

AEP Incentive Compensation Guiding Principles and Policies Revised as of April 2017

Compensation Governance - American Electric Power Company, Inc. (AEP) and the Human Resources Committee of AEP's Board of Directors (HR Committee) has established the following incentive compensation standards for the Company and its subsidiaries. These standards are reviewed at least annually and adjusted as needed.

Approvals and Exceptions- The approval of the CEO and, as necessary or appropriate, the HR Committee is required for any substantial exceptions to these standards. The approval of the Director of Compensation, Managing Director Total Rewards, VP Human Resources or SVP & Chief Administrative Officer is required for all other exceptions to these standards. The Chairman of the HR Committee is responsible for determining which exceptions require full HR Committee review and approval in accordance with the HR Committee Charter as part of the agenda setting process for the HR Committee. The SVP & Chief Administrative Officer is responsible for reviewing exceptions to these standards that may require HR Committee approval with the Chairman of the HR Committee so that the Chairman of the HR Committee has sufficient information to set its agenda.

All compensation commitments and payments that exceed \$50,000 and that are granted outside a previously approved plan or program require notification to the HR Committee Chairman. Examples of such commitments and payments include signing bonuses, retention awards and buy-outs of prior employer compensation and benefits. All compensation commitments and payments that exceed \$100,000 and that are granted outside a previously approved plan or program require the approval of the HR Committee Chairman or, at the HR Committee Chairman's discretion, the full HR Committee.

Incentive Award Opportunity - Standard target and maximum annual incentive award opportunity levels have been established by the HR Committee as shown in the tables below. These standard target and maximum award levels are periodically reviewed and adjusted as needed to reflect market competitive compensation levels; AEP's compensation strategy and desired compensation mix; and AEP's financial situation, among other factors.

All individual incentive compensation awards in excess of the maximum award opportunity (defined below) require the approval of an executive council member unless the HR Committee has previously approved higher maximum award opportunities for the plan or executive in question. The maximum award levels do not necessarily represent potential or possible outcomes of any plan or performance measure.

New SP20 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%
	18	60%
	19	80%
	20 (CEO)	125%
* As a percent of eligible earnings.		
Competitive Business Grade Structure		
Salary Plan	Grade	Target %*
All nonexempt salary structures and wage schedules except SP20	All grades	5%
EXEM (Old Exempt Structure)	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.		

Performance Measure Design - Performance metrics shall be established at levels that foster the sustained achievement of business objectives. As general guidelines, performance metrics should:

- Provide stretch but achievable goals.
- Provide target awards only when performance is at or better than budget, if applicable.
- Allow for adjustment to reflect changing business needs.
- Be designed to so that the probability of below threshold or above maximum performance is no higher than about 10%-15% for any single performance measure and no higher than about 5%-10% for all performance measures combined, in a normal year using external comparisons whenever possible.

A 2.0 cap shall apply to all performance objectives unless the value-sharing proposition of any uncapped performance objective is reviewed and approved by the CEO and, as necessary or appropriate, the HR Committee.

Performance Measures – Funding of all annual incentive plans will be based on AEP's Operating Earnings per Share and other measures established by the HR Committee.

All annual incentive plans shall include a discretionary Operating Unit Performance Factor, which the Plan Compensation Committee (defined below) may use to adjust the overall score to the extent that it determines that such score is not indicative of the group's overall performance or economic situation.

Annual incentive awards for all employees classified in the SP20 or EXEM salary plans shall be discretionarily determined based on management's assessment of each participant's performance, contribution and other legal business considerations for the plan year.

Generally, at least 25% of the total target award for each incentive plan or group should be based on quantitative financial objectives.

Board Policy on Recouping Incentive Compensation - All incentive compensation plans shall incorporate the following 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, this 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.”

Incentive Plan Design Standards - All AEP incentive plans shall be documented in writing and shall include the signature of a member of the Executive Council showing the plan's approval, unless the plan has been approved by the HR Committee.

All annual incentive plans shall be administered by the HR Committee with respect to executives in the HR Committee Review Group and a Plan Compensation Committee that generally consists of AEP's CEO, CFO, General Counsel and Chief Administrative Officer with respect to all other participants. The applicable Committee shall have authority to modify or terminate the plan at any time for any reason the Committee deems appropriate, including the ability to adjust, modify, substitute, or eliminate performance measures and their weights at any time. This allows for the adjustment of performance measures and results that are inconsistent with or detrimental to the underlying performance or economics of a business unit or AEP as a whole. The applicable Committee shall also have the discretion to determine plan participation, add or delete participants, and adjust a participant's award payout.

All annual incentive plans shall have a term of one plan year unless extended by the Plan Compensation Committee. Plan eligibility shall generally be limited to full-time and regular part-time active employees of the business unit or function.

Employment At Will - Participation in an incentive plan does not confer a right to continued employment.

Continued Participation - Participation in one or more years does not confer the right to participate or to receive an award in any subsequent year.

Standard Eligible Earnings Definition - Base Earnings plus Overtime for the plan year (not base rate at year-end) are used to calculate annual incentive compensation opportunities. Base

earnings generally include paid time off, such as vacation, PDOs, bereavement, sick leave, jury duty, etc.

Standard Termination of Employment Provisions – Employees who voluntarily resign during the plan year are ineligible for an award.

Participants are ineligible for an award if they separate 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 is eligible for an award only to the extent of their earnings for the period after they were rehired.

Employees who are terminated for cause or resign in lieu of termination for cause at any time before the award payment date are ineligible for an award.

Participants remain **eligible** for an award if their employment with AEP is terminated during the Plan Year due to their death or retirement (age 55 with 5 years of service) and, effective January 1, 2018, they were employed by AEP through at least the first 3 months of the Plan Year. Because such awards are based on participant's eligible earnings for a Plan Year, which reflects the portion of the year in which they worked, they are effectively prorated.