



**2014 Incentive Compensation Plan (ICP) Measures
for
Company-wide ICP Funding,
the Executive Council Scorecard and Staff**



2014 Performance Measures and Weights

- A balanced scorecard of earnings, safety and strategic measures

Performance Category	2014	2013	2012
<u>Funding Measures</u>			
Operating Earnings Per Shares	75%	75%	100%
Safety Matrix	10%	10%	-
Strategic Initiatives	15%	15%	-
<u>Funding Adjustments</u>			
Fatality Adjustment	+7.5%	+7.5%	+/- 10%
Culture and Engagement	+5%	+5%	-
<u>Allocation Measures</u>			
Safety & Health	-	-	25%
Operations	-	-	25%
Strategic Initiatives	-	-	50%
The funding measures above would establish the aggregate funding available for all annual incentive groups			



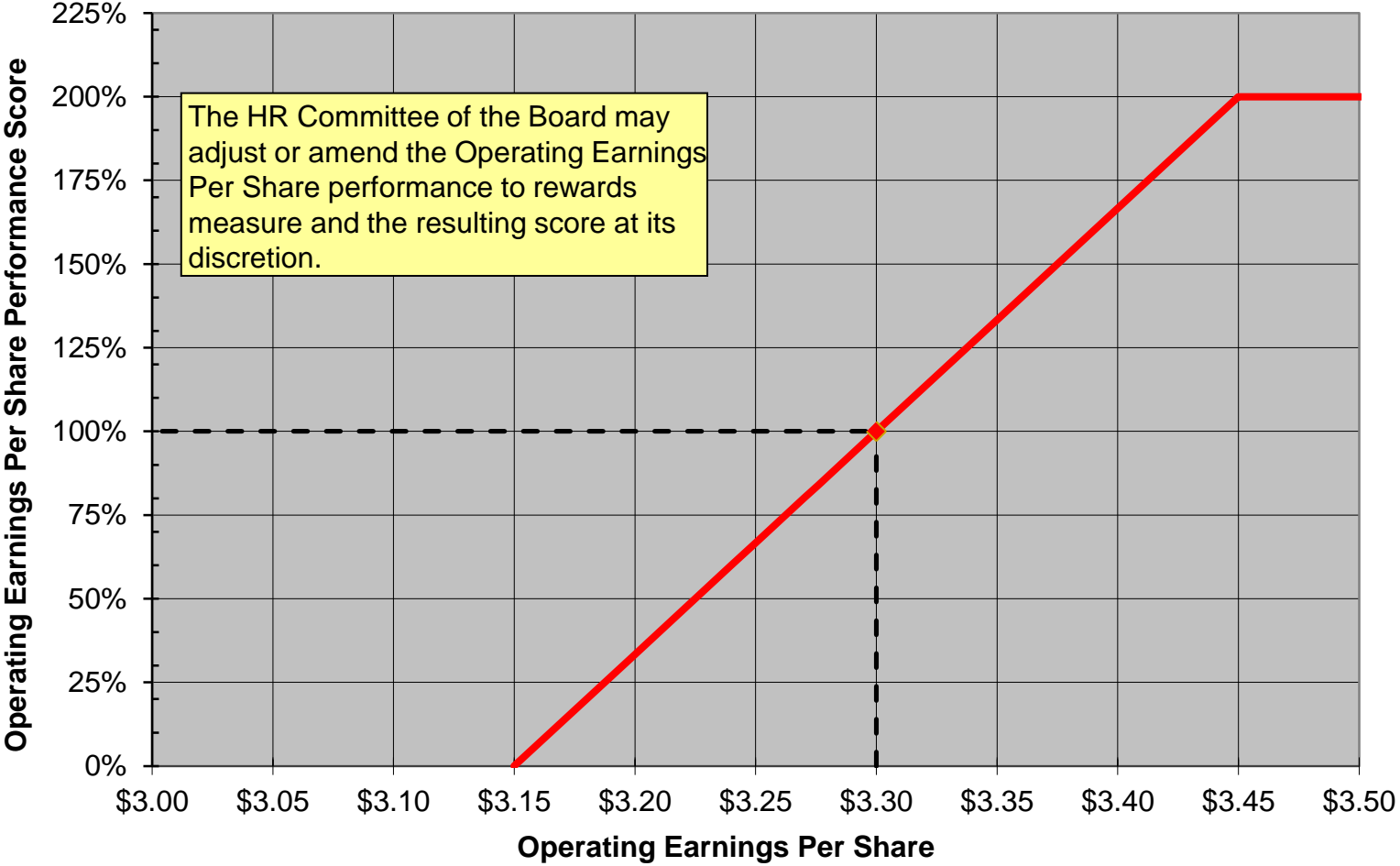
2014 Operating Earnings Per Share Measure (75% weight)

- 2014 Operating Earnings Per Share target is \$3.30, which was the midpoint of AEP's earnings guidance when this target was set at the beginning of the year
 - Based on the stellar 1Q results, management increased AEP's 2014 earnings-per-share guidance range to \$3.35 to \$3.55, up from \$3.20 to \$3.40
- This target is considered to have a 50% probability of achievement

	Operating Earnings Per Share	Award Score
Maximum Award	≥ \$3.45 (+\$0.15 or 4.6%)	200%
Target	= \$3.30	100%
Threshold	≤ \$3.15 (-\$0.15 or 4.6%)	0%

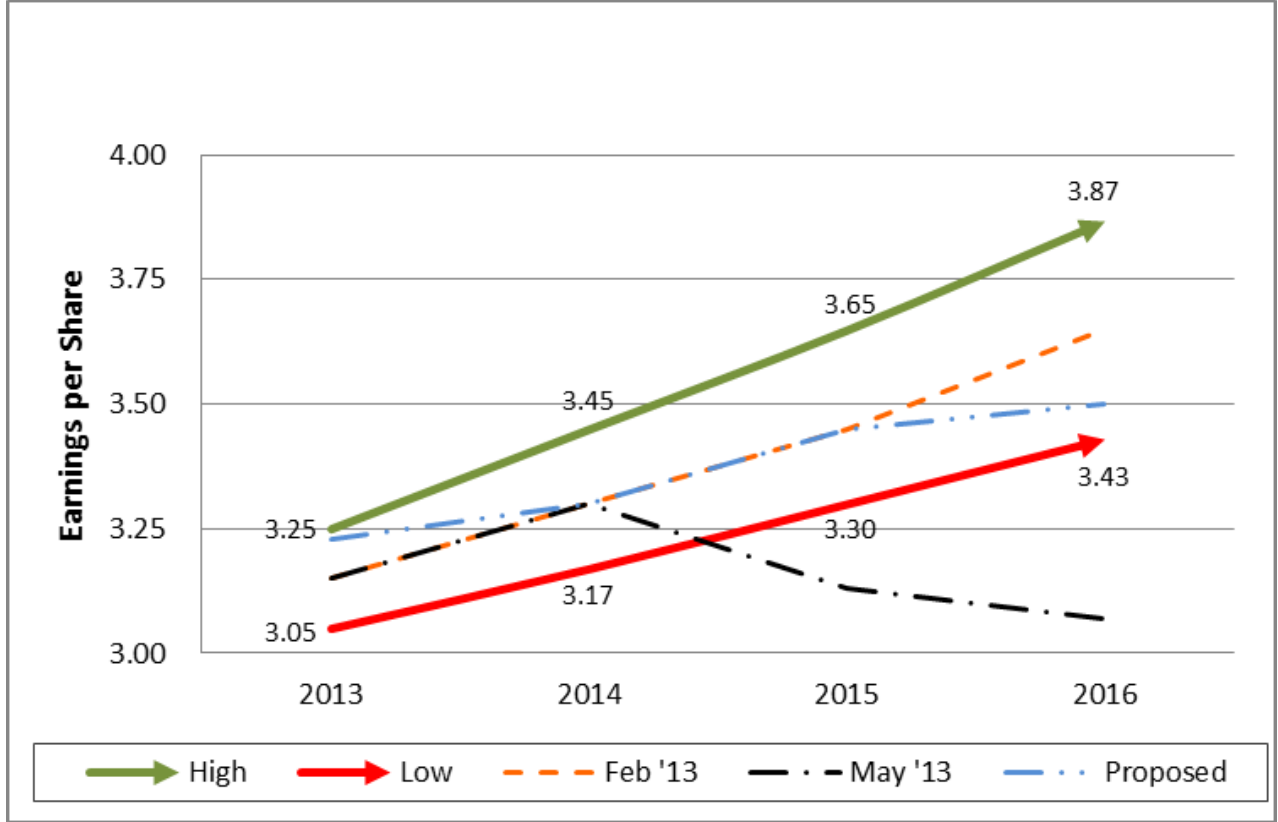


2014 Operating Earnings Per Share Measure (75% weight)





Strategic Initiatives Earnings Growth Trajectory Plan



Our base plan includes planned actions to stay in our 4-6% earnings growth target including

- > Transmission capital allocation
- > Cost shifting (outages, etc)
- > Cost savings initiatives
- > Transmission trackers
- > Unsustainable cuts
- > Unregulated adjustments (operating, structural)



Strategic, Operating and Safety Goals

Overall

- 150% maximum aggregate score for all Strategic, Operating and Safety Goals
- No payout if EPS is less than threshold (\$3.15 for 2014)

Safety Matrix – 10% Weight

- Maintaining AEP's safety culture remains a primary priority
- This measure will have severity rate (50%), incident rate (40%) and contractor incident rate (10%) components

Strategic Initiative: Earnings Growth Trajectory – 15% Weight

- Identify and execute actions that shift \$25-\$40 million in costs from 2015 and 2016 into 2014 in order to meet earnings growth expectations for this three year period
 - Cost shifting decisions will be made with an eye towards the 2014 earnings target
 - Actions tracked based on costs shifted from 2015 and 2016 into 2014
 - Aggregate savings will be embedded in 2015 and 2016 budgets



Extra Credit Measures

Zero Fatality Adjustment (Potential 7.5% Addition to Overall Score)

- In the event AEP does not experience a fatal work related employee incident, the overall net composite score would increase by 7.5% of target for all employees

Culture and Employee Engagement (Up to 5% Addition to Overall Score)

- The linkage between a healthy organization culture and business performance is clear
- Engage employees in achieving sustainable cost savings/revenue enhancements of \$10 - \$30 million beyond the current 2014 plan
 - Evaluated at an aggregate business unit level based on monetized Lean and other initiatives (tracked by the OPT team)
- **AEP will continue its cultural transformation to meet the following milestones:**
 - 6 employee visits by each Executive Council member during 2014
 - 360 performance feedback for all leaders
 - Select new engagement survey and survey employees by year end
 - Commence Cultural Leadership Workshop for all employees