0 = 95% 		4.0%

Category

Goal

Targets & Measures

Safety & Culture – 35%		%	
5. Implement Risk Mitigation Plan as determined in the Site Inspection Program.	<ul style="list-style-type: none"> 1.0 = development of mitigation plans and budget inputs by year/quarter 2.0 = additionally, Short Term: work practices implemented for high risk hazards and Long Term: mitigation plans completely implemented for 25% of high risk hazards. 	4%	
	6. Implement High-Risk Activity Mitigation Plans. <ul style="list-style-type: none"> 1.0 = implement 3/5 identified work processes 2.0 = implement 3/5 identified work processes and 2 new or 2 from other business units 	4%	
7. Develop Gallup Culture Action Plans.	Percentage of leaders with impact plans and updated one time during 2017: <ul style="list-style-type: none"> 0.0:<80% 1.0:=>90% 2.0:=100% 	5%	

B.2. Build Infrastructure

AEP's Transmission's growth strategy focuses on building and maintaining a diversified portfolio of transmission projects through our Transcos, joint ventures, and Transource®. Currently, Transmission's capital investment program provides significant earnings contribution and growth to AEP. The electric infrastructure that we build and replace is an important foundation in AEP's current and future growth plans. To that end, our *Build Infrastructure* ICP category focuses on activities that support Transmission's objective of being AEP's growth engine for years to come.

Category

Goal

Targets & Measures

Build Infrastructure – 40%			
AEPTHC Earnings	1. Meet or exceed the annual earnings target for AEPTHC in line with corporate expectations.	<ul style="list-style-type: none"> 0.0 = 80% of Target 1.0 = 90% of Target 2.0 = Target 100% of Target 	10%
Plant In Service	2. Meet the year-end Plant In-Service target for the business unit (combined Opco & Transco).	<ul style="list-style-type: none"> 0.0 = \$2.0B 1.0 = \$2.1B 2.0 = 2.3B 	10%
Capital Investment	3. Achieve the annual capital investment target for the business unit.	<ul style="list-style-type: none"> 0.0 = \$2.79 B 1.0 = \$2.94 B 2.0 = 3.23 B 	20%
			40%

B.3. Customer Experience

Transmission will invest to improve the customer experience where it will earn a return on those investments. Our *ICP Plan* places continued emphasis on improving service reliability. Reliability is measured through Transmission's contribution to AEP's overall System Average Interruption Duration Index (SAIDI). We will promote a culture of compliance regarding the National Energy Regulatory commission (NERC), including environmental and project siting compliance; and support economic development in our communities with an electric grid that is well maintained and reliable. Transmission will establish partnerships that promote economic investment in energy-related infrastructure.

Category	Goal	Targets & Measures	
Customer Experience – 20%			
Customer Reliability	1. SAIDI: Reduce customer outages.	<ul style="list-style-type: none"> • 0.0=>=48.0 • 1.0<=40.0 • 2.0=32.0 	5.0%
Environmental Compliance/Siting	2. Eliminate environmental and siting enforcement actions by state/federal agencies.	Environmental: <ul style="list-style-type: none"> • 0.0 >= 4 • 1.0 <= 2 • 2.0 = 0; Siting Violations: <ul style="list-style-type: none"> • 0.0 >= 10 • 1.0 <= 5 • 2.0 = 0 Based on points – explained in detail in the Environmental section of this document.	2.5%
	NERC Compliance	3. Promote a culture of compliance through self reporting potential NERC compliance issues.	<ul style="list-style-type: none"> • 1.0 =<85% of issues internally found • 1.25=>=85% and <90% of issues internally found • 1.5 = >90% and <95% of issues internally found • 1.75 = >95% and <100% of issues internally found • 2.0 = 100 % of issues internally found
Economic Development	4. Adhere to TFS Maintenance Work Plan.	<ul style="list-style-type: none"> • 0.0 < 75% • 1.0=>85% • 2.0=>95% of components maintained or installed vs. Plan 	2.5%
Economic Development	5. Establish Public-Private Partnerships.	<ul style="list-style-type: none"> • 0.0= achievement of no goals • 1.0=achievement of 1 goal or financial equivalent • 2.0=achievement of 2 goals or financial equivalent 	2.5%

20%

Category	Goal	Targets & Measures
Customer Experience – 20%		
Economic Development	6. States Edge	<ul style="list-style-type: none"> 0.0 = Filing or filing after September 1, 2017. 1.0 = File cases in Arkansas, Louisiana, Texas, and Oklahoma on or before September 1, 2017. 2.0 = File cases in Arkansas, Louisiana, Texas, and Oklahoma on or before July 1, 2017 and minimize investment at risk (outside of regulatory expenses) to \$20 million in 2017-2018.

B.4. Strategic Initiatives

AEP, and by extension—our customers and shareholders—benefit from our competitive ventures as they provide additional revenue streams and promote innovation. Our strategic focus is on growing our competitive businesses such as Transource® and Grid Assurance™.

Category	Goal	Targets & Measures
Strategic Initiatives – 5%		
Growth	1. Grow the competitive business. (See following definitions.)	<ul style="list-style-type: none"> 0.0=achievement of neither goal 1.0=achievement of 1 goal or financial equivalent 2.0=achievement of 2 goals or financial equivalent

Additional Descriptions of Economic Development Goals
<ul style="list-style-type: none"> • <u>Establish Public-Private Partnerships</u> <ul style="list-style-type: none"> ▪ Establish a transmission partnership with Buckeye Power with a long-term project portfolio of > \$250 million. ▪ Establish a public-private partnership with the City of Hope, Arkansas in an effort to develop regional transmission in Southwest Power Pool (SPP). ▪ Establish a public-private partnership with the City of Prescott, Arkansas in an effort to develop regional transmission in SPP.
<ul style="list-style-type: none"> • <u>States Edge</u> <p>The States Edge project represents a \$3 billion combined Generation and Transmission investment opportunity that is also intended to deliver meaningful savings to Public Service Company of Oklahoma (PSO) and Southwestern Electric Power Company (SWEPCO) customers through net reduction in costs. This project is in early development. Additional economic and regulatory hurdles must be cleared before this initiative moves forward.</p>
<ul style="list-style-type: none"> • <u>Strategic Initiative Descriptions</u> <p>Grow the Competitive Business</p> <ul style="list-style-type: none"> ▪ Secure 20%+ of the competitive market investment opportunity through Transource® in Pennsylvania-New Jersey-Maryland Interconnection (PJM), Midcontinent Independent System Operator (MISO), and Southwest Power Pool (SPP)¹. ▪ Achieve a critical mass of utility company subscriptions and regulatory approvals to launch the Grid Assurance business.

¹ PJM, MISO, and SPP are regional transmission organizations (RTOs) that are responsible for moving electricity over large interstate areas. They coordinate, control, and monitor an electricity transmission grid.

C. Transmission ICP Plan Details and Measures

This section presents supporting explanations for the ICP Plan categories and includes corresponding calculations for each ICP measurement.

C.1. Safety and Culture

Safety and health professionals, frontline employees and managers from across the AEP system worked together in 2016 to develop programs that change how we approach safety and health. We shifted our focus so that safety and health hazards are addressed proactively. Focusing on past events only told us part of the story – addressing issues before an event occurs is the only way we will achieve our Zero Harm goal. Revised safety and culture ICP measures provide a proactive approach to improving our safety culture and performance.

C.1.1. Reduce DART Rate

Measure Weighting: 10%

Overview

- AEP is using the Days Away/Restricted or Job Transfer (DART) rate to place additional emphasis and focus on events that cause the most serious harm and have life-altering consequences.
- $\text{DART Rate} = (\text{Total Number of DART incidents} \times 200,000) \div \text{Total Hours Worked.}$
- The DART rate is calculated using both employee and contractor data. Transmission will measure performance against the historic three-year rolling average performance for the business unit.

ICP Targets

Reduce DART Rate	0.0	1.0	2.0
% Improvement from prior 3 year DART Average	<=0%	>=10%	>=20%

The target DART rates for 2017 are:

Reduce DART Rate	0.0	1.0	2.0
DART targets are based on improvement from 3 - year average.	0.67	0.60	0.54

NOTE: For 2017, Transmission's Prior 3-Year DART Average=0.67.

Example Calculation:

- Formula: (3 Yr DART Avg – EOY DART) / 3 Yr DART = (% Improvement *100)
- Example 3 Year Average DART Rate: 0.67
- Example End Of Year Combined Employee And Contractor DART Rate: 0.55
- Therefore, $(0.67 - 0.55) / 0.67 = 0.12/0.67 = (.1791 * 100) = 17.91\%$ Improvement
- Interpolate 17.91 between 1.0 and 2.0 Targets =
- **1.791 ICP Performance**

C.1.2. Improve Vehicle and Equipment Operation

Measure Weighting 4%

Overview

Vehicle And Equipment Operation is a shared measurement across business units. Corporate Safety & Health will administer ICP scoring in collaboration with Transmission.

Complete Driving Summit in Q2 2017

Business units will implement approved recommendations from the 2017 Driving Summit. The target audience will include two to three representatives from each Grand Central Safety Committee in Transmission along with several members of the Telematics Strike Team. The Grand Central Safety Committee was convened during 2016 to discuss safety issues and provide recommendations to improve

overall safety. This committee has representatives from multiple business units as well as contractor representatives.

There will also be two to three representatives from Transmission's Telematics Strike Team. It is a team that evaluates and recommends safety technology products.

- Attendance at the 2017 Driving Summit will be tracked in the KEY Learning Management System.
- An implementation plan will be developed after recommendations are reviewed and approved.

ICP Targets

Improve Vehicle and Equipment Operation	0.0	1.0	2.0
Milestones Achieved	Attend and participate in Driving Summit.	Develop recommendations and develop implementation plans for approved recommendations.	Develop recommendations and develop implementation plans for approved recommendations and implement five (5).

Example Calculation

- Transmission successfully developed recommendations and developed implementation plans for approved recommendations (1.0 ICP Criteria).
- Furthermore, Transmission implemented five of the approved recommendations (2.0 ICP Criteria).
- **2.0 ICP Performance**

C.1.3. Implement and Perform Quality Core Visits

Measure Weighting 4%

Overview: Quality & Participation Definition Criteria

Quality

The 2017 quality measurement is scored based on defined quality CORE visit requirements. (CORE stands for Coaching through Observation, Recognition, and Engagement.) A total of 16 points is possible on the CORE Visit Evaluation Form.

Visits are scored as follows:

- An average score of 12.8 out of 16 points (or 80%) = 0.0
- An average score of 14.4 out of 16 points (or 90%) = 1.0
- An average score of 15.2 out of 16 points (or 95%) = 2.0
- Scores from the CORE Visit Evaluation Forms will be averaged within the business unit. Please see <http://safety> and look in CORE visits section for more information.
- Leaders who completed Shadow of the Leader – CORE Visit Training (SOTL-CORE) in 2016 must complete a minimum of two (2) CORE Visits in 2017.

Participation

The leaders (supervisory staff) who complete Shadow of the Leader training during 2017 must complete a minimum number of CORE visits as follows:

Training Attended	Complete a Minimum of:
Q1	Three CORE visits (one/quarter – begin measuring in Q2)*
Q2	Two CORE visits (one/quarter – begin measuring in Q3)*
Q3	One CORE visit (one/quarter – begin measuring in Q4)*
Q4	One CORE visit (in Q4)*

NOTE: Completed Shadow of the Leader training must be on record as of October 1, 2017.

- Completion of CORE Visit Evaluation Forms will be tracked, measured, and reported by person by quarter. Therefore, if an individual leader is required to complete three CORE Visits, that leader must complete all three CORE Visits himself or herself (one/quarter).
- The overall score will be the average of the Quality and Participation components.

ICP Targets

Core Visits	0.0	1.0	2.0
Quality & Participation Average Scores	<=80%	>=90%	>=95%

Example Calculation

- **NOTE:** Weight YE Quality Score and YE Participation Score at 50% each
- Transmission achieves a 90% Quality score (weighted at 50%) and an 80% Participation score (Weighted at 50%)
- The overall score is the average of the two, or 85%
- Interpolate 85% between 1.0 and 2.0 Targets = **0.50 ICP Performance**

C.1.4. Improve Quality in Good Catch Program

Measure Weighting 4%

Overview

- Identification and follow-up on good catches are important to our Zero Harm journey. Good catches are true leading indicators. They can be used to prevent harm to employees, contractors, and the general public. AEP can

share this information as needed at the local, business unit, and company levels.

- Business units will set their own quarterly quantity measurements for 2017. This approach will help to ensure consistent application as well as accurate communication throughout the year.
- The quality measurement promotes good catches as a leading indicator across the company. Each month a random sample of 20% (with a maximum of 30 and a minimum of 20) good-catch events will be reviewed for each business unit. If the monthly minimum of 20 events is not achieved, 100% of the events will be evaluated. The measurement is based on a grading system provided by Safety & Health.
- Good-catch events that are shared across the Company must be coordinated through the respective Safety & Health directors. Supporting documentation for these activities is available in AEP's Safety and Health Event Management System (SHEMS).

ICP Targets

Good Catch Program	0.0	1.0	2.0
% Measure of Quality	<=80%	>=90%	>=95%

NOTE: The S&H Good Catch ICP performance metric includes the quality measurement; it does not include a quantity component.

Example Calculation

- Formula: YTD / YE Average of Good Catch Events per Corporate Safety and Health's Quality Scoring Criteria
- Example YE Good Catch Quality Scoring Average = 92.5%
- Interpolate 92.5% between 1.0 and 2.0 Targets =
1.5 ICP Performance

C.1.5. Implement Risk Mitigation Plan As Determined In the Site Inspection Program

Measure Weighting 4%

Overview

Risk mitigation plans call for reviewing processes so that we can identify ways to improve, alleviate or diminish risk. Transmission’s risk mitigation 2017 primary goals are:

- Assess risk after mitigation plan development to confirm an acceptable risk level.
- Develop budget inputs by year for all sites with high-risk hazards.
- Implement work practices for all sites with high-risk hazards. Implement mitigation plans for 25% of these sites that require work on the premises.

ICP Targets

Risk Mitigation – Site Inspection	0.0	1.0	2.0
Mitigation Criteria	Mitigation plans or budgets were not developed.	Mitigation plans <u>and</u> budget inputs developed by year/quarter.	1.0 criteria achieved <u>and</u> mitigation plans implemented for 25% of sites with high-risk hazards.

NOTE: Implementing the *Risk Mitigation Plan* as determined in the Site Inspection Program is a shared measurement across business units. Corporate Safety & Health will administer ICP scoring in collaboration with Transmission.

Mitigation Plans and Implementation, Budget Inputs, and Work Practices Criteria:

- High-risk hazards in this case are the specific hazards identified in the project.
- Work practices must be documented that describe how to perform a task with minimum risk to people, equipment, materials, and the environment when high-risk hazards are identified at the project site.
- Implementation is achieved when the work identified in a work practice or mitigation application is complete.
- Budget inputs are defined as estimates.

Example Calculation

- Transmission successfully developed mitigation plans and budget inputs (1.0 ICP Criteria)
 - Furthermore, Transmission implemented for 40% of High-Risk Hazards in the plan
 - 40% > 25% 2.0 ICP Criteria =
- 2.0 ICP Performance**

C.1.6. Implement High-Risk Activity Mitigation Plans

Measure Weighting: 4%

Overview

- Complete the implementation of mitigation plans for high-risk activities identified in 2016.
 - This implementation will address AEP's fragmented risk management system and inconsistent application and use of risk matrices and hazard controls.
 - It also addresses the inconsistent and reactionary focus on Serious Incident or Fatality Measure (SIF) prevention, and a need to focus on

- severity over frequency to further reduce employee events associated with high-risk activities.
- In 2017, Transmission will look for overlap of high-risk activities across business units and drive for consistency by developing standard processes and work procedures. This approach will engage employees in identifying risks that affect them.
 - Transmission will also identify any new high-risk activity to be mitigated in 2017.

Transmission's Top Five High-Risk Activities

Transmission Risk Activity	Mitigation Complete		Implementation Complete		Mitigation Planned		Implementation Planned	
	2016	2016	2016	2016	2017	2017	2017	2017
Working Near Energized Conductors While in and Aerial Device	X			X				
Working Near Open Excavation (setting and removing poles, etc.)	X			X				
Operating a Vehicle Requiring a CDL	X						X	
Switching a Gang-Operated Air-Break Switch (GOAB)	X						X	
Manual Material Handling	X						X	

ICP Targets

Risk Mitigation: High-Risk Activities	0.0	1.0	2.0
Mitigation Criteria	No mitigation plans implemented	Implement three of the remaining five work processes.	1.0 Criteria Achieved and 2 New or 2 from other business units

NOTE: New high-risk mitigation processes identified and implemented for 2017 cannot be applied from the Driving Summit.

Example Calculation

<ul style="list-style-type: none"> • Transmission successfully implemented three of the remaining five work processes (1.0 ICP Criteria). • Furthermore, Transmission implemented one additional work process that was either new or adopted from another business unit. • One additional work process is < 2 required for 2.0 performance, but represents 50% of the 2.0 goal achievement = 1.5 ICP Performance • Or, Transmission implemented no additional work processes, and only two (2) of the remaining five work processes. • Two of the three remaining five work processes represent 66% (2 out of 3) of the 1.0 goal = 0.66 ICP Performance
--

C.1.7. Develop Gallup Culture Action Plans

Measure Weighting: 5%

Overview

- Action plans based on 2015 and 2016 AEP Culture Survey (Gallup Survey) results will be developed through peer-to-peer and work team discussions.
- Performance timeframe: Leaders upload one impact plan in the system by 05/30/17.
- Leaders who uploaded impact plans by 05/30/17 will update these plans at least once by 12/31/2017.
- Final calculation will be weighted 50% for uploading one impact plan in system by 05/30/2017, and 50% for updating that impact plan by 12/31/2017.

ICP Targets

Culture Action Plans	0.0	1.0	2.0
Percentage of leaders with impact plans in Gallup System by 5/30/2017 and updated once during 2017	<80%	>= 90%	=100%

Example Calculation

- 95 of 100 leaders uploaded an impact plan into the system by 05/030/2017, or 95%
- 90 of 95 leaders who uploaded impact plan go on to updated that plan by end of year, or 94.7%
- Final calculation: $95\% (.5) + 94.7\% (.5) = 94.85\%$
- Interpolate 94.85 between 1.0 and 2.0 Targets = **1.485 ICP Performance**

C.2. Build Infrastructure

C.2.1. Meet or Exceed the Annual Earnings Target for AEP Transmission Holding Company

Measure Weighting: 10%

Overview

- AEP Transmission will meet or exceed the annual earnings target for AEP Transmission Holding Company (AEPTHC) in line with corporate expectations.
- ICP targets will be based on achieving 90% (0.0 payout), 100% (1.0 payout) or 106.4% (2.0 payout) of earnings target (stretch goal).
- The 2017 earnings target is \$296 M.

ICP Target

AEPTHC Earnings	0.0	1.0	2.0
Millions of Dollars of Contribution	<\$266 M	>=\$296 M	>=\$315 M

Example Calculation

- AEP Transmission Holding Company achieved \$290 M in earnings Contribution
- \$290 M >1.0 ICP Payout but less than 2.0 ICP Payout
- Interpolate \$290 M between 1.0 and 2.0 Targets =
0.68 ICP Performance

C.2.2. Meet the Year-End Plant In-Service Target

Measure Weighting: 10%

Overview

- AEP Transmission meets the year-end plant in-service target for the business unit.
- The Plant In-Service target is a combined OPCo and TRANSCO target.

ICP Target

AEP Plant In-Service	0.0	1.0	2.0
Millions of Dollars In-Service	<\$2,000 M	>=\$2,100 M	>=\$2,300 M

Example Calculation

- AEP Transmission Holding Company achieved \$2,225 M in combined plant in-service for both OPco and TRANSCO projects
- \$2,225 M >1.0 ICP Payout but less than 2.0 ICP Payout
- Interpolate \$2,225 M between 1.0 and 2.0 Targets =

1.63 ICP Performance

C.2.3. Capital Investment Target

Measure Weighting: 20%

Overview

AEP Transmission will achieve the annual capital investment target for the business unit. The capital investment target is a combined total of OPco and Transco capital investment. Transmission will be measured on its post-allocated capital for affiliates.

NOTE: In Transmission’s direct organizational view of capital there is \$101M in the 2017 control budget that was budgeted in support of Distribution station projects (D-FERC assets). The Transmission business unit manages the Distribution stations and is responsible for the capital investment and project management. The calculation for achieving \$3.23 B will include adding back to actuals from the distribution station that Transmission manages. In a direct view this spend can be identified by having a Distribution benefiting location within the Transmission organization, but in a post-allocated functional view this spend will be included under Distribution capital spend.

ICP Target

Capital Investment	0.0	1.0	2.0
Millions of Dollars of Investment	<\$2,790 M	>=\$2,940 M	>=\$3,230 M

Example Calculation

- AEP Transmission Holding Company achieved \$3,000 M in capital investment during 2017
- \$3,000 M >1.0 ICP Payout but less than 2.0 ICP Payout
- Interpolate \$3,000 M between 1.0 and 2.0 Targets = **1.21 ICP Performance**

C.3. Customer Experience

C.3.1. Customer Reliability-Reduce System Average Interruption Duration Index

Measure Weighting 5%

Overview

- System Average Interruption Duration Index (SAIDI) is the average duration of interruptions per customer during the year. It is the ratio of the annual duration of interruptions (sustained) to the number of customers.
- T-SAIDI is the total duration of sustained interruptions in a year on AEP's Transmission lines / total number of Transmission customers.

ICP Targets

SAIDI	0.0	1.0	2.0
(T-SAIDI Only)			
Average duration of T- Interruptions / T- Customers	>=48.0	<=40.0	<=32.0

Example Calculation

- T-SAIDI at end of year is 36.0.
- Interpolate 36.0 between 1.0 and 2.0 Targets =
1.5 ICP Performance

C.3.2. Eliminate Environmental Compliance & Siting Enforcement Actions by State and Federal Agencies

Measure Weighting: 2.5%

Environmental Compliance

Overview

- A Notice of Violations (NOV) is a formal environmental enforcement action.
- A formal environmental enforcement action constitutes a measurable NOV. The total number of environmental-related NOVs that Transmission receives as a result of an action or programmatic deficiency will be tallied using points.
- NOV points will be tallied for the plan year in which the enforcement action is resolved.
- NOVs resulting from an issue or event identified by a governing agency will be counted as two points.
- NOVs resulting from a self-reported issue or event counts as one point.
Environmental NOVs to be excluded from this metric will be those resulting from events that are:
 - Deemed uncontrollable (as determined by Environmental Services and Transmission Senior Leadership)
 - Identified as a minor environmental impact
 - Outside the control of the Transmission organization

ICP Targets

Environmental Compliance	0.0	1.0	2.0
Notice of Violations –	4	2	0
Number of Points			

Siting Compliance

Overview

- The total number of Transmission violations that occur during the plan year will be tallied using points. A siting violation will be defined as either 1) the failure to follow necessary regulatory process for transmission project siting approval, or 2) the failure to meet conditions imposed by the regulatory agency as part of project approval. Points are applied as follows:
 - Any violation that results in fines or work stoppage by a state utility commission will be counted as 2 points.
 - Failure to follow necessary regulatory process for transmission project siting approval (i.e., starting construction prior to obtaining approval for an activity that required state or federal approval) will be counted as 2 points.
 - Failure to meet any conditions set forth by a state commission or federal agency as part of project approval will be tallied in the following manner:
 - A commission or federal agency identifies and reports on a failure to follow agreed upon conditions of approval = 1 point
 - AEP self-reports a failure to follow an approval condition = 0 points
- Excluded from the siting compliance metric result from events that are:
 - Deemed uncontrollable as determined by Transmission Asset and Strategy Leadership and Transmission Senior Leadership.
 - Where the violation in question is subject to legal interpretation.

- Violation of a condition that is associated with a failure to meet the permit requirements of another agency.

Scoring

- Siting Violations = 10 pts = 0.0 ICP
- Siting Violations = 5 pts = 1.0 ICP
- Siting Violations = 0 pts = 2.0 ICP

ICP Targets

Siting Compliance	0.0	1.0	2.0
Siting Violation Points	10	5	0

Example Calculation

- 0 Environmental Compliance Points During 2017
- $0=2.0$ ICP Subscore For Environmental Compliance
- 6 Siting Compliance Points During 2017
- $6=0.5$ ICP Subscore for Siting Compliance Points
- Environmental Compliance Subscore ($2.0 * 50\%$) + Siting Compliance Subscore ($0.5 * 50\%$) =
- **1.25 ICP Performance**

NERC Compliance

Measure Weighting 5%

Overview

- The intent of this ICP stretch goal is to encourage the Self-Identification and Reporting of Reliability Compliance issues.
- ARCS is the official database for managing this information.
- There are two types of incidents counted in the metric –
 - 1) Internally Found Incidents — incidents that may or may not result in a Self-Report to a Region
 - 2) Externally Found Incidents — incidents that result in a Self-Report to a Region or an Audit Finding
- For inclusion, all incidents will meet the following criteria:
 - Caused by Transmission. (incidents caused by BUs are excluded)
 - Relates to AEPSC Transmission, Jointly-Owned entities and Transcos for which AEP Transmission has primary control of the functions.
 - The discovery date or the Violation ID was issued in the current year.
- Internally Found Incidents must meet all of the following criteria:
 - Status in ARCS has advanced beyond 'Draft' status
 - Will be defined as having one of the following values in ARCS:
 - Internal Audit
 - Self-Certification
 - Self-Identified
 - Event
 - A system event that leads to the discovery of the potential issue if the discovery is made by an AEP employee.
 - External Data Request
 - If the potential issue was not found within the scope of the data requested, but was a discovered as a byproduct of search activities.
- Externally Found Incidents must meet all of the following criteria:
 - Must have one of the following values for How Discovered:
 - Event
 - A system event that leads to the discovery of a potential issue if it was brought to AEP's attention by an external entity. For example, NERC, Regions, RTOs and neighboring utilities.
 - External Audit
 - Spot Check
 - External Data Request
 - If an incident is discovered as a result of a data request by an external agency it is Externally Found).
 - Must have a Violation ID.

- Is counted once even if the problem is reported in more than one Region or for multiple registrations.
- In the case of a disagreement with respect to the Internal/External classification of an incident in ARCS, Transmission Reliability Compliance leadership will determine the classification of the incident.
- The ICP Calculation is the percentage derived from the total of Internally Found Incidents divided by the sum of the Internally and Externally Found Incidents.

ICP Targets

NERC Compliance	0.00	1.00	1.25	1.50	1.75	2.00
% Internally Identified	NA	<85%	>=85%<90%	>=90%<95%	>=95%<100%	=100%

Example Calculation

- End of year, 18 out of 20 compliance issues are internal found (i.e., 90%)
- The multiplier = 1.5

C.3.3. Economic Development

Adhere to the TFS Maintenance Plan

Measure Weighting: 2.5%

Overview

- Transmission Operations and Transmission Construction will work together to complete the comprehensive Transmission Field Services (TFS) work plan.
- This work plan will be frozen by end of the first quarter in 2017. We will begin tracking actual maintenance units completed versus plan on a monthly basis.
- Achieving end-of-year maintenance units versus plan will be the basis for the ICP measurement.

ICP Targets

Adherence to TFS O&M Work plan	0.0	1.0	2.0
% Adherence	<=75%	>=85%	>=95%

Example Calculation

TFS achieves 80% of maintenance units versus plan by year end
Interpolate 80% of actual unit achievement between 0.0 and 1.0 performance =

0.50 ICP Performance

Establish Public-Private Partnerships

Measure Weighting: 2.5%

Overview

Goals for this category are:

- Establish a transmission partnership with Buckeye Power with a long-term project portfolio of > \$250 million.
- Establish a public-private partnership with the City of Hope, Arkansas in an effort to develop regional transmission in Southwest Power Pool (SPP) territory.

- Establish a public-private partnership with the City of Prescott, Arkansas in an effort to develop regional transmission in SPP.

ICP Targets

Establish Public-Private Partnerships	0.0	1.0	2.0
Goal Achievements	Achievement of no goals	Achievement of 1 goal or financial equivalent	Achievement of 2 goals or financial equivalent

Example Calculation

- Two goals were achieved during 2017:
- Establish a transmission partnership with Buckeye Power with a long-term project portfolio of > \$250 million.
- Establish a public-private partnership with the City of Hope, Arkansas in an effort to develop regional transmission in Southwest Power Pool (SPP) territory.
- **Therefore, 2.0 ICP Performance**

States Edge

The States Edge project represents \$3 billion combined Generation and Transmission investment opportunity that is also intended to deliver meaningful savings to PSO and SWEPCO customers through a net reduction in costs.

Measure Weighting: 2.5%

Overview

The project would accelerate renewable energy Integrated Resource Plan (IRP) needs in an effort to take advantage of expiring production tax credit (PTC), and mitigates the market discrepancies caused by congestion. An IRP plan identifies the need for generation resources by year to ensure there is an adequate supply of electricity to meet customer demand.

Current IRP plans for PSO and SWEPCO call for over 2,000 MW of renewables over the next 10 years. The wind PTC five-year phase out started at the end of 2016. The full value of the PTC is equivalent to \$35/MWh pre-tax of \$168 million per year (based on 1,000 MW).

This project is in development. Additional economic and regulatory milestones must be met before this project advances for formal consideration. Therefore, ICP measures will be based on achieving defined economic and regulatory targets.

ICP Targets

	0.0	1.0	2.0
States Edge			
Milestone Achievement Criteria	Filing after September 1, 2017	File cases in Arkansas, Louisiana, Texas, and Oklahoma on or before September 1, 2017	File cases in Arkansas, Louisiana, Texas, and Oklahoma on or before July 1, 2017 and minimize investment at risk (outside of regulatory expenses) to \$20 million in 2017-2018

Example Calculation

- Cases are filed in Arkansas, Louisiana, Texas, and Oklahoma on or before September 1, 2017.
- Demonstrate that investment at risk was minimized (outside of regulatory expenses) to \$20 million in 2017-2018.
- Achieved criteria for 1.0 ICP Performance but only 50% of 2.0 performance (cases not filed on or before July 1, 2017).
- Calculation (1.0 performance * 100% achievement) + (2.0 performance * 50% achievement) = **1.5 ICP Score**

C.4. Strategic Initiatives

Grow the Competitive Business: Measure Weighting 5%

Overview

The purpose of this initiative is to grow Transource through the capture of opportunities leading to increased Transmission earnings contribution.

ICP Targets

- Secure 20% of the competitive market investment opportunity via Transource in PJM, MISO, and SPP.
- Achieve a critical mass of utility company subscriptions and regulatory approvals to launch the Grid Assurance Program.

Grow the Competitive Business	0.0	1.0	2.0
Milestone Achievement Criteria	Achievement of neither goal	Achievement of one goal or financial equivalent	Achievement of two goals or financial equivalent

Example Calculation

- We successfully secured and demonstrated that we achieved 20% of the competitive market investment opportunity via Transource in PJM, MISO, and SPP.
- We successfully secured and demonstrated that we achieved a critical mass of utility company subscriptions and regulatory approvals to launch the Grid Assurance Program.
- Therefore, we achieved the criteria for 2.0 ICP Performance = **2.0 ICP Score**

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