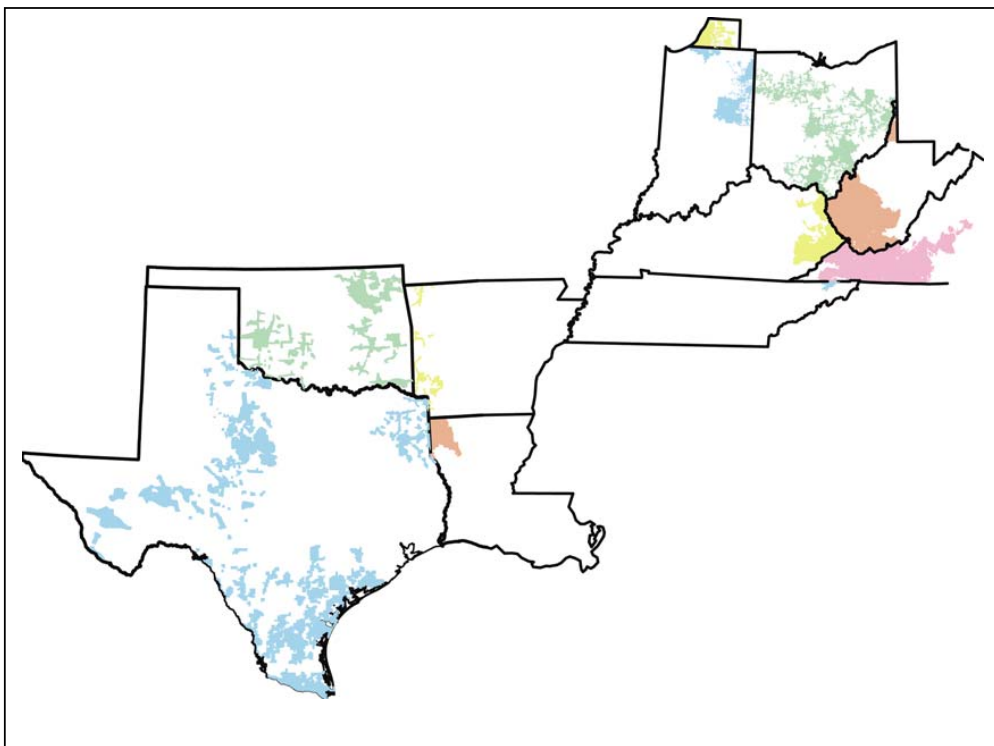


AEP – ASPLUNDH 2014 KEY PERFORMANCE INCENTIVE PLAN GUIDELINES

KENTUCKY POWER COMPANY (KPCO) DISTRIBUTION



2014 Kentucky Power Company - Asplundh Key Performance Incentive Plan

This document describes the 2014 Kentucky Power Company - Asplundh Key Performance Incentive ("KPI") Plan and explains how payouts will be determined for Asplundh contract employees working on the AEP Distribution system. The KPI has been developed for the purpose of improving the safety, efficiency, and effectiveness of the work performed by Asplundh under their AEP vegetation management contract(s), resulting in improved service and value to our customers. The KPI Plan's performance measures provide a "line of sight" for AEP Forestry Management and Asplundh contract employees so that performance expectations associated with vegetation management are communicated and understood. The KPI will work in conjunction with each of the Operating Company's Corporate Key Performance Indicator ("CKPI") Plans by meeting or exceeding the performance factor targets on a quarterly basis under safety and efficiency.

In 2014, the KPI will be based on the general performance categories of:

- Safety
- Efficiency
- Effectiveness

The safety performance category contains the injury severity rate, the key performance measure for the plan, which is the "gatekeeper" for the KPI Plan. The injury severity rate has an established threshold that must be met or exceeded in order for a payment to be made under the KPI Plan. This threshold is the 3-year average, aggregate severity rate of all AEP Operating Companies and must be met by each Asplundh Operating Company Unit ("Unit") of vegetation management contractors working for AEP in order for that Unit to receive payment. If the threshold is exceeded by any Unit in a quarter, AEP and Asplundh will mutually develop a plan designed to improve the injury severity rate for that Unit to at or below the threshold. If an Asplundh contract employee is fatally injured during the course of work under the contract(s) covered by this plan, the Unit sustaining the fatality will not be eligible for a KPI Plan payout in the quarter in which the fatality occurred. The payout for all Units outside the Unit incurring the fatality will be reduced by any earned payouts in the safety portion of their KPI Plan during that same quarter. An exception may be made if, after a thorough review, AEP determines the fatality occurred through "no fault" of the Asplundh contract employee.

Each general performance category contains specific performance measures with targets specific to each of the Units. The targets have been developed using performance data from each of the Operating Companies, and are shown on the Quarterly KPI Target Worksheet attached on the last page of this document. These measures provide an alignment with the Operating

Companies' goals and improve the ability to determine fair, challenging targets, which incorporate local operating issues, regulatory requirements, etc.

The 2014 Kentucky Power Company - Asplundh KPI Plan has six (6) Safety Performance Measures that carry a 35% weighting, four (4) Efficiency Performance Measures that carry a 35% weighting, and two (2) Effectiveness Performance Measures that carry a 30% weighting. Each performance measure has a weighting factor assigned to it with the sum of the weighting factors equaling one. Each Unit earns a performance factor of 0.0 – 1.0 for each performance measure in the KPI Plan. The performance factor earned is based on the Unit's quarterly results. Each performance measure's weighting factor is multiplied by its earned performance factor to obtain its weighted performance factor. The sum of the weighted performance factors for all the performance measures results in the Unit's aggregate performance factor. The quarterly KPI Plan pot allocated for each Unit is 5% of the Unit's Asplundh labor, with mark-ups, invoiced that quarter for the classifications of General Foreman and below. To determine the Unit's KPI Plan payout, its aggregate performance factor is multiplied by its quarterly KPI Plan pot allocated.

Within a given Unit, if the total calculated KPI Plan payout for the quarter falls at or below 50% of the allocated KPI Plan pot, then there will be no KPI Plan payout for that specific quarter.

For internal accounting purposes: The total KPI Plan payout will be allocated between Capital and Operation & Maintenance (O&M) expenses in accordance with the Operating Company's actual outside services labor expenditures for the quarter.

Operating Company Unit Example:

$$[(\text{First Performance Factor} \times \text{Weighting}) + (\text{Second Performance Factor} \times \text{Weighting}) + \dots + (\text{Last Performance Factor} \times \text{Weighting})] \times (\text{Quarterly KPI Plan Pot}) = \text{Unit's KPI Plan Payout}$$

Asplundh will be responsible for allocating each Unit's KPI Plan payout to the employees working within the Unit. There is no one "best practice" for allocating the payout, so allocation methods may vary by Unit to provide the best motivation for performance improvement. Asplundh management (Regional VP or Manager) and AEP Operating Company management (Forestry Supervisor, Operations or Reliability Manager, and VP of Operations) must be in agreement on the allocation plan.

Descriptions of the various performance categories, performance measures, and objectives that are used in the KPI plan are outlined below.

❖ **PERFORMANCE CATEGORY: SAFETY**

The performance measures under the safety performance category apply only when work, including service restoration work, is being performed in an AEP Operating Company and includes all Asplundh contract employees covered by an AEP contract(s) that includes this KPI Plan. For recording against any performance measures in the KPI Plan, regardless of the AEP location where the accident occurs, it is charged to the Asplundh contract employee's "home" Unit.

➤ **Performance Measure: Severity Rate**

- **Objective: Reduce the accident severity rate for the quarter by 10% of the previous 3-year average.**

Included in the accident severity rate are the days away from work and restricted duty days for injuries that are required to be recorded on the Contractor's OSHA 300 log. Days away from work are commonly referred to as "lost time". Restricted duty days are defined as the days the injured employee is restricted from performing the duties of his regular occupation by his doctor but is assigned alternate work or restricted duties within his occupation. All days between the first lost or restricted day and the day the restrictions are lifted by the doctor are included. Severity days will continue to count into the next quarter if need be. No single OSHA recordable incident shall accumulate more than 180 calendar days of lost time or restricted duty.

The quarterly accident severity rate is calculated per the following formula:

$$\frac{(\# \text{ of Days Away from Work} + \text{Restricted} + \text{Transfer Days}) \times 200,000}{(\text{Hours Worked in Qtr})}$$

➤ **Performance Measure: Incident Rate**

- **Objective: Reduce the accident incident rate for the quarter by 10% of the previous 3-year average.**

Included in the incident rate is the total number of injuries, illnesses, and lost work cases that are required to be recorded on the Contractor's OSHA 300 log. An injury or illness is an abnormal condition or disorder. Injuries include cases such as, but not limited to, a cut, fracture, sprain, strain, or amputation. Illnesses include both acute and chronic, such as, but not limited to, a skin disease, respiratory disorder, or poisoning.

The quarterly accident incident rate is calculated per the following formula:

$$\text{(# of OSHA Recordable Incidents x 200,000) / (Hours Worked in Qtr)}$$

- **Performance Measure: Days Away, Restricted, or Transferred Cases (DART) Rate**
- **Objective: Reduce the number of cases that have days away, restricted, or transferred days for the quarter by 10% of the previous 3-year average.**

The DART rate includes the total number of cases involving days away from work, restricted work activity, and transfers to another job. These are required to be recorded on the Contractor's OSHA 300 log. Days away from work are commonly referred to as "lost time". Restricted duty days are defined as the days the injured employee is restricted from performing the duties of his regular occupation by his doctor but is assigned alternate work or restricted duties within his occupation. Transfers to another job include but are not limited to being able to perform "light" duty with restrictions. All days between the first lost, restricted, or job transfer day, and the day the restrictions are lifted by the doctor are included.

The quarterly DART rate is calculated per the following formula:

$$\text{(# OSHA Recordable Lost Time + Restricted + Job Transfer Cases) x 200,000 / (Hours Worked in Qtr)}$$

- **Performance Measure: Outages**
- **Objective: Reduce the number of "at fault/negligent" crew caused outages, flashes, and operations for the quarter by 10% of the previous 3-year average.**

Interruptions to the Distribution system can be very serious. A contractor caused interruption (outages, flashes, and operations) may easily result in personal injuries to the employees involved. It also has the potential to effect large numbers of customers and large blocks of load. An interruption is defined as any tree contact, human error, or foreign object that disrupts the normal operation of the circuit whether momentary or for a sustained period of time. An exception may be made, if after a thorough review, AEP determines that there was no fault caused by the contractor.

"At fault/negligent" crew causes outages will be calculated on a quarterly basis.

➤ **Performance Measure: Vehicle Accidents**

- **Objective: Reduce the number of “at fault” vehicle accidents for the quarter by 10% of the previous 3-year average.**

All vehicle accidents should be reviewed by AEP and Asplundh management to determine if they are “at fault”. The following definitions may be used as a guideline:

“AT FAULT” VEHICLE ACCIDENT DEFINITION

A motor vehicle accident in which the Asplundh driver/operator involved was the major cause of the accident (i.e., disregarding traffic signals, backing into fixed objects, excessive speed, etc.).

NOT AT FAULT VEHICLE ACCIDENT DEFINITION

A motor vehicle accident in which the actions of the Asplundh driver/operator involved was not the casual factor of the accident. However, there can be circumstances in which the accident could have been avoided had the Asplundh driver/operator taken defensive measures (i.e., braking suddenly and being struck in the rear, or being struck by a merging vehicle).

Quarterly vehicle accident rates are calculated per the following formula:

$$\text{(# of “At Fault” Vehicle Accidents x 200,000) / (Hours Worked in Qtr)}$$

If the calculated “at fault” vehicle accident rate is above the 3-year average and only one (1) incident has occurred during the quarter, then the 0.25 performance factor will apply.

➤ **Performance Measure: Field Safety Observations**

- **Objective: Monitor and improve crew safety performance to achieve a 99.5% pass rate of field safety observations.**

Individual crew safety observations will be performed throughout each quarter. As noted in the detailed criteria listed on the *AEP Forestry Contract (KPI) Crew Audit* form, the auditor will score the crew based on a pass/fail system. A “fail” rating will result from not meeting one of the first seven (7) criteria. A “fail” rating can also result when one of the last three (3) items is scored as “unacceptable” and the auditor believes the magnitude or frequency of the unacceptable element warrants the “fail” rating. The auditor will document the reason for the “fail” or “unacceptable” ratings in the comments section of the form.

❖ **PERFORMANCE CATEGORY: EFFICIENCY**

The performance measures under the efficiency performance category provide a “line of sight” reference to the crews in the field and provide the AEP Operating Company and Asplundh management the opportunity to implement best practices in crew management. Target levels will be set quarterly to compensate for seasonal variations. These target levels will be based on historic data for each Operating Company Unit unless otherwise agreed to by AEP and Asplundh management.

Accurate reporting of work units completed is required for efficiency measures to be viable. Reported work units will be verified through field audits of completed work. Variances will be addressed with local Asplundh management. During the quarterly performance period, if the variance between the completed work units reported and the completed work units audited is greater than 5% for trims and removals and greater than 10% for Brush Cut, the performance factor applied to this performance measure will be zero (0).

➤ **Performance Measure: Hours Per Tree Trim (Non-Mechanical)**

➤ **Objective: Increase the efficiency of crews performing tree trimming by 3% over the previous 3-year average.**

Hours per tree trimmed will be collected quarterly through RWM for crews working on base and reliability capital and maintenance. Crew types and RWM work types included in this performance measure will be agreed upon by the AEP Operating Company and Asplundh management.

➤ **Performance Measure: Hours Per Tree Removal (Non-Mechanical)**

➤ **Objective: Increase the efficiency of crews performing tree removal by 3% over the previous 3-year average.**

Hours per tree removed will be collected quarterly through RWM for crews working on base and reliability capital and maintenance. Crew types and RWM work types included in this performance measure will be agreed upon by the AEP Operating Company and Asplundh management.

➤ **Performance Measure: Hours Per Unit of Brush Cut (Non-Mechanical)**

Objective: Increase the efficiency of crews performing brush clearing by 3% over the previous 3-year average.

Hours per unit of brush cut will be collected quarterly through RWM for crews working on base and reliability capital and maintenance. Crew types and RWM work types included in this performance measure will be agreed upon by the AEP Operating Company and Asplundh management.

- **Performance Measure: Operation & Maintenance (O&M) Hours Per Mile of Overhead Primary for Full Circuit Reclearing**
- **Objective: Reduce the Operation & Maintenance (O&M) hours per overhead primary mile for full circuit reclearing by 7% over the previous 3-year average.**

The overhead primary miles completed for full circuit reclearing will be collected on a quarterly basis by a Kentucky Power Company Forestry representative. The Operation & Maintenance (O&M) hours will be collected on a quarterly basis via a data pull from the Right of Way Maintenance (RWM) system for full circuit reclearing utilizing the DMC work type. The quarterly hours worked will be divided by the quarterly miles to achieve the calculation.

❖ **PERFORMANCE CATEGORY: EFFECTIVENESS**

The performance measures under the effectiveness performance category provide the AEP Operating Company and Asplundh management a measure of assurance that the crews are clearing to the best practice standards as outlined in the *AEP Forestry: Instructions for Forestry Contract Crew Audits*. Each AEP Operating Company may also provide specific standards for vegetation clearing that the contractor will be measured against. These standards may include but are not limited to ROW width, danger trees, pole base clearing, debris handling, and pruning compliance.

- **Performance Measure: Work Quality – Clearance to Operating Company Standards**
- **Objective: A minimum of 98% or more of the spans maintained have conductor to vegetation clearances meeting or exceeding the Operating Company's specifications.**

AEP will sample maintained spans and conduct field audits of span line clearance to determine if the work was completed to Operating Company standards. The *AEP Forestry Contract (KPI) Crew Audits* form will be

used for these audits. Any defect found on any audit will be a “failed” audit unless an AEP Operating Company Forestry representative approves a variance. The percentage of passed audits will determine the performance factor.

- **Performance Measure: Work Quality – Trimming to arboricultural industry standards and AEP specifications.**
- **Objective: A minimum of 98% or more of the spans maintained had vegetation managed per arboricultural industry standards and AEP specifications.**

AEP will sample maintained spans and conduct field audits to determine if the work was completed to industry standards and AEP specifications. The *AEP Forestry Contract (KPI) Crew Audits* form will be used for these audits. Any defect found on any audit will be a “failed” audit unless an AEP Operating Company Forestry representative approves a variance. The percentage of passed audits will determine the performance factor.

SAMPLE QUARTERLY KPI TARGET SHEET

Asplundh - Kentucky Power Co					
	Measure	Definition	1.0 Target	Weighting	
1	SAFETY (35%)	Severity Rate (KPI Gatekeeper 24.67)	# of OSHA Recordable Lost Work Days + Restricted Duty Days X 200,000/Total Man Hours	10% Improvement Over 3 year ATE - KYCO Average	0%
2		OSHA Incident Rate	# of Actual OSHA Recordable Cases X 200,000/Total Man Hours Worked Per Quarter	10% improvement over 3 year ATE - KPCO Average	0%
3		DART Rate	# of OSHA Recordable Lost Time & Restricted Cases X 200,000/Total Man Hours Worked Per Quarter	10% Improvement Over 3 Year ATE - KPCO Average	20%
4		Outages	# of "At Fault/Negligent" Crew Caused Outages, Flashes, & Operations	10% Improvement Over 3 Year ATE - KPCO Average	5%
5		Vehicle Accident Rate	# of "At Fault" Vehicle Cases X 200,000/Total Man Hours Worked Per Quarter	10% Improvement Over 3 Year ATE - KPCO Average	5%
6		Field Safety Observations	Individual Pass/Fail Using Crew Safety Inspections	99.5% Pass/Fail by OpCO	5%
7	EFFICIENCY (35%)	Per Unit Measure (Reporting Accuracy Var < 5%)	Hours Per Tree Trimmed (Manual Crews Only)	3% Improvement Over 3 Year Average (Target Varies by Qtr)	4%
8		Per Unit Measure (Reporting Accuracy Var < 5%)	Hours Per Tree Removed (Manual Crews Only)	3% Improvement Over 3 Year Average (Target Varies by Qtr)	4%
9		Per Unit Measure (Reporting Accuracy Var < 10%)	Hours Per Unit Brush Cut (Manual Crews Only)	3% Improvement Over 3 Year Average (Target Varies by Qtr)	4%
10		Full Circuit Reclearing Productivity	O&M Hours Per Overhead Primary Mile for Full Circuit Reclearing	7% Improvement over 3 Year Average	23%
11	EFFECTIVENESS (30%)	Work Quality	Field Audit of Span Line Clearance Per OpCo Standards	>=98% Compliant for random spans audited (Clearance Standard by OpCo)	15%
12			Field audit of spans trimmed per industry standards	>=98% Compliant for random spans audited (Work Quality by OpCo)	15%
	Was KPI Performance Goals Achieved at or above 51%?		YES		100%
			NO		