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American Electric Power

2012

Corporate  
Accountability  
Report

## About This Report

This is AEP's third integrated report combining the Annual Report to Shareholders with the Corporate Sustainability Report. This is our sixth year of reporting our sustainability performance. This printed report is supported by a website – [www.AEPsustainability.com](http://www.AEPsustainability.com) – that includes significant additional data and information about AEP's performance. This report is based on calendar year 2011 with some early 2012 data as noted. For more information, visit [www.AEP.com](http://www.AEP.com).

### Global Reporting Initiative

AEP follows the Global Reporting Initiative (GRI) reporting principles in terms of data quality, report content and organization. We use GRI's G3.1 guidelines as well as the GRI Electric Utility Sector Supplement for reporting on industry-specific information. Our report is reviewed by GRI. This year's report was validated as an Application Level A, which reflects a high level of transparency in our reporting. This is the fourth consecutive year we have achieved this Application Level.

**5.3** million  
approximate number  
of AEP customers

### AEP Service Territory

AEP's utility units operate as Ohio Power, AEP Texas, Appalachian Power (APCO in Virginia & West Virginia), AEP Appalachian Power in Tennessee, Indiana Michigan Power (I&M), Kentucky Power (KPCO), Public Service Company of Oklahoma (PSO), and Southwestern Electric Power Company (SWEPCO in Arkansas, Louisiana and east Texas).

AEP is based in Columbus, Ohio.

### Company Overview 2011

American Electric Power has been providing electric service for more than 100 years and is one of the nation's largest electric utilities, serving 5.3 million customers in portions of 11 states.

Revenues (in billions)	<b>\$15.1</b>
Net Income (in millions)	<b>\$1,941<sup>1</sup></b>
Earnings Per Share	<b>\$4.02<sup>1</sup></b>
Cash Dividends Per Share	<b>\$1.85</b>
Service Territory	<b>200,000 square miles</b>
Transmission	<b>39,000 miles</b>
765-kV Lines	<b>2,116 miles</b>
Distribution	<b>223,000 miles</b>
Generating Capacity	<b>37,400 MW<sup>2</sup></b>
Generating Stations	<b>69<sup>3</sup></b>
Renewable Portfolio (hydro)	<b>364 MW<sup>4</sup></b>
Pumped Storage	<b>586 MW<sup>5</sup></b>
Renewable Portfolio (wind, solar)	<b>1,994 MW<sup>6</sup></b>
Total Kilowatt-hour Sales (in millions)	<b>216,000</b>
Total Assets (in billions)	<b>\$52.2</b>
U.S. Customers (year-end, in millions)	<b>5.3</b>

<sup>1</sup> Generally Accepted Accounting Principles.

<sup>2</sup> Represents nominal capacity; includes 270 MW of mothballed/decommissioned generation, AEP's interest in Ohio Valley Electric Corp., purchased power agreements and renewables.

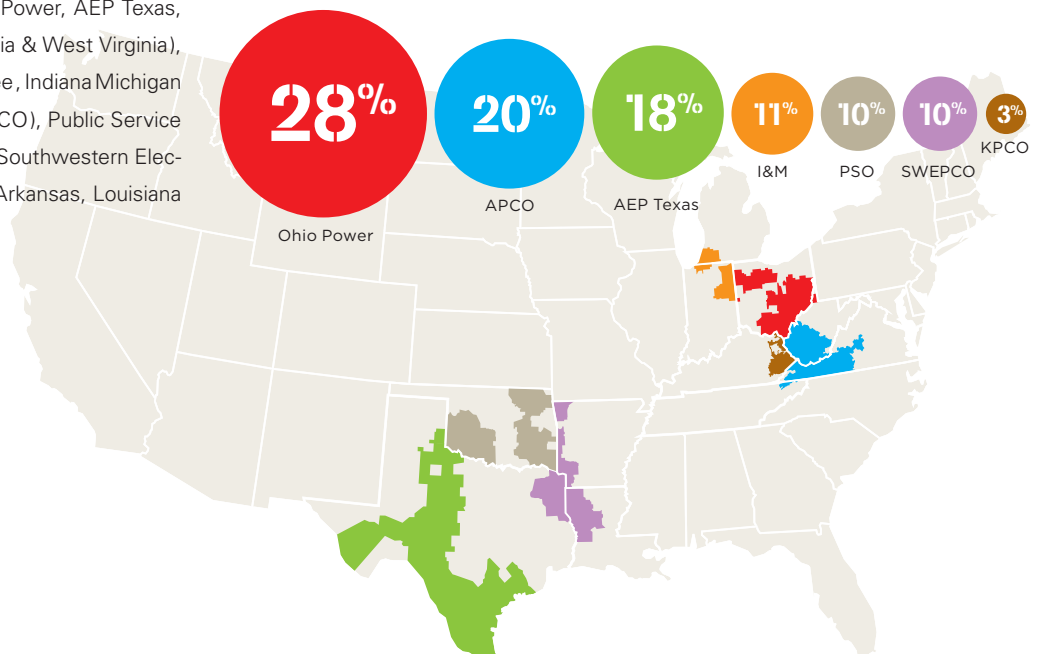
<sup>3</sup> Unit 1 of Rockport Plant is owned one-half by AEG & one-half by I&M; Unit 2 is leased one-half by AEG and one-half by I&M. PSO & TNC and others are joint owners of Oklaunion Plant. Unit 3 of Amos Plant is owned one-third by APCO and two-thirds by Ohio Power. APCO owns Units 1 and 3 of Sporn Plant and Ohio Power owns Units 2, 4 and 5.

<sup>4</sup> Excludes pumped storage; includes owned capacity and purchased power. Nameplate capacity.

<sup>5</sup> Nominal capacity.

<sup>6</sup> Regulated wind and solar capacity on line or under contract. Nameplate capacity.

### Percentage of Customers by AEP Operating Company



## AEP Economic Impact 2011

Employees (year-end)	<b>18,710</b> <sup>1</sup>
Wages	<b>\$1.7 billion</b>
Construction Expenditures	<b>\$2.7 billion</b> <sup>2</sup>
Local Taxes	<b>\$547.7 million</b>
State Taxes	<b>\$335 million</b>
Federal Taxes	<b>\$119.5 million</b>
Goods & Services (does not include fuel)	<b>\$4.5 billion</b>
Goods & Services from Diverse Suppliers	<b>\$451 million</b>
Remaining Value of All Contracts	<b>\$1.2 billion</b> <sup>3</sup>
Coal Purchased (tons)	<b>63 million</b>
Coal Average Purchase Price (per ton)	<b>\$46.76</b>
Corporate Giving	<b>\$37.4 million</b> <sup>4</sup>
Economic Development Contributions	<b>\$4.3 million</b> <sup>5</sup>

<sup>1</sup> Includes subsidiaries of AEP.

<sup>2</sup> Construction expenditures include those expenses listed in the Cash Flow Statement.

<sup>3</sup> Supply chain purchased contracts and inventory system.

<sup>4</sup> Includes \$22.2 million of AEP Foundation grants.

<sup>5</sup> Includes all grants and contributions by utility units to support economic development.

## Applying the New Integrated Reporting Framework

Three years ago, to reflect the connections between our financial and nonfinancial performance, we began to integrate performance reporting to present a more holistic view of AEP. This year's report marks our third integrated report. Until now, there was no guidance on integrated reporting. The International Integrated Reporting Council (IIRC), working with companies, financial institutions, accounting firms, environmental and sustainability advocates and others worldwide, released a working framework in late 2011. AEP's 2012 report reflects this framework in an attempt to build upon the foundations of financial, management commentary, governance and sustainability reporting in a way that shows their interdependencies. The icons used in this report indicate the type of content within each section. More complete definitions of the icons can be found on Page 48 of this report; the IIRC's discussion paper can be found at [www.iirc.org](http://www.iirc.org).



Organizational overview & business model



Operating context, including risks & opportunities



Strategic objectives & strategies to achieve those objectives



Governance & remuneration



Performance



Future outlook

# 4,843 megawatts

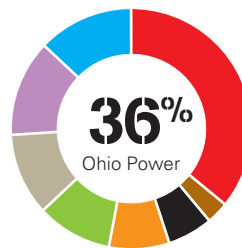
of nominal natural gas capacity added to the AEP system since 2005

### Market Price — Common Stock

High	\$37.94
2010 Low	\$28.17
Year-End	\$35.98
High	<b>\$41.71</b>
2011 Low	<b>\$33.09</b>
Year-End	<b>\$41.31</b>

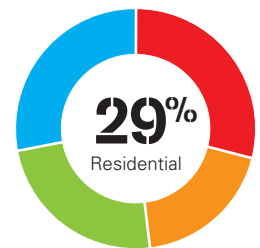
### 2011 Ongoing Earnings Contribution

APCO	13%
SWEPCO	13%
AEP Texas	11%
I&M	10%
PSO	8%
Others	6%
Kentucky Power	3%



### 2011 Energy Sales

Industrial	28%
Commercial	24%
Wholesale*	19%



\* Wholesale includes sales to municipal and cooperative power systems, other wholesale and miscellaneous retail sales.

### Total System — Annual SO<sub>2</sub> Emissions

(in thousand U.S. tons)

2006	853
2007	749
2008	638
2009	457
2010	416
2011	<b>416</b>

### Total System — Annual NO<sub>x</sub> Emissions

(in thousand U.S. tons)

2006	270
2007	266
2008	249
2009	121
2010	125
2011	<b>131</b>

### Total System — Annual CO<sub>2</sub> Emissions

(in million metric tons)

2006	143.9
2007	147.7
2008	148.2
2009	129.7
2010	134.0
2011	<b>136.0</b>



**Audit Review of This Report**

AEP Audit Services performed a review of the information included in this 2012 AEP Corporate Accountability Report. Financial information was reconciled with AEP’s audited financial statements, if applicable, or to such other sources as deemed appropriate. Processes used in accumulating the significant nonfinancial data were reviewed and the data were reconciled to the source(s). The appropriateness of the context in which data are presented was also reviewed. Finally, the forward-looking information presented was verified as consistent with other public information disclosed by AEP. Based upon our review, we believe the information contained in the report is appropriately stated, and that the processes followed in accumulating both the financial and nonfinancial information are reasonable.

**Richard A. Mueller**  
Vice President, Audit Services

**Contact Information**

For information about this report, the content of our website or AEP’s sustainability initiatives, or to provide feedback, please contact Sandy Nessing at [smnessing@AEP.com](mailto:smnessing@AEP.com).



This report was printed by Sandy Alexander Inc., an ISO 14001:2004 certified printer with Forest Stewardship Council Chain of Custody certification, on 55 percent recycled paper, including 30 percent post-consumer waste, with vegetable-formulated inks.



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**Statement of the AEP Board of Directors**

The AEP Board of Directors has assigned the responsibility for monitoring and overseeing the company's sustainability initiatives to the Board's Committee on Directors and Corporate Governance. This is the third year AEP has integrated its sustainability reporting with financial reporting. The Committee fully supports this approach. Stakeholders have expressed approval and appreciation for AEP's leadership with this integrated approach to corporate reporting.

The Committee and company management thoroughly reviewed the company's sustainability objectives, challenges, targets and progress and reported the results of the reviews to the full Board. The Committee reviewed and discussed the final text of this report

before recommending its approval by the full Board of Directors.

The AEP Board of Directors receives frequent reports both from management and from the Committee on Directors and Corporate Governance about the company's sustainability initiatives and from management and Board committees about the company's financial reporting and economic performance. Topics in this report have been the subject of active discussion at the Board and Committee meetings. All members of the Board reviewed the report in detail and at the conclusion of this review process the Board of Directors adopted a formal resolution approving the report.

The Board believes this document is a reasonable and transparent presentation of

the company's plans and of its environmental, social and financial performance. The Board has emphasized to management that it will continue to be evaluated by its success in executing the company's strategic plan to meet stakeholders' and the Board's expectations, including being agile in responding to changing circumstances while respecting the commitments in this report.

**Lester A. Hudson, Jr.**

Lead Director of the AEP Board of Directors

April 2, 2012

## A Message from the President & CEO

### Dear Friends:

I am pleased to share American Electric Power's 2012 Corporate Accountability Report, my first as president and chief executive officer. We are opening a new, exciting chapter in our 106-year history. Fundamental change is occurring in our company and our industry that will have lasting impacts on our communities, our customers and our environment; on how we produce, consume and move electricity around the grid and within our system; and what it will cost now and in the future. Yet, at the beginning, middle and end of the day, the power that our customers rely on must be there when and where they need it.

We are proud to have delivered quarterly dividends to our shareholders continuously for more than a century. We have a strong balance sheet, investment-grade credit ratings and tight control over spending. We understand the social and economic value of electricity to our service territory and to society at large.

We manage our system as a strategic asset that is fundamental

agement that create long-term value. We will continue to identify specific, integral connections between our balance sheet, our daily operations and our responsibility to the environment and to society. By treating sustainability as a strategic investment, we expect to demonstrate that the strength and durability of these connections are vital to our growth and our long-term success. We believe this underpins our ability to deliver 4 percent to 6 percent annual earnings growth on average.

The first part of our strategy is to invest in our regulated utilities and optimize returns on those investments. Our 11 states have different regulatory frameworks, customer bases and weather patterns that make our operating and investment flexibility a strength that we will leverage. We will look closely at each operating company to determine where we can earn the best return, and our decisions will be tied to making those investments and companies as successful as possible.

We have changed our business model to provide our operating companies with more influence at the corporate level and more

Times of **transition** and uncertainty also bring new opportunities. I am confident we have the right strategy, a strong operating model and the talent to execute our plan and achieve our financial goals.



to economic security and growth and to maintaining and improving the quality of people's lives. A robust, efficient electricity grid is also vital to our sustainability.

### Our Strategy for Success

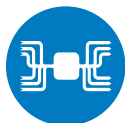
Times of change and uncertainty also bring new opportunities. We have a clear, four-part strategy to manage our risks so that we are ready to seize new opportunities to deliver shareholder value and meet our customers' needs during these dynamic times. Our focus is on executing that plan. We face formidable challenges, as we have many times in the past, but we are confident that we will emerge a stronger and more successful company.

Our strategy is our competitive advantage as we build a more sustainable company, enhanced by strategic investments and good man-

autonomy at the local level to enable better, more locally attuned business decisions.

The second part of our strategy is to reposition our generation assets for a more sustainable fuel mix. Several factors are driving us in this direction, including new environmental regulations; the economics of coal versus natural gas; the operating cost, age and efficiency of some coal units; increased competition; and grid reliability. We will retire more than 5,100 megawatts (MW) of coal-fired generation and retrofit nearly 11,000 MW with new, advanced pollution controls or upgrade existing control equipment. Additional coal-fired generation may be refueled with natural gas.

Even as we add more natural gas to our portfolio, coal will continue to be a critical resource. The startup in January 2012 of the 580-MW Dresden combined-cycle gas plant in Ohio, and completion of the 600-MW coal-fueled John W. Turk Jr. Plant in Arkansas later this year, reflect this move toward a sustainable balance. We are advocating for the regulatory flexibility to minimize both the cost burden of this transition on our customers and the economic impact on our communities, while achieving the desired environmental outcomes.



The third part of our strategy is to grow our short- and long-term earnings through our transmission business. We are changing our strategy regarding transmission; in the near term, our new AEP transmission companies will invest more than \$2 billion during the next four years on projects to enhance our transmission system.

Our long-term transmission strategy includes development of larger interstate projects through our joint ventures across the country. Larger projects can create benefits for customers. As regional grids are upgraded or connected to new lines, access to energy improves. This results in better reliability, greater availability of renewable energy, and downward pressure on prices.

The fourth part of our strategy is to create a robust competitive retail business that can reduce business risk while providing significant growth potential. Customer switching has become a growing concern, financially and operationally, in Ohio. The creation of AEP Retail Energy and the acquisition of BlueStar Energy Holdings Inc. strengthen our

fuel mix and address aging plants and facilities across our system. This will be costly and require rate increases, which affects our customers.

Our tasks are made all the more difficult, lengthy and expensive by the lack of a comprehensive national energy policy. Our industry must deal with and try to reconcile uncoordinated and often conflicting policy and regulatory decisions emanating from different federal agencies or from the many state and local agencies that have oversight. Some of this conflict is inevitable, but much of it creates unnecessary confusion, delay and costs that are borne by customers and shareholders.


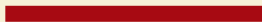




The ambiguity around issues such as proposed environmental regulations and the transition in Ohio to a competitive market are good examples of the challenges we face. We need a clearer path forward in the future to make the decisions and investments we now face.

The lack of coordination among federal and state regulators is a matter of increasing concern for our shareholders, our customers and our communities. We have spent much time and effort to ensure that

### Ongoing Earnings Per Share History

Compound Annual Growth Rate = 2.41%



(\$/share)

2006		\$2.77
2007		\$3.00
2008		\$3.24
2009		\$2.97
2010		\$3.03
<b>2011</b>		<b>\$3.12</b>

### Earnings Per Share History (GAAP)

Compound Annual Growth Rate = 9.62%








(\$/share)

2006		\$2.54
2007		\$2.73
2008		\$3.43
2009		\$2.96
2010		\$2.53
<b>2011</b>		<b>\$4.02</b>

### AEP Dividend History

Compound Annual Growth Rate = 3.84%

(\$/share)

2006		\$1.50
2007		\$1.58
2008		\$1.64
2009		\$1.64
2010		\$1.71
<b>2011</b>		<b>\$1.85</b>
2012		\$1.88*

\* Current annual rate subject to board of directors approval.

ability to compete in Ohio as well as other competitive markets and provide customers with customized products and services from a competitive platform.

This is an ambitious strategy and it will not be an easy road to travel, but I am confident that we have the right game plan, a strong operating model and the talent to execute our plan and achieve our financial goals. As with all of our commitments, we will hold ourselves accountable for results.

### New Risks, New Opportunities

We face new realities and a challenging transition, both as an industry and as a company. But I am confident we will navigate this transition successfully. We must manage a combination of economic, business, social, environmental, political and regulatory risks at the federal, state and local levels. These include a slower-than-expected economic recovery; intense competition in the competitive parts of our business; and burdensome government regulations that will necessitate the premature retirement of coal-fired generating units in six states, causing further economic hardship. We must, at the same time, diversify our

our state regulators and legislators know about national policies that affect our customers and their constituents.

Our need for clarity about energy policy is made even more urgent because, unlike most private-sector companies, the prices we and other electric utilities can charge our customers, and the returns we can earn on our investments, are determined by state and federal regulators. If we make investments and are not allowed to recover our costs or earn a reasonable rate of return on those investments, the company's earnings suffer and our shareholders may lose value.

We stepped forward as a clear leader in our industry on certain environmental issues, such as climate change and greenhouse gas reductions, because we believe in the importance and potential long-term benefit of developing solutions such as carbon capture and storage. Unfortunately, our efforts were penalized when regulators rejected our request to recover the cost of those investments. We took a \$76 million write-off, for example, on our carbon capture and storage projects in West Virginia. We still believe there will be benefits from our work in developing this technology, but we can't afford to move ahead with it at this time.

## A Message from the President & CEO

### Market Changes

Our shift to natural gas and other resources reflects a market change. A key factor is the recent development of massive shale gas formations throughout the United States, which places downward pressure on natural gas prices. In fact, natural gas prices have been consistently low for the past two years. Another significant factor is the prospect of major environmental compliance investments in coal units, driving up the cost of coal-fired electricity.

By 2020, we estimate natural gas will account for 27 percent of AEP's generating capacity, compared with 24 percent today. At the same time, we expect our coal capacity to decrease to about 50 percent of our total capacity by 2020, compared with 67 percent in 2011. The remainder of our fuel portfolio will consist of nuclear, renewables, hydro and pumped storage and energy efficiency. This effort to create a more sustainable balance of our generation assets will be challenging and expensive but will provide long-term fuel stability and allow us

for AEP. However, this all depends on regulatory support for our smart grid investments.

In 2008, we set an aggressive goal to install 5 million smart meters by the end of 2015. Unfortunately, a combination of factors slowed this effort. We found that regulators are reluctant to allow rate increases associated with these new technologies, especially in a difficult economy. We also learned that it takes time for customers to adapt to completely new ways of thinking about how they use electricity. Through 2011, we have deployed more than 612,000 smart meters, along with many other smart grid technologies and customer programs. We will continue to pursue our existing gridSMART® objectives and expand where and when regulators give us the go-ahead.

### Addressing Climate Change

Although global climate change has lost ground politically in the United States, we continue to reduce carbon dioxide emissions. Many aspects

**"I am personally dedicated to eliminating injuries; this is what we seek to accomplish through our focus on zero harm. I know it can be done because many of our business units have proven that it can."**



### Historical & Projected Environmental Investments (\$ in thousands)

2009	\$457,200
2010	\$303,800
2011	<b>\$186,800</b>
2012	\$510,700
2013	\$999,000
2014	\$1,100,000

to adapt to the major upcoming market and operational changes.

### Modernizing Our Grid

Upgrading to a smart grid is no longer a luxury; it is an important step toward a more efficient energy delivery system that can meet customers' needs now and in the future. Through our gridSMART® initiative, AEP is preparing to meet these challenges with a comprehensive undertaking that will redefine the way we operate our distribution grid and revolutionize how we interact with customers. With distribution grid technology, AEP is improving reliability and service restoration for customers.

We have proven that we can achieve substantial energy efficiency without affecting customers through the use of voltage management on our grid. Our smart meters are enabling two-way communication with our customers, sending them price signals that allow them to make more informed decisions about their energy use. Smart appliances and other technologies such as plug-in electric vehicles will provide exciting new options for customers. All of these advancements will result in energy and cost savings for customers and business opportunities

of our business strategy will help lower AEP's greenhouse gas emissions even further. Limiting emissions of greenhouse gases is a global challenge that requires a global solution. AEP is committed to being part of that solution through effective environmental stewardship.

Our goal is to reduce our greenhouse gas emissions by 10 percent from 2010 levels by 2020. We will meet or exceed this goal as we retire coal-fired units. Every coal-derived megawatt-hour we replace with natural gas will reduce our greenhouse gas emissions by about 50 percent. Even so, we anticipate that, ultimately, we will need to address the carbon emissions of natural gas. Technology development and deployment will be an important part of the solution.

### Meaningful Relationships Foster Informed Decision Making

We truly value the working relationships we have developed with our many stakeholders over the years. We have invested time and effort to earn their trust and respect by being honest and straightforward about our thoughts, strategies, actions and impacts. We seek to collaborate, not only with customers and community leaders, but also with environmental and consumer advocates, on a range of issues including cli-



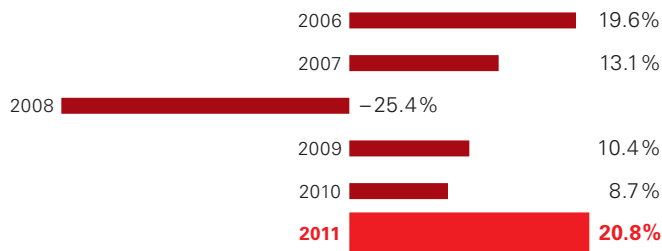
mate change, environmental regulations, reliability concerns, the cost of electricity and energy efficiency.

Although we have not always shared common objectives with regard to environmental or other issues, we have held many discussions and have listened and tried to work cooperatively, with candor and in good faith. During the last two years, we have had some sharp disagreements and pointed conversations about the appropriate balance between economic development and reliability issues on the one hand, and environmental regulations on the other. As a consequence, some of our stakeholders engaged in an anti-AEP campaign.

We were the first electric company to unveil our plan for compliance with proposed environmental regulations. We openly shared our concerns about reliability, the potential loss of jobs, and other adverse economic effects that premature plant retirements would have on communities in our service territory, especially in a struggling economy.

While we remain at odds with some stakeholders and are disappointed in the atmosphere surrounding these relationships, we value

#### AEP Total Shareholder Return



continued engagement because we believe it leads to better decisions. I have reached out to our stakeholders many times and will continue to do so. We remain far apart on some fundamental issues, but my personal commitment and that of our senior leadership is to find common ground so that we can move forward. I sincerely hope our stakeholders are also willing to stay engaged with us.

#### Our People, Our Future

Finally, and most importantly, I am deeply grateful for our employees' personal dedication to serving our customers and for the mutual care and respect they demonstrate. When power outages occur, our line crews and customer service teams are committed to restoring service as safely and efficiently as possible. While doing so, they look out for each other to ensure everyone goes home safely at the end of their shift. There is nothing more important to me, to our leadership and to our employees than the safety, health and well-being of our work force.

We suffered together when one of our employees and three of our contractors lost their lives while on the job in 2011. These are immeasurable losses for their loved ones, their colleagues and for AEP. These tragic events are a reminder to me and to everyone at AEP of the importance of having strong safety and health systems to ensure we manage the risks we face on the job.

I am personally dedicated to eliminating injuries; this is what we

seek to accomplish through our focus on zero harm. I know it can be done because many of our business units have proven that it can, by working without incident, year-in and year-out. This dedication to safety and health is the reason our overall performance has improved during the past several years. We are very proud of their commitment and honor them accordingly.

Beyond safety, our future depends on a skilled work force that can quickly respond to the changing landscape around us, including the need for additional or new skills for the future. Work force planning is important to ensure we have the talent we'll need to run the company and compete aggressively in the years ahead. Although we are more focused on retention than hiring right now, we must be thoughtful and strategic about preparing our work force for the future.

#### Final Thoughts

Succeeding Mike Morris as CEO is an enormous challenge and privilege. Mike's leadership has left an indelible imprint on the stature of our company within the industry and the business community, and on AEP's culture. AEP is a better, stronger company because of him. I am humbled and honored to succeed Mike in his role.

The longest-serving member of our board is leaving us this year. Dr. Lester A. Hudson, Jr., who was elected to the AEP Board of Directors in December 1987, is retiring. Les has brought years of business leadership experience and, more recently, academic experience to his service on behalf of AEP. His wise counsel, especially on governance issues, has been invaluable. Les has served as the board's lead director since the post was instituted in 2003. He will be sorely missed.

In addition to delivering on our strategy and addressing the many challenges before us, we have many new opportunities ahead. This is an exciting time for our industry and for AEP. Change is not easy for any organization and sustainable transformation is perhaps the hardest change of all. But we are committed to being candid, straightforward, trustworthy and collaborative.

Knowing our leadership team and the men and women of AEP, I know that we are up to these challenges. We welcome your thoughts and suggestions, and we will continue to work to earn your support. With that, I firmly believe that we will continue to have a very bright future together.

Thank you for your interest in American Electric Power.

Sincerely,

**Nicholas K. Akins**

President & Chief Executive Officer

April 2012

## Corporate Governance: **Leadership, Management & Strategy**

The connections between environmental and social issues and our financial performance have caused us to rethink how we operate, the decisions we make, our approach to governance, how we conduct business and how we are perceived. We have worked to understand and align these forces with our strategy, risk management and competitiveness, and business results. At the same time, investors, employees, regulators and other key stakeholders have paid close attention to how we are managing these risks and opportunities for both today and the future.

Our core responsibilities are to produce and deliver reliable, cost-effective electricity to our customers, keep our employees safe from harm, and demonstrate environmental responsibility while providing a fair return to our investors. The leadership team develops and

understand all the ways in which our financial success is connected to our ability to succeed in other areas. From the board room to the front line, we are working to manage these connections by setting clear goals, holding ourselves accountable, having the right people in the right places and rewarding high performers.

### **A New & Different Future**

Our industry is undergoing restructuring of a magnitude that we have not seen in decades, and our business will be affected by these changes. We are repositioning our generation business to create a sustainable fuel mix for the future, in part due to environmental and economic reasons. Our coal-fired capacity is projected to be 50 percent of total capacity by 2020. We will rely more on natural gas, renewable energy and energy efficiency,

**The John W. Turk Jr. Plant in Southwest Arkansas will be one of the most efficient coal-fired plants in the country when it begins commercial operation, scheduled for the fall of 2012.**



executes the strategic plan with the board's approval. Despite significant operational and financial challenges, we are confident that we will continue to grow our earnings and keep pace with the many changes affecting our company and our industry to become stronger, leaner and even more competitive.

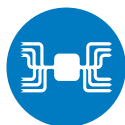
We are in business to be profitable, yet we are sensitive to the impacts our product has on the environment, the price our customers are able to pay for electricity, the economic strength of our communities, and the value of informed stakeholder engagement. We seek to simultaneously create financial, social and environmental prosperity.

Our operating environment is causing fundamental changes to our business model. These will increase our enterprise risks but also will create long-term opportunities that benefit the environment, our shareholders, our customers, and our communities. We need to be simultaneously strategic and adaptable so that we can

among other resources.

Our earnings strength lies in our regulated operations. A combination of reasonable returns on our rate base and the diversity of our service territory will continue to allow us to optimize the investments we make in our regulated business and provide fair returns that meet the expectations of our shareholders.

Our transmission business continues to be an area of near-term and long-term growth where we will invest significant capital. Our distribution system is becoming more digitized to improve efficiency and reliability while providing two-way communication between customers and the company. We are building our retail energy business to be more competitive in markets where customers have a choice of generation providers. Our acquisition of BlueStar Energy Holdings Inc., with its approximately 23,000 customers and energy services and demand-response programs, will strengthen our capabilities and give us a stronger platform for growth.



### Governance in Times of Change

At the core of corporate governance is the role of the board of directors, the highest governing authority within a company. The board is the protector of shareholders' long-term interests with a responsibility to ensure those who invest in the company earn a fair return on their investment. Effective governance is guided by policies and by directors who are informed and engaged. The independence of directors is a hallmark of strong corporate governance. AEP's Board of Directors is largely composed of independent directors. Mike Morris, who previously was chairman and chief executive officer (CEO), currently serves as chairman, while President and CEO Nick Akins is the board's only member from management. Learn more about the policies, principles and code of conduct that guide and

and management team has also changed. Mike Morris retired as chief executive officer in November 2011 after eight years at the helm. Nick Akins is AEP's sixth CEO and has formed a strong management team that reflects the breadth and strength of AEP's leadership capabilities and our abilities as an organization to adapt successfully to change. The executive team consists of: Executive Vice President and Chief Operating Officer Bob Powers, Executive Vice President and Chief Financial Officer Brian Tierney, Executive Vice President and Chief Administrative Officer Dennis Welch, and Senior Vice President, General Counsel and Secretary David Feinberg.

### Managing Risk in Times of Change

We are faced with an array of risks, some well estab-



**Mike Morris helped to create a culture of openness and teamwork at AEP, one that encourages employees to share ideas and concerns and to collaborate on solutions. Real teamwork requires candor to encourage and model this capacity at all levels of our organization.**

lished and controlled and others emerging and not as well defined. Still others are related to areas that are shifting so rapidly that they defy static definition, such as cyber security. We must effectively manage our risks and strengthen our risk management capabilities, which include our ability to respond successfully to unforeseen risks.

govern AEP's Board of Directors at <http://www.AEP.com/investors/corporateleadersandgovernance/>. To deal with the rapid changes occurring in our industry, we rely on the strength of our operating company model, under which the companies have financial and operational responsibility for their performance. This makes us better able to adapt to the needs and limits of each jurisdiction. It also gives us a better understanding of regulator interest and support, impacts to customers, and the ability to successfully secure cost recovery for our capital investments.

### Leadership for Results

Organizations do not change for the better without strong leadership. Effective leaders at all levels look at the world and at the operating environment as it is, not tainted by personal biases about how they would like it to be, or as it might be in the future.

Just as our business is in transition, our leadership

We continuously evaluate our levels of acceptable risk based on internal and external operating conditions. We have created management systems and a culture that support our abilities to identify, evaluate and manage risk. For example, our culture encourages self-reporting if noncompliance is suspected; and we recently created a "Watch List" for the board of directors that augments our enterprise risk management process by identifying issues that could become material risks. It reflects our commitment to comprehensive and forward-looking risk management by putting a process in place to identify emerging risks or issues that could

become material risks. Read more about how we manage risk online at [www.AEPsustainability.com](http://www.AEPsustainability.com).

### Cyber Security

Cyber security is currently on the Watch List because of the heightened risk of a cyber-attack that could affect critical energy infrastructure. Breaches to the cyber security of the grid or to our system are potentially disruptive to people, property and commerce and create risk for our business, our investors and our customers. We protect our critical cyber assets, such as our data centers and transmission operations centers and business network, using multiple layers of cyber security and authentication. We constantly scan the system for risks or threats.

During 2011, cyber security issues and breaches

with the rest of the industry, AEP has collected customer information for decades and we have maintained its confidentiality, along with the trust of our customers. However, we recognize and share our customers' increasing concern regarding unauthorized third-party access to data. We have conducted an external review of privacy requirements, along with an internal review of our policies and practices. We are developing recommendations to strengthen our customer privacy standards accordingly. Read more about how we manage cyber and physical security issues online at [www.AEPsustainability.com](http://www.AEPsustainability.com).

### Ethics & Compliance

As an organization, we are guided by our Principles of Business Conduct, which require us to operate with

AEP's executive team consists of:

**David M. Feinberg**, *Senior Vice President,  
General Counsel & Secretary*

**Dennis E. Welch**, *Executive Vice President &  
Chief Administrative Officer*

**Robert P. Powers**, *Executive Vice President &  
Chief Operating Officer*

**Nicholas K. Akins**, *President &  
Chief Executive Officer*

**Brian X. Tierney**, *Executive Vice President &  
Chief Financial Officer*



in security became almost a weekly news event across all industries and government agencies. Cyber hackers were able to breach a number of very secure facilities, from federal agencies, banks and retailers to social media sites. As these events became known, we assessed our own cyber security tools and processes to determine where we might need to strengthen our defenses.

We took several steps to enhance our capabilities for identifying risks or threats. AEP became the first utility in the country to build a Cyber Security Operations Center. Funding was included as part of a larger American Recovery and Reinvestment Act Department of Energy Smart Grid Demonstration Project grant. This facility is designed as a pilot cyber threat and information-sharing center specifically for the electric sector.

Privacy is an emerging area of risk. We formed a Customer Information Privacy Oversight Committee in August 2011 to provide strategic recommendations for the oversight of customer energy information. Along

integrity, fairness, respect and care. Anyone who raises concerns about ethics, safety or compliance issues needs to be able to do so without fear of retribution. This freedom is what fosters a risk-aware culture.

We have made significant progress toward this goal during the past few years, according to an ethics and compliance risk assessment conducted in 2011. It also showed that we have more work to do. If employees are unwilling to report an ethics or compliance violation for fear of retribution, our corporate culture, the financial health of the company and our reputation are put at risk. We are addressing this by being clearer about our expectations to do the right thing and holding people accountable for their actions. This is especially important as our business evolves.

### Engaging Stakeholders Informs Leadership

A sustainable business strategy is informed by stakeholder engagement. Stakeholder dialogues keep us fo-

cused on the future and often result in collaboration on projects that are good for people, the environment, the economy and our shareholders.

AEP's Board of Directors values engagement, and in September 2011, Ceres President Mindy Lubber met with the board to discuss a wide range of issues. Ceres is a national coalition of investors, environmental organizations and other public interest groups that work with companies on sustainability issues. AEP has worked extensively with Ceres during the past five years. In addition to raising concerns about AEP's environmental positions, Ms. Lubber presented Ceres' plan, called "The 21st Century Electric Utility," which highlights actions electric utilities could take to be better prepared for a low-carbon future. The dialogue was robust, and all parties appreciated the opportunity to have a candid

pany's finances or operations; 2) have or may have significant impact on the environment or society, now or in the future; or 3) can substantially influence the assessments, decisions and actions of our stakeholders and shareholders. This report reflects those issues we consider material to our business.

This materiality assessment follows the criteria AEP uses to identify what constitutes enterprisewide material risks:

- Risks with significant potential to affect the company's strategic plan.
- Risks having the potential to significantly affect earnings, cash flow, or access to capital.
- Risks that can affect company operations, resulting in poor asset performance, inability to meet customers' needs, unsafe operations, and/or negative effects on



**Chairman of the Board Mike Morris, right, hands over the title of chief executive officer to Nick Akins at an employee meeting and webcast in November. Akins became AEP's sixth CEO.**

exchange. It was the first time in nearly a decade that a nongovernmental organization, such as an environmental group, met directly with AEP's board.

In February 2011, we interviewed board members Thomas Hoaglin and Lionel Nowell about the value of engagement and their thoughts were published in our 2011 Corporate Accountability Report. This year, we asked three board members—Linda Goodspeed, Richard Sandor and Richard Notebaert—about policy matters and the company's transformation.

We conducted or participated in nearly a dozen stakeholder meetings or calls during 2011 on a wide range of issues important to us, our stakeholders and our industry. For a description of our material issues, visit [www.AEPsustainability.com](http://www.AEPsustainability.com).

### Materiality

We define issues material to our sustainability as those that: 1) have or may have significant impact on the com-

pany's internal processes, people, or systems.

- Risks potentially affecting regulatory and legal outcomes and/or damaging the company's reputation.

### Scope of This Report

This is our third integrated report, combining information about our financial performance with data on our environmental, social and governance performance. It also is the sixth year we are reporting on our sustainability performance. We are committed to integrated reporting because it gives a complete picture of how we operate, the decisions we make, the positions we take, our engagement with stakeholders and the consequences of our actions.

Our intent is to conform to the integrated reporting framework being developed by the International Integrated Reporting Council.

In response to stakeholder interest, we report our progress twice a year. A full update is provided in the

spring of each year. A shorter update of key commitments is published on the Web in the fall at [www.AEPsustainability.com/reporting](http://www.AEPsustainability.com/reporting).

**Our Material Issues**

We consider our material issues to be:

- Financial & Operational Performance
- Energy Reliability, Security & Growth
- Environmental Performance
- Global Climate Change
- Regulatory & Public Policy
- Our People
- Stakeholder Engagement

**Our Primary Stakeholders**

We consider our primary stakeholders to be:

- Equity shareholders, debt holders, prospective investors and lenders
- Customers
- AEP employees and retirees
- Labor unions
- Local communities
- Federal and state legislators, regulators, policymakers and other elected leaders
- Prospective employees
- Suppliers and others doing business with AEP
- Nongovernment organizations
- Professionals in industry, government, labor and education



Left to right: John F. Turner, Dr. Lester A. Hudson Jr., James F. Cordes, Sara Martinez Tucker, Thomas E. Hoaglin, Lionel L. Nowell III, Nicholas K. Akins, David J. Anderson, Linda A. Goodspeed, Ralph D. Crosby Jr., Michael G. Morris, Richard C. Notebaert and Dr. Richard L. Sandor.

**AEP Board of Directors**

**Michael G. Morris**

Northville, Mich.  
Age 65; Elected 2004;  
Nonexecutive Chairman, retired  
President & Chief Executive  
Officer, AEP – E, P

**James F. Cordes**

The Woodlands, Texas  
Age 71; Elected 2009;  
retired Executive Vice President,  
The Coastal Corp. – H, N, P

**Thomas E. Hoaglin**

Columbus, Ohio  
Age 62; Elected 2007;  
retired Chairman & Chief Executive  
Officer, Huntington Bancshares Inc.  
– D, E, H, P

**Lionel L. Nowell III**

Cos Cob, Conn.  
Age 57; Elected 2004;  
retired Senior Vice President  
& Treasurer, PepsiCo Inc.  
– A, D, E, F, P

**John F. Turner**

Moose, Wyo.  
Age 70; Elected 2008;  
Managing Partner, Triangle X  
Ranch, and former  
Assistant Secretary, U.S. State  
Department – A, N, P

**Nicholas K. Akins**

Dublin, Ohio  
Age 51; Elected 2011;  
President & Chief Executive  
Officer, AEP – E, P

**Ralph D. Crosby Jr.**

McLean, Va.  
Age 64; Elected 2006;  
Chairman & retired Chief Executive  
Officer, EADS North America Inc.  
– H, N, P

**Dr. Lester A. Hudson Jr.**

Charlotte, N.C.  
Age 72; Elected 1987;  
Professor, McColl School of  
Business, Queens University  
of Charlotte – D, E, H, P

**Dr. Richard L. Sandor**

Chicago, Ill.  
Age 70; Elected 2000; former  
Chairman, Chicago Climate  
Exchange Inc. – E, F, P

**Committees of the Board:**

The chairman is listed in ( ).  
A – Audit (Nowell)  
D – Directors and Corporate  
Governance (Hoaglin)  
E – Executive (Morris)  
F – Finance (Sandor)  
H – Human Resources (Hudson)  
N – Nuclear Oversight (Crosby)  
P – Policy (Goodspeed)

**David J. Anderson**

Morristown, N.J.  
Age 62; Elected 2011;  
Senior Vice President & Chief  
Financial Officer, Honeywell  
International Inc. – A, F, P

**Linda A. Goodspeed**

Memphis, Tenn.  
Age 50; Elected 2005;  
Senior Vice President & Chief  
Information Officer,  
The ServiceMaster Co.  
– A, N, P

**Richard C. Notebaert**

Chicago, Ill.  
Age 65; Elected 2011; retired  
Chairman & Chief Executive  
Officer, Qwest Communications  
International Inc. – D, H, P

**Sara Martinez Tucker**

San Francisco, Calif.  
Age 57; Elected 2009; former  
Undersecretary, U.S. Department  
of Education, and former  
President & Chief Executive Officer,  
Hispanic Scholarship Fund – A, D, P

## THE BUSINESS OF GOVERNANCE: A Perspective from the Board

Companies increasingly recognize that sustainability is a business imperative that begins in the board room and can affect almost any aspect of a company's business performance and significantly alter its overall competitive position or financial condition. As the legal guardians of companies, boards of directors are more aware than ever of the connections between environmental, social and financial performance, also known to many as the "triple bottom line." Companies with strong corporate governance can create significant business advantages if and when they turn this capacity toward addressing sustainable business issues.

The regulatory and public policy environment within which we operate is a key influencer of AEP's evolving business model. Sustainability is very important to the electric industry and to companies like ours, where

**Please describe the role of the Policy Committee, how it interacts with management and whether it makes decisions or provides guidance.**

**Linda Goodspeed:** The Policy Committee works closely with the company's leadership to form a broader and deeper understanding of the public policy issues facing AEP, including how to address those issues in the strategic plan or in response to a particular situation if necessary. We meet with people who might have an impact on or different opinion about AEP. We do not mandate positions or make decisions for the company; we offer our advice and guidance based on our wide-ranging knowledge, experience and opinions, after extensive discussion with senior management and among ourselves. The Policy Committee is made up of



**Richard Sandor**, left, who chairs the board's Finance Committee and sits on the Executive Committee, has served on the AEP board since 2000.

**Linda Goodspeed** is chair of the Policy Committee and has served on AEP's board since 2005. She also serves on the board's Nuclear Oversight and Audit committees.

**Richard Notebaert** joined the board in 2011. He also serves on the Human Resources and Directors and Corporate Governance committees.

public policy and regulatory outcomes play a major role in determining our business model, strategies, and, ultimately, our potential for financial growth and success. Public policy regarding energy almost always considers environmental, social and economic issues.

AEP's Board of Directors, and its Policy Committee, considers sustainability a business imperative. The Policy Committee is the only board committee that includes the entire board. The board's diverse experience and knowledge give the company an edge in understanding policy issues and working with management to develop and execute its strategy.

We asked three independent AEP board members about the role of the Policy Committee, how the board evaluates policy, some of the issues we face now and in the future, and the importance of stakeholder engagement. The full interview is online at [www.AEPsustainability.com](http://www.AEPsustainability.com).

the entire board because we feel it is important to get as many perspectives as possible in advising the company about these important issues.

**Richard Sandor:** I think our commitment to both good governance and sustainability is noted by the fact that the corporate accountability report must be approved by the entire board of directors. Every director not only sits on the Policy Committee, but also must agree on our commitments and expectations of performance for AEP's sustainability. This makes AEP and our board a very unique organization both in terms of strong governance and our commitment to sustainability.

**How do board members keep informed about key public policy issues as they may affect AEP?**

**Richard Notebaert:** In between regular board and committee meetings, there's constant feedback to the board

from management and among ourselves and we follow things closely through our own channels. The board has remarkable diversity of experience, relevant knowledge and understanding. Some of us have regulatory experience while others are very familiar with the political landscape in Washington, D.C. As a board, we can therefore see not only what laws may get passed but also how they might be interpreted and implemented. Having that understanding is critical.

**How important is it to the board to hear from external stakeholders?**

**Linda Goodspeed:** In my opinion, we definitely need to continue to meet from time to time with stakeholders. Last year we met with Mindy Lubber of Ceres. We exchanged views and had a good discussion. This was very helpful for us; it may not always be popular to hear someone else's opinion that may differ from ours, but just as the board is diverse, so are stakeholders' opinions of AEP. Bringing in people who especially diverge from the popular opinion may be the best type of learning we can possibly have. And that's true whether you bring in experts who have first-hand knowledge that is opposite of what we feel, or public policy experts who don't favor AEP. It educates us and helps us to develop a full understanding that the company can then fold into its strategic thinking and decision making.

**Richard Sandor:** Hearing from people inside our organization who understand the issues, as well as from outsiders or advocates who give us their viewpoint, is critical. It helps us to deal with issues, and in some cases, specific situations such as with the Turk Plant. AEP had big differences with some stakeholders over this plant. But having a familiarity with those groups, being able to understand them and reach out to them, allowed the company to reach a valuable compromise, and I think that can't be underestimated.

**Richard Notebaert:** The board tries very hard to see the world through the eyes of stakeholders, starting with our customers. We also work to understand things from the perspective of our regulators, and to ensure collaboration with them whenever we can. This is crucial if we are going to provide dependable, competitively priced power, especially in these times of regulatory change and uncertainty. How many organizations meet with people who may be diametrically opposed to them, only to find that the interaction creates an understanding and maybe a bridge to a solution that benefits everyone?

**In your experience serving on other boards and organizations, is this a somewhat common practice or is AEP unique in that regard?**

**Linda Goodspeed:** In my experience, it is unique. But I think AEP as a company is unique in terms of how it works with its stakeholders and how that becomes part of the learning process. AEP always strives to do the right thing for its employees, its shareholders and the public, and to understand and learn from everyone. That's a core value for AEP, so to me, this is a unique trait for a company.

**Climate change is not the front-burner issue politically that it was just a couple of years ago. Do you see climate change coming back to the forefront and, if so, how is the board thinking about that?**

**Richard Sandor:** AEP took a leadership role as a founding member of the Chicago Climate Exchange. By the time we reached the Exchange's maturity, 25 percent of the power sector was involved and AEP was the largest utility involved. While the prospect of federal cap-and-trade legislation is gone, it is still an issue and AEP has to deal with it. It's ironic that the United States is moving toward command-and-control regulation while China is moving toward a market approach to the environment. The Environmental Protection Agency continues to make new regulations on carbon, but AEP is wisely looking at it as a business efficiency issue – getting more by using less. The company is also diversifying its fuel mix, which makes sense from both a business and public policy perspective. From a financial perspective, we are concerned about the magnitude of capital expenditures we'll be making to comply with environmental regulations, which forces us to move in a different direction than we had envisioned.

**Linda Goodspeed:** While climate change may not be the hot topic it was in the recent past, it still exists from at least a political if not a scientific standpoint. But just because it's not front-page news doesn't mean it has gone away. Climate has been wrapped up into energy policy, so from an engineering perspective and as a member of the board's Nuclear Oversight Committee, I think the best solution is to continue to understand and develop new technologies that would deliver a better climate solution in a more affordable fashion.

**Richard Notebaert:** It hasn't gone away at all. In fact, if



anything from an AEP point of view, it's really become a much more critical issue for us because we are moving away from discussion and cloud charts to the reality of execution. And I think one of the challenges we have is that, as we look at phasing out certain carbon-based generation, we have to ask, what is the alternative? What's the best path for the longer term, because we're not a company that looks out a few days or a few years – we must plan for decades into the future. A cap-and-trade system would've given us more flexibility rather than forcing us to retire plants or not retire plants. I worry about our customers if there's a peak and brownouts occur. We have to be very disciplined in how we comply with the new environmental regulations, whether it is reducing greenhouse gas emissions or reducing mercury emissions, to protect our custom-

ers and shareholders. It is a very challenging time for us.

**Richard Notebaert:** I am usually an optimist, but I'm really not sure we're going to see a national energy policy because I think the states feel very strongly about their jurisdictional rights. And the rates people pay in Columbus, Ohio, or Corpus Christi, Texas, or wherever they are, are set by state regulators. This will make it very challenging to establish a national policy.

#### **What do you see for the future of the electric utility industry?**

**Richard Notebaert:** I think it's a great sector. When you look at everything that's been said, whether it's worry-



**"Hearing from people inside our organization who understand the issues, as well as from outsiders or advocates who give us their viewpoint, is critical."**

– Richard Sandor

**Linda Goodspeed:** I worry beyond AEP, frankly. AEP is one entity, and when you look at all of these energy companies facing the same challenges and having to shut down or retrofit plants, it is a tremendous effort for everyone to execute all at the same time.

#### **How difficult is it for companies such as AEP to operate and plan for the long term in the absence of a coordinated national energy policy? What should such a policy encompass?**

**Richard Sandor:** The United States needs an energy policy. Unfortunately, there is very little push from the grassroots up to demand this of leaders in Washington. In 1973, then-President Nixon called for an energy policy; 40 years later we still don't have one. We need to advocate for a policy that creates an environment where

ing about the safety of our employees or the service we provide to customers, we are an energy-driven society. AEP produces a product and a service that people want. When there's no power, see how well you function. That's a great product to have. AEP is a great company and I think we're in a very exciting time. Now, how we navigate the journey is the challenge before us.

**Linda Goodspeed:** I also think it's an exciting time. The number of gadgets per person is growing, electric cars are coming, so the need for electricity will grow naturally. AEP may not look the same in five or 10 years, but it will be around in a different format serving the needs of its customers. I think that's very exciting.

**Richard Sandor:** Energy is a vital part of this country. AEP participates in all aspects – transmission, distribution and generation – and I think if you believe in the United States, which I firmly do, you have to believe that energy infrastructure is going to keep us preeminent.

**We need to be simultaneously strategic and adaptable so that we can understand all the ways in which our financial success is connected to our ability to succeed in other areas. Our performance is a measure of this.**



This year, we are incorporating a broader range of performance measures within the financial performance section of this report. In addition to traditional financial indicators about our various business operations, we include key information from our environmental, safety and health, and reliability sections to provide a more comprehensive overview of our performance.

#### **FINANCIAL PERFORMANCE**

At AEP, we believe that sustainability is a key business strategy and opportunity. Incorporating sustainability throughout our business enhances our ability to deliver profits to shareholders, meet our obligations to lenders and fulfill our environmental and social commitments.

Improving our environmental and social performance, in turn, contributes to our financial well-being. We have governance and management systems in place that embed sustainability in our operations, integrate sustainability with risk management, and promote sustainable practices within our business and to our customers, shareholders and the public. AEP is undergoing major changes in its business operations, but the actions we have taken during the past several years position us for future success.

Our balance sheet is the strongest it has been in many years. We believe investments in our regulated businesses will support annual earnings growth of 4 percent to 6 percent on average. This growth, coupled with our stable and attractive dividend and combined with our business strategy and fiscal discipline, positions an investment in AEP as a 9 percent to 10 percent total return proposition.

Because AEP's credit ratings are investment-grade (BBB from Standard & Poor's and Fitch Ratings, Baa2 from Moody's Investors Service), we expect to continue to access the debt capital markets at a reasonable cost. Maintaining these ratings requires strict attention to spending decisions and a stable outlook in the states that we serve.

We rewarded our shareholders in the fourth quarter of 2011 with a dividend increase of 2.2 percent. This closely followed two dividend increases in 2010 that totaled 12 percent. AEP was among the stable, regulated, dividend-paying electric utilities with strong balance sheets that were rewarded by the market during 2011. AEP shareholders received a return of nearly 21 percent for the year, including dividends, slightly exceeding the total composite return of our peer companies and far outperforming the broader market.

This Competitive Renewable Energy Zone transmission project in Texas is just one of many transmission projects that AEP will invest in through wholly owned subsidiaries or joint ventures with other companies.



AEP has paid dividends for more than a century, a testament to the historic commitment of AEP management and the board of directors to rewarding shareholders for their investment. Very few American corporations can claim such a record.

### 2011 Consolidated Results

AEP's ongoing earnings for 2011, excluding special items, totaled \$1.50 billion, up from \$1.45 billion in 2010. On a per-share basis, ongoing earnings rose to \$3.12 in 2011 from \$3.03 in 2010. The Generally Accepted Accounting Principles (GAAP) result was \$1.94 billion or \$4.02 per share in 2011, compared with \$1.21 billion or \$2.53 per share in 2010.

GAAP earnings were \$437 million higher than ongoing earnings for 2011 mainly because of a Texas Supreme Court ruling that resulted in a \$558 million favorable adjustment, net of tax, relating to recovery of stranded costs in Texas.

We further strengthened our balance sheet in 2011, ending the year with a debt-to-total-capitalization ratio of 55.3 percent. Our available liquidity at the close of 2011 was \$2.4 billion, down slightly from the prior year but still substantial. We have access to \$3.25 billion in credit supported by 27 banking institutions across the globe. During 2011, we replaced the \$1.5 billion credit facility that was due in 2012 with a new \$1.75 billion facility that matures in 2016, and we repriced and extended to 2015 the maturity of a \$1.5 billion facility due in 2013. We also significantly diversified the geographic dispersion of our banking group in order to dilute significant exposure to any certain region. Our current breakdown is 45 percent domestic, 12 percent Canadian, 25 percent European and 18 percent Asian.

AEP paid roughly \$1 billion in federal, state and

local taxes in 2011 and employed approximately 18,700 employees, accounting for an annual payroll of \$1.7 billion. We took advantage of federally approved tax incentives that resulted in a refund of \$118 million. AEP typically is one of the largest employers in the areas where we operate, and tax revenue and wages support the economic well-being of our communities.

### Utility Operations

AEP's Utility Operations includes the generation, transmission and distribution of electricity for retail and wholesale customers and represented nearly 99 percent of the company's ongoing earnings for 2011. AEP earned an overall 10.6 percent return on equity (ROE) in 2011 on a pro forma basis. The performance of our utility companies is reflected in Utility Operations.

Ongoing earnings from our Utility Operations increased \$56 million, from \$1.43 billion in 2010 to \$1.49 billion in 2011, largely due to favorable rate changes, especially in our eastern footprint. However, regulatory disallowances, customer switching, and other factors in 2011 materially mitigated the increase.

GAAP net income was \$1.91 billion in 2011, up from \$1.19 billion in 2010. GAAP earnings were \$459 million higher than ongoing earnings for 2011 mainly because of the Texas Supreme Court ruling related to the recovery of stranded costs in Texas.

Weather can help or hurt our results, and in 2011, it had a favorable impact of \$113 million. Although the weather impacts to our performance lessened from 2010 to 2011, the hot summer in our western service territory worked to our advantage. In fact, 2011 ranked third out of the last 30 years in terms of total degree days for all of AEP.

In Ohio, a growing number of retail customers

183 million

common shares  
outstanding as of  
Dec. 31, 2011

### Total Debt / Capitalization (GAAP)

2007	60.7%
2008	62.5%
2009	57.2%
2010	57.0%
2011	55.3%

### Liquidity Summary (\$ in millions)

	Amount*	Maturity
Revolving Credit Facility	\$1,500	June 2015
Revolving Credit Facility	\$1,750	July 2016
<b>Total Credit Facilities</b>	<b>\$3,250</b>	
<b>Plus</b>		
Cash & Cash Equivalents	\$221	
<b>Less</b>		
Commercial Paper Outstanding	(\$967)	
Letters of Credit Issued	(\$134)	
<b>Net Available Liquidity</b>	<b>\$2,370</b>	

\* Actual Dec. 31, 2011

### Environmental Performance Index

(number of incidents per year)

2009	9
2010	15
2011	9

This environmental performance index includes incidents for opacity, NPDES, and oil and chemical spills at our power plants.

**7.1 billion**  
**\$**  
 annual payroll  
 in 2011

have switched to alternative generation providers and additional customers have given notice of their intent to switch. Customer switching accounted for the loss of approximately 10 percent of our Ohio electricity load in 2011. This trend is increasing, but we have a strategy to address it. See *Energy Reliability, Security & Growth* for more information.

Operations and Maintenance spending for utility operations increased \$118 million, to \$3.55 billion, in 2011 as a result of Ohio regulatory orders and expenses related to dollar-for-dollar rate recovery.

Off-system sales, or sales to non-AEP entities, were up \$44 million, to \$343 million, in 2011, reflecting greater plant utilization and higher power prices in AEP's eastern region during the first half of 2011.

**Transmission Operations**

The Transmission Operations unit develops, builds and operates transmission facilities through investments in our wholly owned transmission subsidiaries that were established in 2009 and through our transmission joint ventures. Transmission Operations' ongoing net income increased from \$10 million in 2010 to \$30 million in 2011 mainly due to an increase in transmission investments by Electric Transmission Texas and the separate transmission companies. GAAP net income was \$30 million in 2011, up from \$9 million in 2010. See *Energy Reliability, Security & Growth* for more information.

**OPERATIONAL PERFORMANCE**

**Environmental Compliance**

Compliance is the foundation of all of our environmental efforts at AEP. We are required to comply with hundreds of state and federal environmental regulations at all of our facilities, ranging from coal pile water runoff

to hazardous chemical handling and air emissions from our stacks. We need to be able to demonstrate our performance because environmental agency oversight and public interest have significantly increased. Federal and state officials frequently make unannounced inspections of our sites to check our compliance. In 2011, there were 174 regulatory inspections, during which everything from physical structures and procedures to record-keeping practices was scrutinized.

We believe that, overall, our compliance performance record is excellent. Even so, our facilities were the subject of two formal environmental enforcement actions in 2011, and we did not meet our goal of zero enforcement actions.\* The first enforcement action resulted from an inspection at the John Amos Plant in West Virginia in 2010 that revealed improperly marked containers of used oil, used fluorescent light bulbs, and related materials, as well as other alleged violations. AEP settled the case with a fine of \$48,624 in 2011.

A second action came as a result of our alleged failure to report a leak in a chlorine gas cylinder at the Lieberman Plant, a natural gas-fired plant in Louisiana, in a timely manner. We are discussing this event with the Louisiana agency, but this matter is not resolved. While these incidents did not pose a major environmental threat, they did expose procedural issues that we have since addressed.

We maintain an internal Environmental Performance Index for our generation business in which we set annual targets for compliance that are tied to compensation. We recorded nine incidents in 2011, which was our best performance since 2005.

\*We define a significant enforcement action as one that arises from events that are within our control, has more than a minor environmental impact and results in a fine greater than \$1,000.

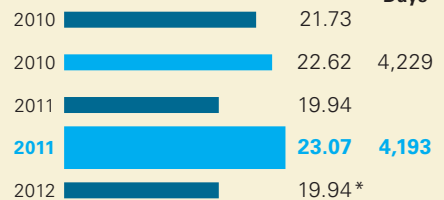
**Employee Safety & Health Path to Excellence**

**Recordable Injury Rates**



Recordable injury rate = total deaths + lost work injuries + lost work illnesses x 200,000 ÷ hours worked. Excludes AEP River Operations. 2008–2011 performance includes hearing loss. Starting in 2011, goals exclude hearing loss, which is cumulative and cannot be attributed to a given year.

**Injury Severity Rates**



Average injury severity rate = lost work days + restricted activity days x 200,000 ÷ hours worked. Excludes AEP River Operations. Excludes hearing loss. Severity days represent lost productivity due to lost work days or restricted duty. \* Pending board of directors approval.

**\$350 million**

expected investments by  
**Transcos in 2012**

### Safety & Health Performance

Working safely and investing in health and wellness are core values at AEP. We have made significant progress to reduce both the number and severity of injuries to our employees. The achievements of many work sites and business units are testament to a commitment to mutual care and our belief that zero harm is possible.

Our interim goal on the way to zero harm was to achieve top-quartile performance among our peer companies in the number of recordable injuries and the severity of injuries that lead to lost work days. When we first set this goal in 2006, we established a five-year Path to Excellence and recognized that it would be a challenge to achieve. Even though we were just shy of our goal in 2011, we developed a new five-year Path to Excellence target to achieve top-decile performance among our peers, which is under review by the board of directors.

Measuring performance is typically focused on past performance rather than proactive, forward-looking actions. We do both. Our recordable rate in 2006 was 1.66 and our severity rate was 31.77. We completed 2011 with a recordable rate of 1.00, just short of our 0.97 target, and a severity rate of 23.07 versus our target of 19.94. This compares to actual performance in 2010 of 1.05 and 22.62, respectively, but fewer severity days were recorded in 2011. The numbers show us trends and areas of concern that allow us to take corrective and proactive action. The leading causes of injuries at AEP continue to be slips, trips, falls and being struck by objects. Learn more in *Our People*.

### System Reliability Performance

Extreme weather conditions and natural disasters affected the reliability of our system in 2011 and tested our readiness for the unexpected. From drought and floods to extended cold and heat spells, tornadoes and earthquakes, 2011 was a year of weather extremes. These extreme conditions caused rolling blackouts, coal delivery issues related to flooded rivers, tornado damage, downed transmission towers, and a low-level event at our nuclear plant following an earthquake. Most customers were unaware of the operational difficulties we faced – but they were very aware of the time it took for us to restore service when they lost their power.

We use several measures to track our performance. One measure of distribution and transmission reliability is the total number of minutes the average customer experiences an interruption in their electric service in a year, called the System Average Interruption Duration Index

(SAIDI). In 2011, our customers experienced an increase in the number of minutes their service was interrupted because there were significantly more minor weather-related events and associated equipment failures than in 2010. The three-year rolling average for SAIDI was 200.2 minutes compared with 194.7 minutes in previous years. The primary cause of increased outages was trees or tree limbs coming into contact with power lines, particularly in our eastern service territory, where our states are more heavily forested.

During the past four years, the AEP system spent approximately \$881 million, or an average of \$220 million per year, on vegetation management. In 2011, we spent more than the average – \$235 million. We continue to look for innovative approaches and improvements to our integrated vegetation management practices that create habitats for wildlife yet ensure reliability. Read more in *Energy Reliability, Security & Growth*.

### Outlook for 2012 & Beyond

Our performance in 2012 through the transition to our new business model will depend on the extent to which our operating companies can optimize their ROEs, our ability to reposition our generation resources, and the success of our transmission strategy. The pace of economic recovery, the outcomes of rate cases and our spending discipline also will factor into our success.

Maintaining the dividend for our shareholders will remain a priority. We expect the dividend, supported by our regulated operations, to maintain a payout ratio of 50 percent to 60 percent going forward. The yield recently has approached 5 percent.

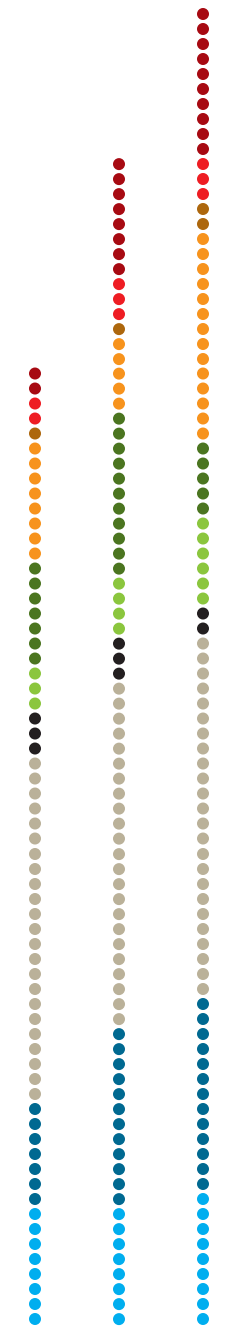
Had we not taken steps to strengthen our financial condition in recent years, we would be in a much less secure position today. The near-term challenges ahead are substantial. But, looking a few years ahead, we feel confident that a resolution that provides long-term clarity in Ohio and the promise of earnings growth inherent in our regulated investment strategy will reap benefits.

We project continued economic recovery in our service territory in 2012 but expect electricity sales growth will remain modest, at about 1.4 percent. The capital budget for 2012 is set at \$3.1 billion compared with approximately \$2.7 billion in capital invested in 2011. We forecast capital budgets of \$3.5 billion to \$3.7 billion for 2013 and 2014. A detailed 2012 outlook is at [www.AEPsustainability.com](http://www.AEPsustainability.com).

### Capital Expenditures

(\$ in millions)

2010 2011 2012 Projected



\$2,243 \$2,734 \$3,114

- AEP Transco
- Transmission JV Equity Contributions
- AEP River Operations & Other Non-Utility
- Environment
- New Generation
- Nuclear Generation
- Corporate/Other
- Distribution
- Transmission
- Fossil & Hydro Generation

# During weather extremes, the availability of backup capacity is critical to keeping the lights on. That's one reason we are so concerned about the **reliability** risks posed by new environmental regulations.



The nation's electric grid is an increasingly sophisticated network of components, such as transformers, digital switches, and other technologies that work in unison to provide reliable power. When one part of the grid isn't functioning properly, a loss of power can occur. Whenever that happens, no matter the cause, customers expect us to restore service as quickly as possible. Failure to do so can lead to political, economic, regulatory and social implications for communities, customers and for us that can be far worse than any damage to the system itself.

Reliability refers to our ability to provide energy so that it is available upon demand. To be reliable, we must

prevent outages to the extent we can and restore power as safely and efficiently as we can if it does go out. Security refers to our capacity to protect the supply of energy – under any circumstances – from external and internal interruptions. Our ability to secure energy and deliver power reliably depends upon a mix of regulatory, economic, environmental and social factors.

Operating and maintaining the electric grid is more complex than ever. We are faced with a number of significant challenges that affect our ability to maintain the existing system while also upgrading the system for the future. These challenges include an aging system, the threat of external disruption, the need for additional capacity, the difficulty of siting new facilities, and new and more challenging environmental regulations. We also have to figure out how to pay for these investments.

## When Mother Nature Strikes

Sometimes AEP has no control over power reliability or availability; we simply take direction from those who manage the grid. For example, AEP Texas operates as a transmission and distribution company and does not generate electricity for its customers or provide retail service. During an extreme cold spell in February 2011, the state's grid operator imposed rolling blackouts for only the second time in more than two decades because frozen power plants couldn't come on line to meet the demand. AEP Texas was ordered to impose those blackouts on its customers. Texas faced a similar situation in August 2011 when extreme heat pushed demand to the brink of supply availability. Demand in the Electric Reliability Council of Texas (ERCOT) peaked on Aug. 3, 2011, at 68,379 megawatts (MW) within a system that can supply a maximum of 73,175 MW of elec-



Betty Miller: Thank you AEP! I now have electric!!



@StephDAustin: It warms my heart to see a crew from my home state of AR here to help restore

Sporn Plant Unit 5 was officially retired in February 2012 after serving the AEP system for 52 years. The last of the Sporn units to be built, it was the first supercritical unit on the AEP system when it came on line in 1960.



**AEP Operating Company\* Profiles** (\$ in thousands)

Company	Customers	Revenues	Net Income	Total kWh Sales
Appalachian Power	960,000	\$3,205,225	\$162,758	<b>38,941,000</b>
Indiana Michigan Power	582,000	\$2,214,770	\$149,674	<b>27,887,000</b>
Ohio Power	1,460,000	\$5,431,111	\$464,993	<b>60,649,000</b>
Public Service Company of Oklahoma	532,000	\$1,363,388	\$124,628	<b>19,310,000</b>
Southwestern Electric Power	521,000	\$1,653,826	\$165,126	<b>26,625,000</b>

\*SEC registrants

tricity. Although no rolling blackouts were required, the threat was real and customers responded when asked to conserve.

Across our service territory, floods and tornadoes caused problems in 2011. Heavy spring and summer rains led to floods that hampered our ability to deliver coal to a plant in Indiana. A sudden storm that dropped four-and-a-half inches of rain within 45 minutes, flooding the coal yard at the John Amos Plant in West Virginia, required employees to wear life jackets to do their jobs until the water receded. Read more about these weather challenges online at [www.AEPsustainability.com](http://www.AEPsustainability.com).

**Mutual Aid Fundamental to Electric Industry**

When events occur that result in significant widespread outages, electric utilities often call upon peer companies to help restore service. It is a decades-old practice to address potential social, economic and humanitarian impacts from extended outages. With experienced AEP staff working in established industry networks, we assist each other with workers and equipment to help secure a rapid response and to restore service safely and efficiently. Mutual aid also helps the industry mitigate the risks and costs associated with major incidents through the sharing of resources. The companies that seek assistance pay all associated costs of those utilities

and contractors that provide resources and equipment.

Due to the extreme weather in 2011, the Electric Sector Mutual Assistance program was used throughout the country. AEP was called upon to provide assistance to others 14 times. During three of the events, we offered assistance to multiple utilities at once. The most significant events affected the East Coast and New England – a hurricane in August and an unusual snow-storm in October.

**Balancing Regulations & Reliability**

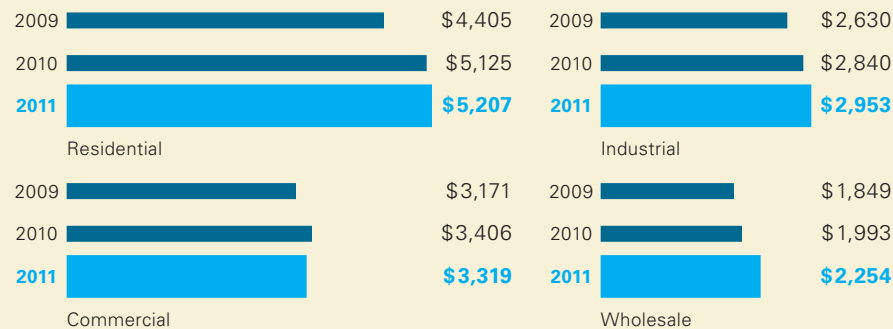
We believe that certain environmental regulations, such as the Cross-State Air Pollution Rule (CSAPR) and the Mercury and Air Toxics Standards rule (MATS), have the potential to adversely affect reliability industrywide if not implemented thoughtfully and in a reasonable time frame. Although fuel source diversity is an important factor in assuring reliability, we generate approximately two-thirds of our electricity from coal, in large measure due to the location of our plants in coal-producing regions of the country and the historic importance of coal to the economies of our states.

Many of our coal-fired units play a critical role in maintaining regional transmission grid reliability. For example, some of our plants have what is known as “black start” capability. It means they can deliver power

**35**  
**million**  
**tons**  
**coal**  
**consumed**  
**in 2011**

power to the residents of CT. Thank you, @SWEPCoNews!  @carstations: New Electric Car Charging Station: Walmart/AEP – Columbus, OH

**Utility Revenues by Class** (\$ in millions)



**Three-Year Rolling Average Systemwide Reliability Performance**

	2007	2008	2009	2010	2011
SAIFI*	1.547	1.526	1.471	1.397	<b>1.387</b>
SAIDI**	198.9	201.0	198.1	194.7	<b>200.2</b>

\* System Average Interruption Frequency Index is the average number of interruptions a customer experiences annually.

\*\* System Average Interruption Duration Index represents the total minutes of interruption the average customer experiences annually.

to the grid without assistance from the electric system, making them critical to grid reliability. In the case of a major blackout, black start plants are the units that help restore power to the grid. Some black start plants will be retired because of the U.S. Environmental Protection Agency's (EPA) new emissions rules. Other plants that supply critical transmission support functions may be retired as well.

To put this into perspective, the AEP system has a total generating capacity of nearly 37,400 MW, of which

24,302 MW is coal and lignite-fired. We have retired or expect to retire more than 5,100 MW of coal-fired capacity to comply with the rules. Emission controls will be installed, or existing controls will be upgraded, on almost 11,000 MW of capacity. Yet another 1,070 MW could be refueled with natural gas.

When we first raised concerns about reliability, we were accused

by some of being misleading about the threat to grid reliability. But our concerns were validated by the federal regulatory bodies that oversee the nation's bulk power system. The North American Electric Reliability Corp. (NERC) released a report in 2011 stating that "existing and proposed environmental regulations in the U.S. may significantly affect bulk power system reliability, depending on the scope and timing and the

rule implementation and the mechanisms in place to preserve reliability."

In a letter to the EPA, the Southwest Power Pool said: "The EPA must provide time to allow the industry to plan an approach to comply with its rules in a reliable and reasonable fashion. As it stands now, Southwest Power Pool and its members may be placed in the untenable position of deciding which agency's rules to violate – FERC or EPA. Putting an industry with critical infrastructure in the position of choosing which agency's rules to violate is bad public policy."

#### **Fostering a Culture for Reliability Compliance**

Overheated transmission lines, inadequate vegetation management, insufficient tools and lack of training were the root causes of the 2003 Northeast blackout that left 55 million people in the dark in Canada and the United States and brought international travel and financial markets to a halt. Since then, NERC has been given authority by the Federal Energy Regulatory Commission (FERC) to enact and enforce rules that protect the bulk power system in the United States. These rules and standards are constantly evolving and affect everything we do in operating the grid day-to-day.

In 2011, NERC conducted an audit of its Critical Infrastructure Protection (CIP) standards that are designed to ensure the security of cyber assets that support critical reliability functions. Auditors from NERC, SPP, ReliabilityFirst and Texas Reliability Entity Inc. participated in the audit. While they did find a few instances of non-compliance, the audit team indicated that AEP's culture of reliability compliance had improved compared with their observations during a partial CIP audit in 2009. Efforts to address the audit's findings and recommen-

**“The EPA must provide time to allow the industry to plan an approach to comply with its rules in a reliable and reasonable fashion. As it stands now, SPP and its members may be placed in the untenable position of deciding which agency’s rules to violate — FERC or EPA.”**

 @mizzmamamia: is #swepco gonna credit me for this outage?

 Eddie Kirkendoll Washington: Man so glad to see these SWEPCO trucks. It's really

**The Dresden Plant in Dresden, Ohio, is a 580-MW combined-cycle natural gas plant that provides power to Appalachian Power. It began commercial operation in January 2012.**





**2012 Operating Company\***

**Projected Construction Expenditures** (\$ in thousands)

Company	Total
Appalachian Power	\$ 448,500
Indiana Michigan Power	\$ 468,400
Ohio Power	\$ 569,400
Public Service Company of Oklahoma	\$ 204,100
Southwestern Electric Power	\$ 475,400

\* SEC registrants

dations are under way. We expect to be audited this year on additional reliability standards, including a CIP audit of Electric Transmission Texas.

Noncompliance with these standards can have substantial financial consequences and create reputational risks. For example, FERC fined one company \$25 million for a 2008 blackout caused by a faulty substation that led to cascading outages of critical transmission lines.

**ENERGY SECURITY**

**A Balanced & Reliable Energy Future**

We need multiple sources of energy to ensure our energy security as a nation. A diverse fuel mix adds to energy security by allowing us to be more flexible in adapting to changing conditions or economic circumstances that might impede our ability to provide power from one source or another.

We anticipate our fuel generating capacity to shift from 67 percent coal and 24 percent natural gas in 2011, to about 50 percent coal and 27 percent natural gas by 2020. The remainder of our resource needs will be filled by renewable energy, nuclear, hydroelectric and pumped storage, energy efficiency and demand response programs.

Coal is, and will remain, an important part of AEP's


resource base and is essential to the economic growth of much of our service territory. Our intent is to use this resource responsibly and efficiently. The addition of the 600-MW base load John W. Turk Jr. Plant in southwestern Arkansas reflects our commitment. The plant will be among the country's most efficient coal plants, employing ultra-supercritical pulverized coal technology for the first time in the United States. All legal challenges against the plant were settled in 2011, paving the way for commercial operation by the end of 2012. Southwestern Electric Power Co. (SWEPCO) owns 73 percent (440 MW) of the Turk Plant. The total cost of the plant is estimated at \$1.8 billion; the current estimate of SWEPCO's share of that cost is \$1.3 billion. SWEPCO will operate the completed facility.

The United States also has abundant resources of natural gas, which offers potential environmental and price advantages. Natural gas constitutes an increasing share of the electric generation market and, according to the Energy Information Administration, that will continue during the next decade.

AEP consumed 40 percent more natural gas in 2010 than in 2009, and 25 percent more in 2011 than in 2010. This dramatic increase was due largely to lower natural gas prices that made it cost-effective to increase operation of our Lawrenceburg and Waterford combined-cycle plants in Indiana and Ohio and the availability of SWEPCO's new 543-MW base load J. Lamar Stall combined-cycle gas plant. With the startup of Appalachian Power's 580-MW Dresden natural gas combined-cycle plant in January 2012, we have further diversified our fuel mix in what has traditionally been a region that relies heavily on coal. The efficiency of these gas plants, coupled with sustained lower natural

**37**  
hybrid trucks

medium-duty hydraulic trucks placed in service by AEP in 2011

hot in my house. I wonder if they'll give us a refund on our bill? It's been over 3 hrs.  @953MNC: I&M warns of possible outages during storm.



Crews from AEP and nearby utilities work to restore power after tornadoes hit in April 2011. AEP received EEI's Emergency Assistance Award for the assistance it provided to other utilities after Hurricane Irene and a late-October snowstorm.

27%

projected natural gas capacity of total generation by 2020

gas prices, has supported this shift in resources. And as shale gas development continues to place downward pressure on gas prices, generating power from these gas plants is increasingly economical.

All of this is being closely watched by the NERC, which is concerned that the interdependencies of the electric and gas industries could increase exposure of the nation’s power grid to fuel interruptions. A typical coal-based power plant maintains a several-day supply of fuel on site, partly as a physical hedge against supply interruptions. By contrast, a just-in-time delivery system, which characterizes natural gas, is vulnerable to supply disruptions. Unlike coal, a multiday supply of gas generally can’t be stored on site, leaving plants that run on natural gas vulnerable to reliability issues.

**Transmission: A Growth Engine for the Future**

A significant portion of our investment capital will go to our transmission business in 2012 and beyond because transmission offers great potential for earnings growth, shareholder return and customer service, both short term and long term.

We have a two-fold plan: Create near-term expansion through our new AEP transmission companies (Transcos) and invest in long-term joint ventures with other electric utilities to develop new transmission facilities across the United States.

We operate Transcos in Indiana, Michigan, Ohio and Oklahoma and are engaged in regulatory activities necessary to initiate operations in Arkansas, Kentucky, Louisiana, Virginia and West Virginia. The Transcos can separately raise capital and are able to build new transmission without affecting the balance sheet or credit ratings of the operating companies. This organiza-

**AEP Utility kWh Sales** (in millions)

Customer Class	2009	2010	2011
Residential	58,232	61,944	61,655
Commercial	49,925	50,748	50,767
Industrial	54,428	57,333	59,667
Miscellaneous	3,048	3,083	3,100
<b>Total*</b>	<b>165,633</b>	<b>173,108</b>	<b>175,189</b>
Wholesale	29,670	32,581	40,519
<b>Total</b>	<b>195,303</b>	<b>205,689</b>	<b>215,708</b>

\* Includes energy delivered to customers served by AEP’s Texas companies.

tional design provides long-term benefits to customers by relieving our operating companies of the burden of incurring debt for those projects, thus preserving debt issuance capacity for other system needs while, at the same time, facilitating the completion of transmission system improvements by the Transcos.

We expect the Transcos to invest approximately \$350 million in 2012 and to grow to more than \$2 billion in assets during the next four years. With FERC-approved formula rates that adjust annually, these investments support the transmission needs of the operating companies, providing additional reliability and efficiency while delivering stable earnings and shareholder value.

Our longer-term strategy includes pursuing joint ventures to build transmission lines within and outside of our service territory. These partnerships allow us to leverage both expertise and financial assets. We expect to invest approximately \$116 million in 2012 to support construction and other expenditures. Many will modernize the grid and improve reliability, alleviate congested power corridors and facilitate the development of renewable generation. Read more about the projects online at [www.AEPsustainability.com](http://www.AEPsustainability.com).

@rushgirl302003: @aepohio why did my electric bill nearly triple for Jan when I wasn’t home half of the month??? Paycheck only goes so far



**Retail Competition in Ohio**

After progressing slowly for more than a decade, retail competition hit AEP Ohio’s regulated customers in a big way in 2011.

The ability to switch suppliers of electricity has been in place in Ohio since 2001, following restructuring legislation approved by

the Ohio General Assembly in 1999. While competition began appearing in some of the higher-priced markets in Ohio shortly after, AEP’s low rates made it difficult for competitors to gain a foothold through much of the first decade of the 21st century.

That began to change in 2011, however, as AEP was forced to increase rates to pay for environmental improvements while other companies were able to offer lower prices brought about by a slow economy. Suddenly,

AEP customers were being enticed with lower rates than they were getting from their regulated utility.

AEP’s commercial customers were the first to benefit from competition. The customer shopping levels at AEP Ohio were further exacerbated by a subsidy that competitors were obtaining for capacity at AEP’s expense. Suppliers then began targeting residential customers, who have been able to save 10 percent of their generation and trans-

## Energy Efficiency – Saving Money & Resources

We have always encouraged our customers to use energy wisely and efficiently. But recently we have begun to look differently at energy efficiency. A decade ago, we did not view energy efficiency as a resource and did not give it serious consideration when developing our integrated resource plan. Today, we see energy efficiency and demand response as very important resources, and we have increased our commitment accordingly. Energy efficiency and demand response will become even more important in the future as regulators will want to know what we have done to delay the need to build new power plants.

Energy efficiency has been a priority for many of our stakeholders, and it was at their urging that we began to fully appreciate the need for expanding this resource. Our goals to reduce demand by 1,000 MW and energy consumption by 2,250,000 megawatt-hours (MWh) by the end of 2012 were driven by the ongoing discussions we have with so many of our stakeholders. These goals are reflected in our integrated resource plans, and we track and report our progress routinely.

From 2008 through 2011, we achieved 1,972,000 MWh of reductions, reaching 88 percent of our energy target, and we are on track to meet our goal at the end of 2012. We also have achieved 716 MW, or 72 percent, of the demand reduction goal and continue to aggressively pursue opportunities to meet it as well.

Energy efficiency and demand reduction programs have received regulatory support in many of our states. This cost recovery will continue to be integral to our use of this resource in the future. Between 2008 and 2011, we invested approximately \$239 million in these consumer programs. In 2011 alone, we invested more than

\$115 million. Going forward, we expect investments across the AEP system will continue to exceed \$100 million annually, subject to regulatory approval and cost recovery. Read more about what we are doing including a state-by-state breakdown of energy savings and investments, online at [www.AEPsustainability.com](http://www.AEPsustainability.com).

### gridSMART®: The Future of Energy

Our responsibility to our customers extends to helping them use electricity efficiently. Under our gridSMART® program, we have deployed new technologies and developed new programs and pricing options to help customers make choices that will save energy and money. The gridSMART® initiative includes smart grid technologies such as smart meters, voltage optimization equipment and smart appliances. It allows us to test and deploy these new technologies that can reduce our own energy use and teach us how the technologies interact with the grid. The gridSMART® initiative includes more than 100 energy efficiency programs across our system. We work closely with many different stakeholders, from regulators and environmental groups to customers and policy makers, to better understand what motivates people to become more energy efficient.

New electric transportation technologies also are being tested. As the auto industry continues to ramp up its development and production of plug-in electric vehicles, we are taking steps to understand how they interact with our grid and how we will respond to the changing needs of our customers. Learn more about all of our gridSMART® projects in our states online at [www.AEPsustainability.com](http://www.AEPsustainability.com).



**The AEP corporate headquarters in Columbus, Ohio, was awarded LEED Gold certification in the existing building category by the U.S. Green Building Council.**

 @OneLuckyGuitar: Less than my latte! –TIM “@in\_mi\_power The average I&M customer pays < \$3/day for electricity – less than a gallon of gas!

mission charges. The result is that more than 70,000 of AEP Ohio’s 1,460,000 customers had switched to a competitive supplier by the end of 2011. AEP Ohio lost \$132 million in regulated revenues in 2011 to competition.

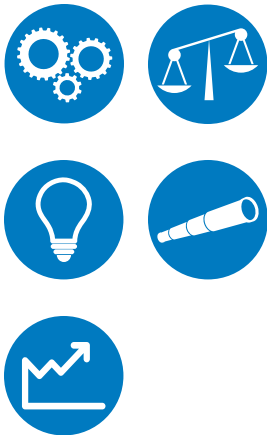
AEP has formed its own competitive retail supplier, which has captured a portion of the customers who left AEP Ohio’s regulated business. But in the case of AEP’s former regulated customers, it means that AEP will continue to provide those customers with

generation and transmission services at a lower margin.

The key to a successful retail strategy is to expand into other deregulated markets. In January 2012, AEP purchased BlueStar Energy Holdings Inc., a Chicago-based company founded in 2002 that specializes in retail energy marketing. Recognized as one of the fastest-growing energy suppliers in the country, BlueStar brings a staff of more than 200 people and approximately 23,000

retail customers to AEP, most outside of our service territory. More importantly, it brings industry-leading back-office systems, experienced marketers, and market expertise to lead AEP’s growth into competitive retail markets. Besides Ohio, BlueStar operates in Illinois, Maryland, New Jersey, Pennsylvania, and Washington, D.C., and expects to begin marketing in Texas this year.

# We have retired or will retire more than 5,100 MW of coal-fired capacity to comply with new environmental rules. The **transition** to a more sustainable fuel mix will also reduce our greenhouse gas emissions.



For decades, one of the lowest-cost resources to produce electricity in the United States has been coal. In addition to providing customers with reliable, affordable power, coal has enabled economic growth in those areas where it is plentiful. Because of this, most coal-fired generating stations are located in coal-producing regions, usually in rural areas, and are an important source of jobs, prosperity and economic stability.

However, the economics of coal-fired generation have changed the equation. Compliance with new environmental regulations will be costly and will be difficult for many communities in our service territory. Changes in our generation fleet will require thoughtful planning,

careful implementation and sufficient time to avoid adverse impacts on reliability and customers.

A wisely planned transition of our generation plants will take longer than the regulations permit, but it will also mitigate grid reliability concerns; provide for cost-effective, achievable compliance; be more affordable for customers; and get us to the same point. Along the way, we can help our communities prepare for the change, do more to mitigate the cost to customers, and promote a more stable work force for the long term. We think the slightly longer path is the best, most appropriate route for our customers and our shareholders.

New and pending U.S. Environmental Protection Agency (EPA) regulations are mostly focused on air emissions, but we are also preparing for changes in other rules that govern cooling water intake structures and wastewater effluent guidelines, and the disposal of coal combustion residuals. The EPA has not coordinated these rules, making compliance extremely difficult for regulated utilities to plan when it's unclear how the rules will fit together. We maintain that there is a more efficient and effective way to achieve the same environmental results, and we are advocating for an alternative approach with legislators and regulators.

Even so, we will continue to comply with all applicable environmental laws and regulations as we have consistently done in the past. But as the bar gets higher, compliance gets increasingly expensive and challenging. This became clear with the scope and stringency of regulations to reduce emissions proposed or enacted by the EPA in 2011. Even as the debate continues about the efficacy of these regulations, their cost and their effect on grid reliability, our regulators, our stakeholders and our customers expect nothing less than full compliance.

@SeanCasten: Sign o' the times. 95%+ coal Appalachian Power, building its 2nd ever gas plant in OH. Vincent Villars: More regulations: EPA's fantasy

The *M/V Michael G. Morris* plies the Mississippi River along New Orleans on its dedication voyage Aug. 31, 2011. The tugboat is one of more than 70 that AEP River Operations uses to haul coal and commercial freight on the Mississippi and Ohio rivers.



We frequently are asked why we need more time to comply with these regulations when they have been under development since 1990. We also are asked why we need more time when other electric utilities say they can comply by the deadlines imposed by the rules.

The notion that these regulations have been known since 1990 is incorrect. In 1990, when Congress passed the Clean Air Act amendments, it directed the EPA to study power plant hazardous air pollutants (HAPs) separately from other industrial sources to determine if regulation was appropriate and necessary. The EPA conducted that study and reported at the end of the Clinton administration that the only power plant HAPs emission that merited regulation was mercury.

The EPA formulated the Clean Air Mercury Rule (CAMR) in 2005 to address that finding. CAMR was challenged in court and vacated in 2008. In developing a replacement for CAMR, the EPA under the Obama administration expanded the number of HAPs it would regulate and in 2011 proposed the Utility Hazardous Air Pollutants Rule, which later became the Mercury and Air Toxics Standards (MATS) rule. Therefore, we did not know the specific emissions that would be regulated or the level of control required until a final rule was issued at the end of 2011.

In many cases, other companies were required to reduce emissions because of state-imposed mandates, which put them on the path to compliance earlier. None of AEP's states required these emissions controls. While many people would argue that AEP should have installed controls at all of its plants, we generally cannot receive rate recovery for these very expensive investments unless there is a state or federal mandate. We simply cannot afford to put billions of dollars at risk with-

out the promise of recovery. However, we have been preparing for compliance with preliminary engineering work and by preparing regulatory filings.

**New EPA Regulations a Catalyst for Change**

The EPA issued two major regulations in 2011 that profoundly affect AEP, our stakeholders and the communities we serve – the Cross-State Air Pollution Rule (CSAPR) and the MATS rule. We continue to develop a plan to comply with these rules as cost effectively as possible, but compliance will be expensive and challenging under the best of circumstances.

During the past decade, major emissions control systems were installed on our largest plants to comply with regulations established to reduce sulfur dioxide (SO<sub>2</sub>) and nitrogen oxide (NO<sub>x</sub>) emissions. As a result, customers in those jurisdictions where the retrofits were made, mostly in our eastern service territory, saw their electricity rates increase by as much as 40 percent during one decade. The new regulations will hit the same regions with additional customer rate increases. Local customers and regulators are pushing back. We continue to work closely with our operating companies, regulators, customers and communities to make these decisions collaboratively.

The new CSAPR and MATS rules will reduce emissions even further, but it is important that our customers and regulators understand what we have already achieved. Since 1990, we have invested \$7 billion to upgrade our plants to reduce emissions and have reduced SO<sub>2</sub> emissions by 73 percent and NO<sub>x</sub> emissions by 80 percent as a result.

We have retired, or plan to retire, more than 5,100 megawatts (MW) of coal-fired capacity, mostly due to

45%

land owned by AEP subsidiary companies that is forested

solution to unemployment  @jeffmh2: American Electric Power Takes Workers Hostage to Stop Pollution Controls

**AEP Natural Gas Usage**

	MMBtu	Bcf
2007	108,363,927	105.2
2008	105,007,463	101.9
2009	98,157,932	95.7
2010	141,289,297	133.6
<b>2011</b>	<b>170,259,309</b>	<b>166.8</b>
2012*	182,242,900	178.5

\* The 2012 data represent the projected natural gas consumption contained in the 2012 Control Budget.

**AEP Coal Consumed (in millions of tons)**



**The Timber Road Wind Farm in northwest Ohio is part of AEP's portfolio of 1,494 MW of installed wind capacity. The 99-MW facility began commercial operation in 2011.**



**136** million  
metric tons  
of CO<sub>2</sub>  
emissions  
in 2011

these rules. This capacity reduction will directly affect 600 jobs at AEP and indirectly affect thousands more in communities where those plants are located. We also will retrofit or upgrade almost 11,000 MW of coal generation with advanced emission controls.

We estimate the total capital cost of compliance with all proposed environmental rules – CSAPR, MATS, coal ash, 316(b) and steam effluent guidelines – at \$6 billion to \$7 billion from 2012 through 2020. And this does not include the cost to operate and maintain the units once the controls are in place or future costs associated with building additional replacement generation and incremental fuel cost increases.

Another potential reliability impact that regional transmission organizations are still analyzing, and which the EPA did not adequately quantify, are the coal-fired units that will have to be curtailed, derated (reductions to the maximum capability of a unit) or potentially idled to comply with the new rules. We anticipate possibly curtailing or derating approximately 680 MW of coal-fired generation as a result of the new EPA rules, the equivalent of one medium- to large-size coal unit.

Several of our projects will not be completed by the May 2015 MATS compliance requirement. Without fourth-year and, in some cases, fifth-year compliance extensions contemplated by the rule, we may have to idle approximately 1,900 MW of additional coal units until we can complete these environmental control projects. This number will be larger if we do not receive approval of a fourth-year extension. It is still unclear how these issues will affect the reliability of the power grid across the country as multiple companies face these same issues. These rules should be implemented in a way that is technically feasible, cost-effective and minimizes

grid reliability risks. For more information about our work with the regional transmission organizations about these issues, see *Energy Reliability, Security & Growth*.

### **Cross-State Air Pollution Rule**


This rule would reduce SO<sub>2</sub> and NO<sub>x</sub> emissions from power plants located in 33 Eastern, Midwestern and Southern states. It is intended to reduce ozone and fine particulate matter concentrations in downwind states.

CSAPR, initially proposed as the Clean Air Transport Rule, was enacted in July 2011. The scope of reductions and the implementation schedule were significantly more stringent than proposed. Phase I was to begin Jan. 1, 2012. On Dec. 30, 2011, the U.S. Circuit Court of Appeals for the District of Columbia stayed enforcement of the rule as part of a lawsuit filed by several parties, including AEP. Oral arguments in the lawsuit were heard in April 2012, with a ruling expected later this year.

In the interim, compliance with the Clean Air Interstate Rule (CAIR), which was enacted in 2005, will continue. Although CAIR was overturned by the D.C. Circuit Court of Appeals in 2008, it had remained in place pending the development of CSAPR. In developing CSAPR, the EPA chose not to recognize the air quality improvements that had already been achieved through retrofits since 2005.

A supplemental rule that includes Oklahoma in the CSAPR seasonal NO<sub>x</sub> program was finalized in December 2011. The EPA has announced that the provisions of the supplemental rule will not be enforced while the stay of the final CSAPR remains in effect.

Delaying enforcement of CSAPR won't have a major effect on the installation of emissions control

 @danielburk: RT @PSOklahoma was recognized for tree care at the state capitol.  @ARCpointLVL: Ky. Power's decision to stick with coal leads to

**Superintendent of Maintenance and Engineering Joe Brantley, left, and Port Engineer Ron Culp review plans to transform the M/V Donna Rushing with new engines, LED lighting and other improvements, making it one of the most efficient tugboats on the Mississippi and Ohio rivers.**



**Recent & Planned AEP Generating Unit Retirements** (in MW)

Company	Plant Name & Unit	State	Capacity
Appalachian Power	Clinch River Plant, Unit 3	Virginia	235
Appalachian Power	Glen Lyn Plant	Virginia	335
Appalachian Power	Kanawha River Plant	West Virginia	400
Appalachian Power/Ohio Power	Philip Sporn Plant, Units 1-4	West Virginia	600
Appalachian Power/Ohio Power	Philip Sporn Plant, Unit 5*	West Virginia	450
Indiana Michigan Power	Tanners Creek Plant, Units 1-3	Indiana	495
Kentucky Power Company	Big Sandy Plant, Unit 1	Kentucky	278
Ohio Power	Conesville Plant, Unit 3	Ohio	165
Ohio Power	Kammer Plant	West Virginia	630
Ohio Power	Muskingum River Plant, Units 1-4	Ohio	840
Ohio Power	Picway Plant	Ohio	100
Ohio Power	W.C. Beckjord Generating Station*	Ohio	53
Southwestern Electric Power	Welsh Plant, Unit 2	Texas	528
<b>Total</b>			<b>5,109</b>

\* Units recently retired

equipment in 2012. First-year compliance largely involves changing the way some plants operate, versus installation of new equipment. Market forces, in the form of low natural gas prices, also will reduce those potential impacts.

**Mercury & Air Toxics Standards**

MATS was signed on Dec. 16, 2011, and is the rule with the greatest potential impact on AEP. The MATS rule is designed to reduce mercury, other metals and acid gas emissions from coal- and oil-fired power plants.

The MATS rule became effective on April 16, 2012. The initial compliance deadline is three years after the effective date, or April 16, 2015. A one-year extension (a fourth year) may be obtained from the permitting authority in each state for units undertaking emission control projects or for retiring units that are essential for maintaining reliability. An additional one-

year extension (a fifth year) via an enforcement order with the EPA may be available for reliability-critical units.

Work to comply with MATS is under way. We have initiated proceedings with public utility commissions to install additional emissions control systems at coal plants in Arkansas, Indiana and Kentucky, while conceptual engineering work is being completed for additional filings, where appropriate.

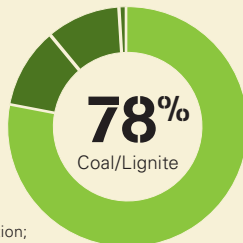
But we have learned that we must be cautious about getting too far ahead of regulatory requirements. State utility commissions often require federal mandates to be final before they grant recovery of investment costs. In the past, we have taken risks to the detriment of our shareholders. For example, we took a \$76 million write-off of our investments in the West Virginia carbon capture and storage project. We attempted to lead the way, proactively searching for solutions to issues that had not yet seen mandatory actions.

tense case  @industrial\_info: #WindPower contracts allow SWEPCO to complete John Turk ultra-supercritical coal-fired plant in Arkansas.

**2011 AEP System Fuel Usage**

Natural Gas 11%  
Nuclear 10%  
Hydro, Wind, <1%  
Solar & Pumped Storage

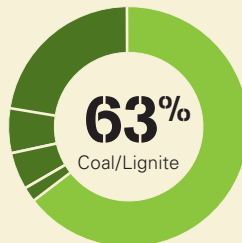
Does not include purchased wind generation; does not include wholesale wind generation.

**2012 AEP Generating Capacity by Fuel**

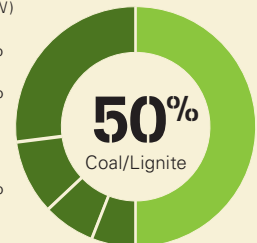
(40,189 MW)

Natural Gas 24%  
Nuclear <6%  
Hydro, Wind, >5%  
Solar & Pumped Storage  
Demand 2%  
Response & Energy Efficiency

Capacity portfolio as of March 31, 2012. Includes the Dresden Plant and the retirement of Sporn Unit 5. Includes first-year Demand Response & Energy Efficiency.

**2020 Projected AEP Generating Capacity by Fuel** (39,740 MW)

Natural Gas 27%  
Hydro, Wind, 10%  
Solar & Pumped Storage  
Demand 7%  
Response & Energy Efficiency  
Nuclear <6%



We must weigh physical and financial risks in implementing our plan. We aren't prebuying materials, for example, which puts us at risk for not having the materials and equipment when we need them. Because AEP will not be the only utility making these upgrades, we will compete for the same labor pool, engineering services, materials, capital and timely regulatory approval as other utilities. The result may be higher prices as demand for goods and services exceeds supply.

There are also issues with implementation. While physical construction of the control equipment is possible within three years, the upfront time required to obtain permits and complete the design work greatly extends the project schedule. Based on our extensive experience installing scrubbers on other plants, these projects typically take five years from permitting and design to completion. Because of the number of projects that may be submitted for state authorities to review – more than two dozen for AEP alone – that time frame could be even longer. So, in terms of implementing new regulations, we can go only so far so fast.

Grid reliability is another major concern. Despite assurances from the EPA that it considered grid reliability when developing these rules, we believe there are too many elements beyond the EPA's control. Taking a plant out of service, synchronizing the new equipment and bringing the units back on line can take 17 to 20 weeks. Many tie-ins likely will occur in early 2015, immediately prior to the effective date of regulation, because most of these projects will take at least three years to complete.

We are concerned that the EPA insufficiently addressed concerns about the scale of retirements, retrofits and uncompleted transmission projects that will

occur simultaneously. The MATS compliance schedule creates reliability concerns with respect to both the location and unique reliability function of certain units. Addressing this issue will require balancing the scope and timing of unit outages to install emission controls and unit retirement plans with the need to complete new generation and transmission mitigation projects.

**A Different Way Forward**


We believe that extending the compliance deadline by two years will allow AEP and the industry to meet deadlines and better coordinate projects so that grid reliability is less compromised. This will better control costs and fee increases, and enhance job safety as these projects bring hundreds of skilled workers to each location. We would achieve the emissions goals in a slightly longer period. Emissions would continue to decline as projects are completed during the compliance period.

An extension of the deadline also would give the communities that are affected by plant retirements more time to prepare. The International Brotherhood of Electrical Workers, one of the industry's largest labor unions, supports an extension of compliance deadlines and has actively lobbied members of Congress to allow this.

Read online about other EPA regulations that will affect AEP and how we are preparing for them at [www.AEPsustainability.com](http://www.AEPsustainability.com).

**Water Quality, Water Risk**

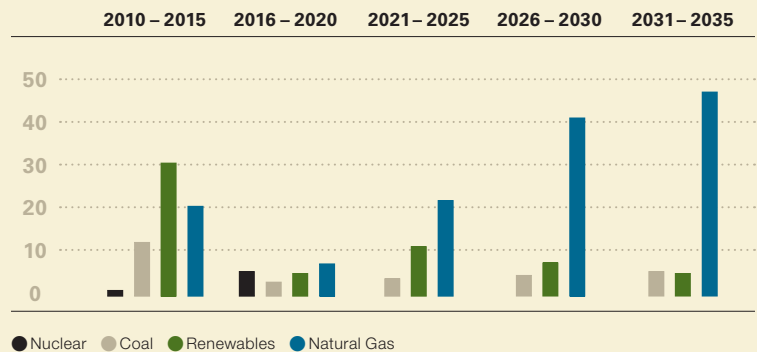
Water quality, use and management are important issues to our industry. While our industry faces new rules related to the Clean Water Act, we are taking steps to reduce our water consumption, improve water quality and address availability issues in drought-prone regions.

 **Nikki Cole: 3 major AEP power plants in WV are shutting down in the next 3 yrs ... at the cost of nearly 1,000 WV jobs ... due to the new EPA regulations.**



**Last summer's drought in Texas threatened the ability of some plants to operate because of low lake levels. This photo of Lake Kemp, taken in January 2012, shows how far some lake levels had fallen. Winter rains have restored some lakes to near-normal levels.**

**U.S. Electricity Generation Capacity Additions by Fuel Type (gigawatts)**



Source: U.S. Energy Information Administration, *Annual Energy Outlook 2011*.



**Water Availability**

The severe droughts in Texas raise concerns for several of our plants there even though they are located on reservoirs built specifically to supply the plants.

Operation of the 896-MW natural gas-fired Wilkes Plant, near Avinger, Texas, was threatened last summer because of low water levels. The Oklaunion, Welsh, Knox Lee and Pirkey plants in Texas are all dealing with periodic low lake levels that will require monitoring. If rainfall does not return to normal levels in 2012, some production could be threatened.

We have been working with the U.S. Army Corps of Engineers and other agencies to dredge channels to improve water flow and have pump intakes lowered. We may be able to acquire additional water rights in some locations, but adequate rain is the ultimate solution.

**Water Quality Trading**

In 2011, we reported on a water quality trading project in the Ohio River Basin that we have been working on with the Electric Power Research Institute and other partners. It is a market-based approach to improve water quality in the river by reducing discharges of nutrients, such as phosphorous and nitrogen, by paying farmers to install best management practices such as fencing to keep livestock out of rivers and streams. Participation in this voluntary program is in lieu of installing costly waste water treatment equipment at various power plants and other municipal and industrial sites.

**Managing Waste**

We continue to reduce the amount of PCB-containing equipment in the AEP system. PCBs have not been used in new electrical equipment for more than 30

years but are still present in much of our older equipment, such as transformers. We removed and recycled approximately 30,000 pieces of electrical equipment in 2011; 115 (approximately 0.38 percent) of the items were found to contain greater than 500 parts per million (ppm) of PCBs. Only 2 percent of the 1,901 transmission and distribution electrical equipment spills that occurred involved oil that contained 50 ppm or greater of PCBs. All were cleaned up properly.

The EPA continues to develop a proposed rule that may mandate the phase-out of various levels of PCB-containing equipment. This rule could potentially be very costly because of the sheer volume of equipment that would be affected and the cost associated with identification and replacement.

In 2011, we disposed of more than 2.6 million pounds of hazardous waste – an unusually large volume of hazardous waste for AEP. This includes 2.4 million pounds of fluid from the carbon capture and storage project at the Mountaineer Plant in West Virginia. Some of the waste came from heavy metals and PCB-contaminated soil. About 1 percent was recycled, with the vast majority disposed of in licensed hazardous waste sites.

We also recycled approximately 1.2 million gallons of oil, 1.2 million pounds of paper, 35 million pounds of metal, 216,000 light bulbs, 287,000 pounds of batteries and about 205,000 pounds of electronic equipment such as computers and phones, keeping it out of landfills.

**Nuclear Waste**

The federal government is responsible for the permanent disposal of spent nuclear fuel and assesses fees to plant owners for this disposal. But the federal government has stopped development of the Yucca Mountain

**101,000**  
**thousand**

approximate number of acres of forest land AEP domestically has under Forest Management

The cost of our electric could go up by 35%!!!



Andrew Sidesinger: Boo. I support the clean air act and AEP cleaning up their act.



**Dry-cask storage of spent fuel at the Donald C. Cook Plant will allow the plant to continue to operate despite the federal government's failure to provide long-term spent-fuel storage.**

**Cardinal Plant's Unit 3 is the first unit in the country to vent flue gases through a natural-draft cooling tower. The design was the safest option compared with building a new stack.**



storage facility in Nevada, leaving the issue unresolved. Indiana Michigan Power Co. owns and operates the two-unit 2,107-MW Donald C. Cook Nuclear Plant in Michigan. Like the rest of the nuclear industry, we have a significant future financial commitment to dispose of spent nuclear fuel.

We began a series of four dry runs to test equipment, qualify workers and evaluate procedures in March 2012 for the dry-cask storage process. In June, actual loading of 16 casks, each holding 32 used fuel assemblies, will begin and will take 20 weeks to complete.

By moving the 512 spent-fuel assemblies from the plant’s spent-fuel pool, we will support an additional three years of dual-unit operation at full power. Without removal of the used-fuel assemblies, the spent fuel pool would reach capacity in 2014 and force us to shut down one or both units of the plant.

**GLOBAL CLIMATE CHANGE**

Climate change may be one of the most significant sustainability issues for AEP. And while AEP took a leadership role publicly on the issue, national public policy-makers and regulators in our 11 states have conflicting views about global warming and the need for greenhouse gas (GHG) regulations in the United States.

AEP proactively supported a number of proposed climate bills in Congress, despite backlash from many of our states, and made significant investments in clean-coal technologies. We voluntarily reduced or offset carbon dioxide (CO<sub>2</sub>) emissions through the Chicago Climate Exchange between 2003 and 2010 and set a new goal for 2020. We also set a goal to increase the renewable energy on our system. We are proud of the progress we’ve made to reduce our CO<sub>2</sub> emissions during the last

decade, and the transformation of our generation business will further reduce those emissions in the future. Yet, there still is no mandate to drive these investments. Absent legislation or regulation, our shareholders are exposed to paying costs without corresponding benefits. We must focus on what we can afford to do until there is clear federal direction on climate.

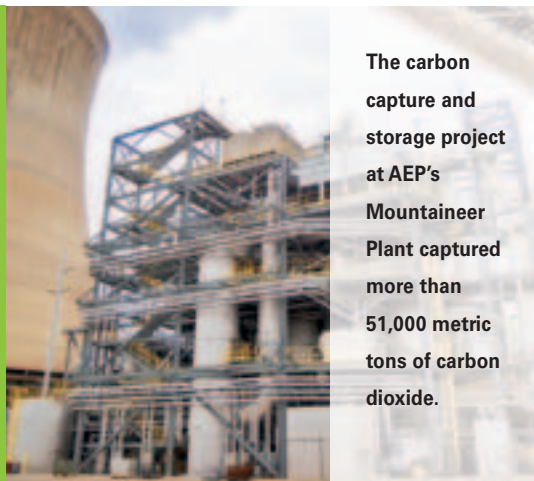
We are focused on taking practical, short-term actions to reduce our carbon footprint, such as improving energy efficiency, investing in the development of cost-effective and less carbon-intensive technologies and evaluating our assets – power plants, office buildings, and mobile fleet – across a range of reasonable scenarios. Longer term, the transformation of our generation business is expected to reduce our reliance on coal from 67 percent of our generating capacity in 2011 to about 50 percent in 2020. This balancing of our fuel resources also will keep us on the path to continued CO<sub>2</sub> reductions, helping us achieve our 2020 goal to reduce GHG emissions by 10 percent from 2010 levels.

**The Politics of Climate Change**

For nearly two decades, the international community has tried to reach a negotiated settlement regarding GHG emissions. While some progress was made at the December 2011 United Nations climate summit in Durban, South Africa, there is still no binding agreement to reduce GHGs. Nearly 200 countries did agree to set up a new global, legally binding climate deal by 2015 and extend the Kyoto Protocol for another five to seven years. A Green Climate Fund was created to help developing countries adapt to climate change and invest in renewable energy.

The most significant action was the agreement,

 @sparkcdcsr: What companies R doing 4 #csr: AEP helps build wind-diesel hybrid system, reduces CO2 emissions



**The carbon capture and storage project at AEP’s Mountaineer Plant captured more than 51,000 metric tons of carbon dioxide.**

**2011 AEP Coal Combustion Products (CCP) Utilization Summary**

Total CCP Produced (tons)	9,454,402
CCP Donated (tons)	82,724
CCP Used Internally (tons)	1,499,866
CCP Sold (tons)	1,468,333
Total CCP Avoided Cost	\$17,635,414
Total CCP Revenues	\$11,217,630
Total Worth	\$28,853,044

**CCP Utilized (tons) 3,050,924**  
**Percent Total Utilization Based on Total Production 32.27%**

**AEP Waste Stream 2007–2011**

Measurement	2007	2008	2009	2010	2011
Hazardous Waste Generated (lbs)	1,471,562	571,939	141,414	1,535,336	<b>2,639,251</b>
Hazardous Waste Disposed (lbs)	1,453,567	545,106	110,888	1,524,675	<b>2,607,762</b>
Hazardous Waste Recycled (lbs)	17,996	26,833	30,426	10,661	<b>31,489</b>
Spent Blast Material Recycled (lbs)	1,810,000	1,778,000	n/a	n/a	<b>n/a</b>
Paper Recycled (lbs)	1,509,963	1,412,851	1,878,265	1,965,389	<b>1,233,816</b>
Metal Recycled (lbs)	49,338,000	54,181,468	50,852,301	77,286,081	<b>35,158,825</b>
Light Bulbs Recycled (bulbs)	195,818	240,045	250,319	211,945	<b>215,730</b>
Batteries/Lead Recycled (lbs)	369,482	415,314	367,063	429,932	<b>287,721</b>
Electronic Equipment Recycled (lbs)	426,051	235,792	134,489	192,880	<b>205,102</b>
Oil Recycled (gallons)	545,366	1,241,121	1,732,701	1,016,306	<b>1,230,104</b>
Beneficially Reused CCP (tons)	3,130,450	4,137,069	2,971,688	3,200,146	<b>2,943,736</b>
Parts Washer Solvent Recycled (gallons)	14,307	42,929	47,725	33,778	<b>39,643</b>
Oily Water Cleaned and Recycled (gallons)	28,929	142,693	341,021	94,047	<b>324,087</b>
Antifreeze Recycled (gallons)	2,579	11,564	8,260	18,604	<b>22,170</b>
Plastic/Aluminum Cans/Cardboard* (lbs)	–	209,729	250,354	286,582	<b>336,932</b>

\*These items were not tracked prior to 2008.

for the first time, by China and India to make GHG reductions. Our position on global warming remains unchanged: We believe it is a global issue that requires a global solution. The global community faces a dilemma. All we can do is focus on what we can change and what we can afford.

**Carbon Capture & Storage on Hold**

There are occasions where it is prudent for us to invest in research and test the applicability of new technologies. One of our largest technology investments was the 20-MW validation-scale carbon capture and storage (CCS) system at the Mountaineer Plant in West Virginia. Mountaineer, which was the world's first integrated CCS project at a coal-fired power plant, proved that the technology worked, as it captured more than 51,000 metric tons of CO<sub>2</sub> between September 2009 and May 2011 and permanently stored more than 37,000 metric tons underground. The project was successfully completed and removed from service in May 2011.

Based on the lack of financial support, we announced in July 2011 that we would not continue with the commercial-scale project. It is on hold until the cost recovery issues are resolved. We did complete the engineering design for the CCS facility, including extensive geologic work for underground storage and a detailed cost estimate. While the project's closure is unfortunate, we believe that the work we completed will provide substantial benefits for this and other CCS projects.

**Renewable Energy**

As we transition our generation business to a more balanced fuel mix, renewable energy will be a larger

part of our portfolio. Seven of our states have laws or regulatory orders that establish requirements or goals for renewable and alternative energy sources, such as Renewable Portfolio Standards (RPS) or Alternative Energy Portfolio Standards (AEPS): Indiana, Michigan, Ohio, Oklahoma, Texas, Virginia and West Virginia have some form of an RPS or AEPS. The requirements in Indiana, Oklahoma and Virginia are voluntary; the others are mandatory.

From 2007 to 2011, AEP's operating companies entered into wind and solar contracts for 1,500 MW. In January 2012, an additional 100.8 MW of wind was added, bringing our total to 1,601 MW toward our 2,000 MW goal. Regulatory approval for an additional 49.9-MW solar project in Ohio is pending. Total renewable energy under contract from wind and solar is now 1,994 MW. Read more about renewable energy online at [www.AEPsustainability.com](http://www.AEPsustainability.com).

**Our International Work**

Although global action on climate change made only slight headway in South Africa in 2011, AEP participated in discussions in Durban during World Business Day, hosted by the World Business Council for Sustainable Development (WBCSD). We helped explain climate recommendations being considered as part of the United Nations activities to several country representatives. AEP participates in the WBCSD, working with electric utilities from around the world to develop guidance for new technology development and deployment, to help outline the need for new policies, and to make recommendations for individual solutions.



**projected  
reduction in  
CO<sub>2</sub> emissions  
by 2020 from  
2010 levels**

Lack of coordination between our federal and state regulators is a matter of increasing concern. We are **accountable** for keeping the lights on, but disjointed policies and regulations make compliance more costly and difficult, especially for customers.



The United States desperately needs a comprehensive national energy policy. Without a common vision at both the federal and state level, strategic planning is difficult and less than optimal. State public utility commissions (PUCs) are put in the untenable position of having to reconcile conflicting mandates to ensure the lowest possible prices for customers while ensuring environmental compliance and grid reliability. This situation is occurring while the power sector addresses more stringent environmental requirements at the national level and a rapidly changing and complex energy market.

The need for a coherent national energy policy

was more pronounced in 2011 as the U.S. Environmental Protection Agency (EPA) issued new environmental rules without meaningful coordination with the Federal Energy Regulatory Commission (FERC) or the state PUCs. These regulations not only make compliance unnecessarily expensive and difficult, but they also threaten grid reliability and create financial and operational obstacles to invest in the electric utility industry.

If the United States had clear federal and state policies, we could better manage the costs associated with environmental compliance, developing renewables and new sources of energy, and expanding our transmission grid. We could improve our environment, stabilize our energy future and enhance our global competitiveness more efficiently.

We face many challenges: the imposition of new environmental regulations and the related transition of our generation fleet; future market competition; separation of generation from transmission and distribution assets in some jurisdictions; the inability to obtain regulatory recovery of certain operational costs; and changes in our business operations. While we have gained greater certainty over some issues, disjointed and uncoordinated regulatory treatment will continue to lead to expensive and suboptimal results.

#### **Strong Operating Company Model**

Unlike most private sector companies, the prices we charge our customers and the returns we can earn on our investments are determined by state and federal regulators. Our shareholders lose value and the company's earnings suffer if we make investments and are not allowed to recover our costs or are unable to earn a reasonable rate of return. To address this issue, we



@jwassmer: AEP wants to raise its KY electric rates 31%. Thank unreasonable environmental regs!



@DavidBKeller1: #AEP Ok, it's not in the public

The U.S. Department of Energy should have a larger role in determining the impact of environmental regulations, AEP President Nick Akins told a U.S. House subcommittee in October 2011.



have decentralized our business operations to put more responsibility and accountability in the hands of our operating company management.

Today, our operating company presidents have far more autonomy along with greater responsibility for their companies' balance sheets, credit ratings, liquidity, earnings, capital allocation, rate base growth, regulatory relationships and overall performance. Our operating companies work collaboratively with all other business units to meet the needs of their customers and communities with a far better understanding of what local regulators will support.

**The Socioeconomic Impacts of Cost Increases**

The cost of energy is important to customers and to the economic conditions of our service territory and the nation. High electricity prices have particularly severe impacts in the eastern part of our service territory due to the large concentrations of energy-dependent heavy industry. In industrial states, where electricity is a major cost of production, companies need to be able to plan and budget with some certainty if they are to continue operations there. Rapidly increasing energy prices will result in a downward spiral for our regions as manufacturers leave, creating higher unemployment, which drives household income down even further. Our service territory consists of many states in which mean household incomes are already below the national average. These are very real social and economic concerns as the cost of electricity goes up.

Even though our electricity rates are among the lowest in our states, price increases during challenging economic times are difficult for our customers to absorb. This is especially true in regions of double-digit


poverty rates, which describes much of our service territory. This concerns us, our regulators and the policy-makers in our states, especially as we face the prospect of another \$6 billion to \$7 billion environmental compliance program.

AEP is following several issues at the federal level, including legislation that would allow us to more cost efficiently comply with new EPA regulations, the tax treatment of corporate dividends, and improvements to the inland waterways.

AEP supports legislation, such as the Fair Compliance Act of 2011 introduced in the U.S. Senate late in 2011, to extend the amount of time utilities have to comply with new environmental regulations. We also supported the Transparency in Regulatory Analysis of Impacts on the Nation (TRAIN) Act, which passed the U.S. House last fall, which would require the EPA and other federal agencies to determine the cost of its new regulations on the economy before they would be implemented. And we support legislation that would prohibit the EPA from regulating coal ash as a hazardous waste, which passed the House in October 2011. The EPA's rule dealing with how coal ash must be treated is expected later this year.

Taxes on corporate dividends is an issue related to the tax cuts first enacted by President George W. Bush. Before the Bush cuts, dividends were treated as ordinary income and taxed at the taxpayer's marginal rate. Beginning in 2003, the rate was reduced to the same level as for capital gains. Those cuts were temporary but were extended by President Obama during the recession. We support making that change permanent because it stimulates investment in dividend-paying companies such as AEP and the economy overall.



interest to raise electric rates. Now if we could regulate gas prices like that.  @AEPOhio: AEP Disappointed In Ruling By PUCO On Revised ESP

**Components of a Residential Electric Bill – AEP Appalachian Power Customers**

(average residential customer using 1,000 kWh per month, includes monthly service charge of \$8.35)

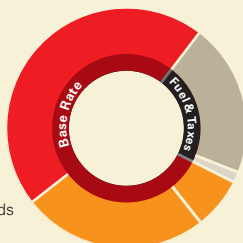
**Total Cost Per Kilowatt-hour – 10.67¢** (as of March 1, 2012)

**Generation**

Power production from a power plant  
4.898¢/kWh

**Distribution**

Electrical equipment, like power lines in neighborhoods that deliver electricity to households and businesses  
2.674¢/kWh



**Fuel Factor** (last adjusted August 2010)

2.197¢/kWh

**Consumption Tax**

0.152¢/kWh

**Transmission**

High-voltage lines that move bulk electricity from a power plant to a substation or between substations  
0.744¢/kWh

**Electricity Compared with Other Consumer Goods**

(increase in price from 1990–2010)

<b>Electricity</b>	<b>50%</b>
Transportation	60%
Consumer Price Index	67%
Food & Beverages	67%
Housing	68%
Natural Gas	105%
Health Care	139%
Gasoline (regular)	159%

Source: 2011 Edison Electric Institute

**Public Policy Changes in Ohio**

The shift toward a competitive generation market in Ohio has been somewhat tumultuous, for the company and for our customers.

Two of the biggest policy and regulatory challenges we faced in 2011 were the disposition of our Electric Security Plan and our transition to market rates in Ohio. In September 2011, AEP Ohio reached a stipulated agreement with 21 of 31 parties regarding how the company would transition to a market rate structure, separate generation, and set standard-service offer default prices over the transition period. We believe the rate structure and the pace of the transition were fair and would provide for a smooth transition for AEP Ohio and our customers. In December 2011, the Public Utilities Commission of Ohio (PUCO) issued an order amending the agreement and increasing the pace at which AEP Ohio customers could switch to alternate suppliers.

In January 2012, the December 2011 order was amended and finally, in February 2012, the PUCO revoked its approval of the agreement entirely, ordering the company to return to rates that were in place in December 2011 until a new plan can be adopted.

On March 30, 2012, AEP Ohio filed a modified Electric Security Plan for the period of June 2012 through May 2015. The plan seeks to address customer concerns that arose from the stipulated agreement, while keeping the core structure intact and enhancing customer benefits. The plan continues to support and promote retail electricity competition in Ohio and provides a reasonable transition to a competitive market.

The modified plan would result in rate increases of approximately 5 percent for all customers beginning in June. Components of the filing include freezing charges

on a customer’s bill related to the operation and maintenance of AEP Ohio’s generation facilities, excluding fuel costs; recovering deferred fuel expenses beginning in June 2013, a year later than originally authorized by the PUCO; implementing a Retail Stability Rider to provide financial stability for AEP Ohio during the Electric Security Plan period; and continuing a mechanism to recover distribution-related expenses, as previously included in the settlement agreement. The plan also offers competitive suppliers two tiers of discounted capacity prices for use of AEP’s generating facilities throughout the plan’s three-year term. The prices are proposed at levels that are known to allow suppliers to make competitive offers to customers.

**Other Rate Cases**

To foster more timely recovery of expenses and greater regulatory certainty, AEP supports the use of alternative ratemaking models. During 2011, AEP filed a series of rate cases at the FERC and at the respective state commissions for recovery of environmental expenses, fuel costs, system reliability costs, investment costs, and other costs to maintain, operate and earn a reasonable return on our system. The traditional rate case process cannot accommodate the scale and speed required for timely recovery of necessary utility investments, which puts upward price pressures on our customers. More timely recovery reduces regulatory lag, which translates into more uniform rate increases for customers.

Securitization is a process in which certain large recoverable costs (i.e., storm costs, fuel costs, stranded costs) are converted into cash through a sale of securities. In addition to providing faster cost recovery for the utility, securitization can mitigate the adverse impact of

 @ThePostCampus: A new rate plan from American Electric Power (AEP) could mean higher energy prices for #OhioU

**Summary of Significant Rate Cases** (\$ in millions)

Jurisdiction	Requested	Requested	Approved	Approved	Approved
	Annual Base Rate Change	Return on Common Equity	Annual Base Rate Change	Return on Common Equity	Effective Date
Indiana	\$149	11.15 %	\$ (*)	(*)	(*)
Michigan	\$25	11.15 %	\$15	10.2 %	April 2012
Ohio	\$94	11.15 %	\$ (**)	10.2 %	January 2012
Virginia	\$126	11.65 %	\$55	10.9 %	February 2012
West Virginia	\$156	11.75 %	\$51	10.0 %	April 2011

\* The Indiana base rate case is under review at the IURC.

\*\* Although Ohio Power’s distribution base rate did not change, approximately \$47 million was being recovered through the Distribution Investment Rider (DIR). Due to the February 2012 PUCO Electric Security Plan (ESP) entry on rehearing, which rejected the modified stipulation for a new ESP, collection of the DIR terminated. The company has the right to withdraw from the stipulation in its distribution base rate case.

a large recoverable cost by spreading the cost to customers over several years at a lower interest rate. For example, in Texas, AEP has used securitization three times to recover state-mandated restructuring and stranded costs.

While recovery of stranded costs caused by the transition to a competitive market is a proper regulatory use, it is also the responsibility of AEP to ensure that the cost impacts to customers are acceptable and mitigated where possible. Securitization legislation has been proposed in other AEP jurisdictions whose customers may experience similar upward price pressures.

### Competition Ramps Up

Competition for retail electricity customers among various service providers accelerated rapidly in Ohio in 2011. Customer switching in Ohio has resulted in the generation- and transmission-related gross margin loss of approximately \$132 million.

We created an unregulated subsidiary, AEP Retail Energy, which is one of many companies offering competitive services in Ohio. With our acquisition of BlueStar Energy Holdings Inc., we now have additional technology systems, energy services and demand-side management programs to expand our retail and wholesale businesses inside and outside of our service territory. Read more about this in *Energy Reliability, Security & Growth*.

Demand response curtailment service provided by third parties, called curtailment service providers (CSPs), remains a contentious issue for local utilities. These are services offered by nonutilities to commercial and industrial users. In exchange for a percentage of the savings, CSPs create programs in which our customers reduce their energy demand and receive incentives provided by regional transmission organizations such as PJM Interconnection.

To date, approximately 1,200 customers (representing more than 1,800 MW) are registered in a PJM Interconnection demand response rate directly through a CSP. AEP strongly supports the notion that participation by retail customers in such programs should be offered only through their utility and under terms approved by the responsible state regulatory commission, which is the case in a couple of our states.

### Transmission Remains a Priority

The need for a robust transmission system in the United States is as important as ever. We expect transmission will be an area of strong growth for AEP, and we have

adapted our business model to take advantage of opportunities in the near and long term. Read more about transmission in *Energy Reliability, Security & Growth*.

### Public Policy Affecting Inland Waterways

One public policy matter that is not as visible as environmental issues is the deteriorating condition of our inland waterways, which are maintained by the U.S. Army Corps of Engineers. The Corps estimates that 33 percent of all main or auxiliary locks on the Ohio River will be in poor or failing condition in 2012. Lack of funding to make repairs will only exacerbate this situation.

In 2011, we experienced significant delays at the Markland Lock near Warsaw, Ky., as the Corps began an extensive repair project. Repairs have taken longer than normal and are extending into 2012. Because our crews must break up their tows into a smaller number of barges to pass through the lock, each passage takes several hours longer. Along with other delays, each passage up or down the Ohio River takes 24 to 36 hours longer in each direction. We estimate the delays at Markland alone cost us \$5.5 million for a seven-month period ending in February 2012.

AEP continues to support a 20-year capital development plan proposed by the Inland Waterways Users Board and various trade associations. This plan would increase the fuel tax that commercial users of waterways would pay to help fund infrastructure improvements.

### Political Involvement

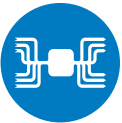
We actively participate in the political process to advance our long-term business interests and the interests of our customers, employees, shareholders and other stakeholders. We also lobby and work for what we believe is in the best interests of our communities and the nation. We maintain five political action committees (PACs) – one for federal issues and separate state PACs in Michigan, Ohio, Texas and Virginia. Approximately 30 percent of the employees eligible to participate in one of our PACs do so. AEP's federal PAC, the AEP Committee for Responsible Government, contributed \$510,555 to candidates for public office in 2011 and received about \$628,000 from employees.

In 2011, we spent about \$11 million on internal and external lobbying activities at the state and federal level. This includes dues to trade or national associations for which a portion is used for lobbying.



contributions  
to candidates  
by AEP's federal  
PAC in 2011

# The success of our company depends on having skilled employees in critical positions. We also must learn from and look out for each other and hold ourselves accountable for our **performance.**



Our employees define who we are, what we do and how we do it. They bring values, skills, diversity and expertise to AEP that make us unique and successful. As we undergo one of the biggest transformations in the 106-year history of our company, our people will lead the way.



Nothing is more important to us than the safety, health and well-being of our employees and our contractors. We invest time, effort and resources to protect all of our workers from harm. We are committed to zero harm, which is central to us, our employees, our contractors and their families.



Despite our commitment and our efforts, we failed to achieve target zero when an AEP employee and contractor, both working in our River Operations unit, lost



their lives on the job Dec. 30, 2011, when their work boat capsized in the Mississippi River. This was a heart-breaking loss for their families and both tragic and unacceptable for AEP. We are working with the U.S. Coast Guard to investigate the accident. Two other contractors lost their lives working for AEP last year.

We work in a dangerous industry, but we do not accept that injury is inevitable. Zero harm is not a slogan or even an aspiration as much as it is a reality that we envision and work for every moment.

As this report will demonstrate, AEP has improved dramatically in terms of workplace safety and health during the last five years. But for us, it is not about numbers. We care about safety because it is about our people and their loved ones who want them to come home every day safe and sound.

That means we must use all of the tools at our disposal, from job hazard assessments and workplace procedures to our human performance error-reduction initiative and our awareness of personal health issues. It also means that all of us must have the courage to speak up if safety or health is being compromised. We must all be our sisters' and brothers' keepers.

## Checks & Balances

We continue to implement and refine the environmental and safety and health management systems in our Generation business unit through the Managing Environment, Safety and Health (MESH) initiative. Most recently, this has involved the use of expanded software tools to manage safety and health policies, assess hazards and minimize their risks, and track incidents and develop plans to prevent their recurrence. Power plants now have electronic MESH manuals that link to

@CCforHomeless: On #Safety – Do you know how to respond to an #ElectricalEmergency? #AEP offers online training @roanokenews: AEP only

AEP workers at the John W. Turk Jr. plant line up as construction of the 600-MW ultra-supercritical plant continues. Once fully operational, it will employ 110 people.





corporate resources yet are customized to plant-specific processes. These integrated tools create a sustainable platform for continuous improvement.

Internal audits of our safety and health management systems and compliance processes also are part of our zero harm efforts. In 2011, auditors undertook a review of live-line distribution work practices across AEP to identify gaps, concerns and best practices in one of the most hazardous types of work performed. In addition, 10 sites representing a cross-section of AEP operations were audited. At the generating plants, these were combined with audits of Environmental and Dam Inspection and Maintenance programs.

**Getting to the Root Cause**

When we find a reason to be concerned about a safety issue or event, we form experienced teams to conduct cause analyses and recommend solutions that can be applied by all work groups with potential for similar occurrences. This process, called Uniform Event Analysis, was refined and expanded in 2011.

Our Enterprise Hazard Analysis Process (EHAP), which provides the individual steps for most of the tasks we perform and identifies the hazards of each step, was formalized in 2011. EHAP is a one-stop shop for the resources and templates that enable work groups to develop job hazard analyses for their specific assigned tasks. The EHAP website, launched on the AEP intranet last year, can help employees find the safest way to complete a task from repairing a downed power line to changing a light bulb.

Identifying potential hazards and preventing unintended events are keys to achieving zero harm, but how those events are handled is equally important. “Just

Culture,” launched about a year ago, is a structured approach to how employees are treated when unintended events happen. It also is used to analyze events to determine what happened and where the management system failed. Just Culture helps leaders ensure fairness, consistency, impartiality and shared accountability when performing this analysis. It’s the opposite approach from a punitive culture that is focused on finding someone to blame rather than figuring out what happened—a culture that inhibits the reporting that is needed to attain zero harm.

The closer we get to achieving zero harm, the harder it is to get all the way there. We need to switch from measuring what we don’t want to see (accidents) to measuring what we want to see (hazard detection and accident prevention). We must focus on completing each job and each step within that job without injury. We must learn from and look out for each other. When we reach a performance plateau, we must find ways to get above it.

**Contractor Safety Receives More Emphasis**

We set the same expectations for the safety and health of our contractors as we do for our employees, and we continually challenge them to improve. Our contractors’ safety can affect our risk profile and our reputation.

Three AEP contractors were fatally injured while working for AEP in 2011. One contractor died when a work boat capsized on the Mississippi River, a second died while working for our Transmission business unit, and a third was fatally injured while trimming trees in Kentucky. This is not acceptable, and we continue to focus our efforts on preventing fatalities.

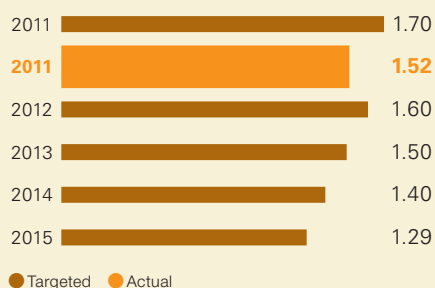
We set an overall recordable injury rate for contrac-



**policies and procedures at AEP**

utility on list of top 50 companies for executive women @malcolm\_smoak: @SWEPCoNews: Working in your yard this weekend? Call 811 before you dig

**Targeted Contractor Recordable Rate Path to Excellence**



Contractors covered by this target are defined as large O&M contractors such as construction, tree trimmers, etc.

**2011 Wages Paid by State** (approximate \$ in millions)

State	Total	State	Total
Ohio	\$569.8	Arkansas	\$23.7
Texas*	\$169.8	Missouri	\$17.7
West Virginia	\$164.9	Illinois	\$4.7
Michigan	\$120.0	Tennessee*	\$3.1
Oklahoma	\$112.1	Pennsylvania	\$2.9
Indiana	\$90.6	Nebraska	\$1.4
Virginia	\$74.3	Alabama	\$1.4
Louisiana	\$70.8	District of Columbia	\$0.2
Kentucky	\$53.1		

\* Based on federal wages (no state income tax).

30%

approximate percentage of employees represented by labor unions

tors in 2011 of 1.70 and a rate of 1.52 was attained, better than target.

We established a contractor Path to Excellence in 2011 that sets recordable injury rates through 2015. The target for 2012 is 1.60. All of our major contractors performing construction, maintenance and other physical work have their performance tracked each year.

**Public Safety**

Protecting the public from dangerous contact with our electrical equipment is a difficult challenge. We have little control over individuals whose work or recreational activities bring them close to our facilities or those who choose to trespass.

In 2008, we launched a five-year Path to Excellence – patterned after our internal initiatives – to reduce public fatalities by 20 percent and electrical contacts by 10 percent annually. We improved our performance but we did not meet our goals. We had six public fatalities and 35 additional electrical contacts in 2011, compared with nine fatalities and 37 contacts in 2010.

Three of the six public fatalities and four electrical contacts in 2011 were the result of attempted copper theft, which continues to occur in parts of our service territory. The value of copper has increased nearly 50 percent during the past five years, making it an attractive target for thieves despite life-threatening risks.

**Work Force Planning**

Our ability to conduct work force planning is hampered by the uncertainty we face as our business transforms and as our operating environment changes. It became more difficult in February 2012 when the Ohio Public Utilities Commission rejected a rate settlement and

rolled back customer rates in an order that could lead to significant financial impacts.

AEP had 21,426 employees at the end of 2009 compared with 18,710 at the end of 2011 – a nearly 13 percent decrease. Workloads have increased for many as a result of our 2010 severance program and subsequent reorganization, when about 2,500 people left the company. Although some areas have been stretched thin, we have taken special care not to compromise safety or electric service reliability.



We are gearing up to help the estimated 600 employees whose jobs are at risk because of our plans to retire certain coal-fired generating units. We want them to be as prepared as possible for other employment opportunities, within AEP or elsewhere.

If employment in another AEP position is not possible, our goal is to make our employees marketable to other employers. We're informally contacting businesses in some communities where AEP units are scheduled to be retired, to identify potential job opportunities and the skills those jobs will require.

Although our work force was reduced, we still must find people with the skills we need at the time we need them, especially in areas where a high percentage of experienced employees have already left and gaps in expertise exist. Some of our employment needs relate to environmental issues; as we start retiring generating units, for example, we will no longer monitor air emissions, but groundwater quality monitoring will be needed for decades after the retirements.

**Focus on Employee Retention**

In the current economic climate, we are working to retain employees as opposed to hiring new ones. AEP hired

 @BrandoKiser: "American Electric Power" closing all their energy plants in the region. HUGE employer...  @appalachianpowe: Cable and telephone

**Contractor safety is the focus of a new Path to Excellence goal set in 2011. Here, workers construct a substation as part of a Competitive Renewable Energy Zone transmission line in Texas.**



hundreds of employees annually from 2005 through 2008 but hiring has slowed since then, with fewer than 800 posts filled in 2011. A small number of business units were permitted to add staff as a way to reduce overtime. Voluntary turnover – the measure of those who leave AEP for jobs elsewhere, return to school or leave for personal reasons – has begun increasing after a period of decline. About 2 percent of employees from both exempt and nonexempt ranks left in 2011, citing lack of advancement opportunities and dissatisfaction with compensation and supervision as primary reasons in exit interviews. Turnover at AEP and utilities in general is very low compared with other industries.

Our work force is aging, with the highest percentage of employees now between ages 45 and 54. We project that approximately 10 percent of our work force will retire during the next five years, but many employees will not leave until the latter part of that period. In general, employees everywhere are choosing to work longer because they are healthier and because changes to Social Security make it financially beneficial for them to do so.

Opportunities for advancement within AEP are, in fact, more limited than in past years, and lateral transfers have also declined due in part to uncertainty about staffing needs. Supervisors are encouraged to offer employees new development opportunities within their existing jobs because career advancement options have diminished for the time being.

### A Pool of Future Utility Workers Still Needed

Despite the current hiring climate, AEP recognizes the value of maintaining relationships with trade schools, colleges and universities across our service territory

and beyond. We continue to offer internships and co-op programs, although we have scaled back the number offered. We want to be sure a skilled group of prospective employees is available when needed.

AEP works with a number of four-year and two-year colleges – such as Lake Michigan College, Zane State College in Ohio, West Virginia State Community and Technical College, the University of Arkansas Community College at Hope and Oklahoma State University Institute of Technology – to develop programs that prepare students for occupations in generation, transmission and distribution.


Military veterans are often well-suited for jobs in the energy industry because of the skills they possess from their military service. AEP has established relationships with veterans' support organizations across our service territory, such as State Vocational Rehabilitative Services and National Guard Yellow Ribbon programs.

### Partnering with Labor

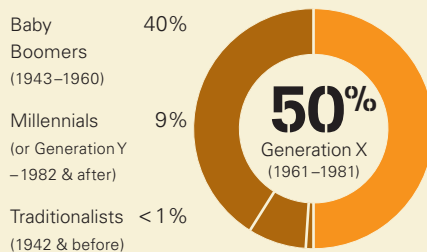
Nearly 30 percent of AEP employees are represented by labor unions. We have a strong relationship with our unions, which traditionally have partnered with us on projects that assist our local communities, such as United Way and Operation Feed in central Ohio.

That relationship has expanded in recent years. For the second time in five years, in 2011 our unions joined us in advocacy relating to climate change legislation and proposed EPA regulations. We share a mutual concern about the business and work force impacts involved as well as the environmental issues at stake.

During 2011, we successfully negotiated 12 collective bargaining agreements and 50 wage reopeners with the unions representing our employees. Negotia-

wire can become energized if they touch electric wires. Stay away from downed wires.  @7sicPOWELLsic7: Does AEP pay an electric bill? #puzzledtweet

### 2011 AEP Work Force Demographics



### 2011 Employment Data – EEO-1 (as of Aug. 31, 2011)

	Employees	Females	(%)	Minorities	(%)
Total Employment	18,398	3,344	(18.2%)	2,666	(14.5%)
Officials & Managers	3,276	379	(11.6%)	267	(8.2%)
Professionals	4,394	1,245	(28.3%)	681	(15.5%)

### 2010 Employment Data – EEO-1 (as of Aug. 31, 2010)

	Employees	Females	(%)	Minorities	(%)
Total Employment	18,650	3,417	(18.3%)	2,732	(14.6%)
Officials & Managers	3,200	367	(11.5%)	261	(8.2%)
Professionals	4,427	1,240	(28.0%)	684	(15.5%)

tions on a master contract with the International Brotherhood of Electrical Workers (IBEW) have concluded and the local unions have ratified the updated agreement. Agreements with the Utility Workers Union of America, United Steelworkers, The International Union of Operating Engineers and United Mine Workers also expire in 2012.

**The Economics of Health & Wellness**

Health issues affecting America – hypertension, high cholesterol, chronic back pain and diabetes – certainly impact U.S. corporations and their work forces, including AEP’s. Rising medical costs associated with coming health care reform, lost productivity, increased safety risk, and the human toll of poor health are causing us to seek new and better ways to support employee health and wellness.

Nationally, companies have seen workers’ compensation costs decline an average of 4 percent since 2001, but AEP has experienced a 6.4 percent reduction during that same period. Although AEP experienced a 2.6 percent increase in 2011, that was near the low end of the national average increase in workers’ compensation costs that year. We believe our focus on safety and health contributes to this.

AEP is self-insured and covers approximately 80 percent of medical plan costs. Our net cost of providing this benefit for active employees in 2011 was approximately \$168 million. Employees paid an average of \$2,800 for health care premiums in 2011.

The company’s medical expenses grew between 7 percent and 13 percent annually from 2005 through 2009 but have remained essentially flat since. This is good news in that it suggests people’s health has

**Organized Labor at AEP**


Labor Union	Number of Employees
International Brotherhood of Electrical Workers	3,293
Utility Workers Union of America	1,150
United Steelworkers of America	496
United Mine Workers of America	268
International Union of Operating Engineers	2

improved overall. Another factor is the possibility that people are deferring elective medical procedures. We expect costs to increase when the economy recovers further. Another unknown is how implementation of national health care reform initiatives will affect our medical costs, although we project that it would cause additional increases.

Companies that focus on helping employees manage their health and well-being are more likely to have a healthy and productive work force. The “AEP Wellness ... Energy for Life” program completed its fourth year, with participation in 2011 declining dramatically. Less than 16 percent of eligible employees completed all three steps of the program, down from 36 percent the prior year. The program consisted of a health screening, health assessment questionnaire and health improvement program such as health coaching, cardiovascular activities, maternity management or wellness condition management. Employees who completed all steps were eligible for a reduction in their medical premiums and those of their covered spouses or partners if they also finished the program.

To promote worker wellness, we are implementing changes to make it easier and more attractive for employees and their families to make healthy life choices.

The new wellness program will provide more generous incentives that are based on health screen-

 @TechColumbus: AEP names Pablo A. Vegas president & chief operating officer of AEP Ohio

 @Mia\_Chanel34: AEP talking about raising our electric

**\$168**

**million** net health care costs in 2011

AEP annually provides flu shots for employees and their families as part of its employee Health & Wellness program.



ing results rather than simply on participation. Health coaching will continue to be offered. Personal information will continue to be kept confidential by the vendor, but screening results in the aggregate will be provided in order to track employees' overall health and identify trends we need to address.

In addition to the wellness program, AEP offers more than 30 work/life programs, including flexible work schedules for certain jobs, parental leave, adoption assistance and benefits for same-sex partners and their dependents.

External groups and publications in 2011 once again honored AEP for its adoption policy, for supporting military veterans transitioning to civilian life, for providing a positive environment for working mothers and for promoting women into management roles.

### A Culture of Openness

Our employees are vital to the success of AEP, and we have made candid, respectful communication a hallmark of our employee relations. This openness is becoming ingrained in company culture, and CEO Nick Akins has emphasized that it will continue during his tenure.

We use the Web and the company intranet site, AEP Now, to stay in constant communication with our employees, who can comment on internal blogs, including one written by the CEO called "Nick's Notes." Akins also meets at regular intervals with small groups of employees across the company; this initiative is called "Nick's Network."

### The Benefits of Diversity

We value and celebrate the diversity of our work force and of the communities in which we operate. To us,

diversity is about ethnicity, gender and age as well as the differences that our employees or community members offer in terms of experiences, ideas and opinions, all of which help to make the work environment, or community, a richer and better place.

We track the advancement of females and minorities from craft-level positions to executive posts. Because of a slowdown in hiring and a comparatively low turnover rate in 2011, we did not meet our diversity staffing goals. We will continue to be deliberate in our efforts to fill positions, being mindful that demographics vary greatly across our service territory. Beyond that, we need to change the ways in which prospective employees view AEP. We want to be seen as a career path, not simply as a utility company.

Employee resource groups (ERGs) are another valuable asset to help strengthen our work force diversity. They support AEP's values and goals, strengthen communication between AEP and its employees, provide a forum for exchanging new ideas and enhance the company's desirability as a prospective employer. AEP's ERGs are the Asian-American Employee Partnership, Hispanic Heritage Employee Resource Group, African-American Employee Resource Group and the AEP Pride Partnership. The last group, the newest to be formed, is a forum for lesbian, gay, bisexual and transgender employees and their allies.

Our commitment to provide more opportunities to small, women-owned and minority-owned businesses through our supplier diversity initiative remains strong. Adoption of a new supplier registration tool in 2010 and more educational outreach to the buying community will help us further strengthen our commitment.

More than  
**23,000**

views of our  
electric  
public safety  
campaign on  
[3BLMedia.com](http://3BLMedia.com)

bill. #AreYouKiddingMe.  @EnergyAuditTx: SWEPCO offers rebate program for energy efficient appliances

**Contract crews install switches on AEP lines as part of the Ohio gridSMART® project. Contractors make up a significant portion of the work force in our major business units. We track and report the safety performance of major contractors who perform construction, maintenance and other physical work for the company.**



# Our well-being as a company increasingly depends on working closely with stakeholders, reporting our performance and holding ourselves **accountable**.



Our ability to make sustainable business decisions is enhanced by the relationships we have with many different stakeholders, primarily our customers and shareholders but also our other stakeholders. Our business has always depended on the strength of our relationships, and this is so now more than ever before.

We seek to work closely with many stakeholders. Successful relationships require good faith, honesty and transparency about the reasons for our decisions. Our relationships with the environmental community were deeply strained in 2011 when we sharply disagreed about how new environmental regulations should be implemented. We were accused of trying to circumvent or weaken the Clean Air Act, which was never our intent. We believe there is a strong case for extending the deadlines, both on economic and environmental grounds.

Some advocates felt blindsided by our lobbying

efforts and believed we should have provided them with advance notice about our plans, which we had done in the past on other issues. They were especially unhappy about our decision to pursue both a legislative and a more flexible regulatory outcome simultaneously. Believing we had violated their trust, they chose to end discussions with us and turned to campaigning against AEP. We continue to reach out to them in the hope that we can reopen our dialogue. We still believe that we were acting in good faith and in the best interests of our customers and shareholders; we heard from many customers who support our position as a way to help them avoid paying higher electric bills that they cannot afford.

We held or participated in 12 stakeholder meetings or calls in 2011. Much of the focus was on environmental issues, but we also discussed energy efficiency, coal, supply chain, climate change and water issues.

We have had a formal stakeholder engagement process for more than five years. In 2012, we will undertake a strategic planning process to plan for future engagement. This process will include revisiting our material issues and key performance indicators. We intend this to be a collaborative process internally and with external stakeholders.

## How We Engage

There is nothing as important or effective as developing relationships face-to-face, but the pace of change requires us to find other ways to engage with our stakeholders and to stay in touch more generally. Social media plays a significant role in this evolution, although it will not replace the personal connections we value.

We regularly connect with stakeholders using resources such as Facebook, Twitter, YouTube, LinkedIn

Johnny Davidson: Thank you to AEP-SWEPCO for sponsoring Harvest Texarkana! @3BLMedia: Save paper, help the #environment with #PSO's online

AEP supports employee involvement throughout our 11-state system, such as these riders in the 2011 Pelotonia bicycle ride to raise funds to fight cancer.



AEP has teamed up with Wal-Mart to provide the first public charging station in Columbus for plug-in electric vehicles.



and blog posts, among other ways. We can engage those who have an interest in our business, and we can see what people are saying about us, our activities and our industry. This engagement helps us to understand the perceptions some may have and gives us the opportunity to respond or engage if we so choose.

### Stakeholder Dialogues & Issues

Although the use of social media is more immediate, personal engagement is unmatched in building trusting, long-lasting relationships. It informs our decision making and goal setting and gives us new and different perspectives we might not have otherwise considered.

In February 2012, we held a multistakeholder meeting with AEP's leadership team, led by President and CEO Nick Akins. We met with more than 40 customers, analysts, investors, environmental organizations, trade groups, coal suppliers and labor leaders. It was Nick's first stakeholder meeting as CEO. He emphasized the importance of these types of discussions, particularly during this time of change, and encouraged stakeholders to come forward with their ideas and concerns. The dialogue focused largely on AEP's business transformation and Ohio deregulation.

Environmentalists challenged us on our plan that calls for more time to comply with U.S. Environmental Protection Agency (EPA) regulations. One stakeholder expressed concern that the legislative path AEP is pursuing appears to be for AEP's benefit only and pleaded with the company to play a constructive role in the debate. Customers said they rely on AEP and the industry to reach a solution that does not jeopardize reliability and has as minimal an impact as possible on prices. We will continue to update this group and seek their input.

### Engaging Investors

The link between our financial and nonfinancial performance is strong and growing stronger; we can't be healthy in one without the other. Our environmental performance is directly related to our financial performance, for example, and the same is true for worker health and safety. Many investors are increasingly seeing this connection. Our job is to inform them specifically about how our strategies capitalize on these links.

The uncertainty about Ohio regulations and federal and state environmental rules has caused our share price to be discounted, compared with our peers as defined by the S&P Utilities Index. Our four-part strategic plan is designed to reduce our share price discount and maximize long-term value to shareholders.

Our job is to demonstrate to investors that we are ready and able to meet whatever challenge comes our way, but without more certainty from state and federal regulators, we are at a disadvantage. It is senior management's priority to narrow this gap and make AEP the desirable, profitable stock that it should be.

In 2011, we participated in 26 investor conferences and in-person forums, hosted 11 investor visits to our corporate headquarters in Columbus, Ohio, and met with more than 600 financial analysts and investors in five countries. Our discussions most often focused on the legislative and regulatory uncertainties we faced in Ohio and with the EPA.

We kicked off our investor relations efforts in 2012 with an analyst and investor meeting in New York City in February. While our EPA uncertainties seem to have been resolved, the Ohio situation remains opaque and most likely will dominate investor outreach in 2012. We also plan to reach out more aggressively to our retail

88,313

number  
of hours  
employees  
volunteered

bill pay program  Jim Corbat: I am retired from I&M. Proud to say that I worked for them for 34 years.



### Assistance Provided in 2011 to Help Customers Pay Their Electric Bills

Company	2008	2009	2010	2011
APCO	\$14,025,973	\$35,933,394	\$26,990,405	\$29,123,872
I&M	\$6,762,855	\$9,244,881	\$9,027,788	\$9,639,521
KYPCO	\$2,172,576	\$4,334,503	\$4,586,968	\$4,854,412
OPCO	\$14,327,569	\$21,103,269	\$18,017,939	\$12,904,096
PSO	\$5,853,761	\$10,415,763	\$11,281,714	\$10,495,633
SWEPCO	\$2,051,265	\$5,132,579	\$5,407,410	\$6,873,295
<b>Totals</b>	<b>\$45,193,999</b>	<b>\$86,164,389</b>	<b>\$75,312,224</b>	<b>\$73,890,829</b>

Government-sponsored and private programs.

investor base in 2012 because a larger retail investor base provides more stability to our stock price. At the end of 2011, approximately 33 percent of our shareholders were retail investors, representing a 17 percent increase from year-end 2010.

**Connecting with Customers**

Electricity is often taken for granted, yet it is essential to quality of life. Unlike many other businesses, we have a profound responsibility to our customers to deliver our product safely, reliably and on demand, whenever and wherever it is needed.

Part of this responsibility relates to affordability. This is a concern to all customers, but especially those living in poverty and who are paying a high percentage of their disposable income for energy. In eight of our states, an average of 16 percent or more of the population lives below the poverty level. This is often reflected in customers' ability to pay their bills.

No one should have to choose between basic human necessities and electricity, but if electricity prices rise suddenly and dramatically to cover the cost of compliance with new environmental regulations – possibly as much as 35 percent – or for other reasons, some of our customers will be forced to make very difficult choices about what they can afford. We believe in the need for cleaner energy, but we also feel strongly that the associated costs need to be considered.

Many customers already need assistance paying their bills. The recession and slower-than-expected recovery have taken a toll on many families and businesses that were already struggling. We provided approximately \$74 million in federal and private energy assistance in 2011, which was almost 2 percent less

than in 2010. We also provide other types of aid. In Ohio, for example, our Neighbor-to-Neighbor Program helps customers who are behind on their bills but whose incomes disqualify them for government assistance. The funds for this program come through customer contributions as well as AEP grants.

AEP prides itself on quick, responsive and consistent customer service. Last year, our call centers received 1.5 million more customer calls than in 2010. We believe this is due to customers having difficulty paying their bills because of the slow economy; questions about higher electric rates; questions about the increased gridSMART® activities in Ohio, Oklahoma and Texas; and initial plans for competition in Ohio. Our average speed of answer (how long it takes to answer a call) decreased by 10 seconds from 2010, while the average length of time on the phone with customers decreased by five seconds. This decrease may be directly related to the increase we saw in online customer transactions.

**Supporting Strong Communities**

Being a responsible corporate citizen goes beyond the fence line of our property to the heart of the communities in which we operate or that we serve. Our investments in our communities range from the thousands of hours our employees volunteer locally to corporate financial support for important community programs and initiatives. The need for our support is greater than ever as many areas continue to struggle.

Our plan to close some of our coal-fired units will adversely affect local economies. Power plants often provide the highest-paying jobs in the areas where they are located and are a source of vital tax dollars that help pay for schools, roads, and other community needs. The

 **Bill Jeron Hoelscher: AEP hands over \$200,000 to YMCA. Thanks to the American Electric Power foundation, our local YMCA will soon have a new place to call home.**

**Webcasts are commonly used to keep employees informed about issues affecting the company and to provide updates about the company's performance. AEP hosted 23 employee webcasts in 2011.**



**AEP President Nick Akins participates in multiple activities during Energy Sustainability Week, including answering calls at the help desk.**



plants also support local businesses. The loss of jobs, taxes and local employee income related to plant retirements is going to hurt communities. When the retirements are complete, 600 AEP jobs will be gone. The loss to our local communities will include approximately \$30 million in lost tax revenue and about \$40 million in lost wages.

We track the economic value of our employees' volunteerism, which was approximately \$1.9 million in 2011 (using a value of volunteer time of \$21.36 per hour, based upon the Independent Sector estimated value). Our employees volunteered 88,323 hours in 2011 compared with more than 57,000 hours in 2010, resulting in 839 \$150 AEP Connects grants. These grants benefit the organizations of employees' choosing to which they have volunteered 40 or more hours during the year. During the past 10 years, the AEP Connects grant program provided more than \$1 million to schools and eligible nonprofit organizations. Unfortunately, due to budget

#### Total Philanthropic Giving (Corporate & AEP Foundation)

State	2011
Arkansas	\$ 797,872
Indiana	\$ 2,047,381
Kentucky	\$ 897,868
Louisiana	\$ 633,748
Michigan	\$ 2,843,029
Ohio	\$ 18,877,873
Oklahoma	\$ 1,015,100
Tennessee	\$ 120,599
Texas	\$ 2,873,747
Virginia	\$ 2,486,463
West Virginia	\$ 2,230,522
Other*	\$ 2,597,260
<b>Total</b>	<b>\$37,421,462</b>

\* Giving to organizations outside AEP's service area or those that benefit multiple states.

constraints, this program was discontinued in 2012.

Corporate philanthropy is also important because it helps enhance quality of life, advances education and other worthy endeavors and enriches communities. In 2011, AEP and the AEP Foundation donated more than \$37 million to support more than 3,000 community organizations. This was a significant increase over 2010 contributions of \$23.6 million due in large part to 2012 donations made at year-end 2011.

AEP formed a new Economic and Business Development (E&BD) group in 2011 to work with local communities to attract and retain businesses, because we have as much at stake as they do. This group is working through our operating companies, where they are connected locally. Recently, the E&BD group assembled a task force to work with a number of natural gas companies investing in AEP's service area to take advantage of shale gas reserves. The ability to attract new business and enable economic growth is enhanced by our expertise, and the communities we serve welcome it.

#### Engaging Our Employees

The transformation of our business will mean big changes for our employees. During times of uncertainty, clear, open and frequent communication with our employees is one of the best ways we can support them. We try to provide many ways to engage with each other and with management, including a corporate intranet (AEP Now), webcasts, employee meetings, town hall meetings, e-mail, online communities, blogs and other vehicles.

Before being named CEO, AEP President Nick Akins embarked on a systemwide employee listening tour. He visited nearly 20 AEP facilities and met with more than 1,000 employees at all levels. They talked about local business issues, stock performance, our transformation plan, his vision for the future and other issues. Read more about Akins' plans to continue connecting with employees in *Our People*.

AEP encourages employees to better understand how their jobs support the company's sustainability and profitability. For the third consecutive year, we held Energy Sustainability Week in September 2011, working to connect employees to AEP's business strategy. For example, we took an electric vehicle to the Rockport Plant in Indiana to help employees understand the connection between the electricity they produce and the new technologies that need it. At Public Service Company of Oklahoma, Akins participated in an employee activity about energy efficiency. We held more than 50

26 investor conferences and in-person forums in 2011



**74 million**  
**\$**

**approximate  
federal & private  
assistance  
provided to  
customers**

sustainability awareness activities in all 11 states, including executive visits to work locations.

### **Benchmarking & Ranking**

There are many ways to track, report and benchmark performance. From customer satisfaction surveys to industry benchmarks for safety performance, we measure and compare ourselves to others to identify gaps and opportunities for improvement.

The investment community is increasingly focused on comparing the environmental, social and governance (ESG) performance of companies. Many financial organizations and rating companies, such as Dow Jones Sustainability Index, Goldman Sachs, Bloomberg and the Carbon Disclosure Project, survey and rank companies on ESG issues. We responded to 10 surveys in 2011 and will continue to be selective about those we respond to because of time and resource constraints.

Sustainability ratings are complex and opaque, and they are proliferating, which is causing confusion among the stakeholders who wish to rely on them. A new initiative, the Global Index of Sustainability Ratings, is focused on developing a framework that would allow for greater comparability and consistency. We are following this closely with the hope that it will bring some needed standardization and transparency to the rankings process.

As a member of SustainAbility's Engaging Stakeholders program, this report is benchmarked annually using indicators similar to GRI and on a five-point scoring system based on how completely sustainability issues are integrated into the report. The process enables us to identify strengths, gaps and opportunities for improvement. The 2011 benchmark report noted that we are candid about challenges we face and that we have a


strong stakeholder engagement process. Yet we can do better in terms of prioritizing issues in order to provide greater clarity to stakeholders.

### **Engaging Suppliers**

We work with fuel and nonfuel suppliers to drive continuous improvement and efficiencies within the supply chain while improving environmental and safety performance. We ask suppliers about their sustainability strategy and activities through our procurement process, and we advise them of opportunities to help them reduce or mitigate their impacts on natural resources.

AEP is a founding member of the Electric Utility Industry Sustainable Supply Chain Alliance, a 501(c) 6, nonprofit corporation that was established in 2008 to "green" the electric utility industry supply chain. The alliance has 16 utilities that represent more than 50 million customers in 24 states.

AEP also works directly with its fuel suppliers and surveys its coal suppliers on their environmental, safety and health performance. We have conducted two surveys of our coal suppliers, a commitment we made to stakeholders to better understand the lifecycle of coal, its impacts on the environment, how our suppliers are addressing those impacts and to share leading practices. The final report on the results of the second survey was issued in 2011, based on 2009 data. The third survey has been completed and a report will be issued in 2012.

 @MyBizReview: I've been with SWEPCO since 2006 and they made it easy peasy to switch my electric over when I moved!!

## **TULSA WORLD** tulsaworld.com

### **Letter to the Editor:**

AEP/PSO rocks in Connecticut  
By Matt Pagano, Torrington, Conn.  
Sunday, November 13, 2011

I can email you this letter because for the first time in five days, I have power! I'm writing from Connecticut to offer a heartfelt thanks to the (AEP/Public Service Co.) in Tulsa for loaning us your utility crews.

I've just had the pleasure of meeting a crew of about 15 hardworking gentlemen who drove for three straight days to come to our aid here in the northwest corner of Connecticut. They arrived in town at 6 p.m. and after a quick bite to eat, set about working in our neighborhood – not even waiting until the morning for daylight.

Because of the freak nor'easter Oct. 29, which dumped 15 inches of snow on trees that were still full of leaves, we experienced unprecedented power outages. At the peak of the storm, more than 800,000 customers in our state were without power. Add to that the fact that nighttime

temperatures have gotten down into the 20s and one can understand how thankful we were to see your crews arrive. Cell towers were down, gas was scarce, trick or treating was canceled, and the nights were really dark.

You all should be extremely proud of your crews and know that they are some of the hardest working, friendly and polite guys we've had the occasion to meet. My hope is that they return to you quickly and safely and if Connecticut Light and Power can ever return the favor in your time of need I hope they jump at the chance.

## Corporate & Shareholder Information

### Corporate Headquarters

1 Riverside Plaza  
Columbus, OH 43215-2373  
614-716-1000  
AEP is incorporated in the State of New York.

**Stock Exchange Listing:** The Company's common stock is traded principally on the New York Stock Exchange under the ticker symbol AEP.

**Internet Home Page:** Information about AEP, including financial documents, Securities and Exchange Commission filings, news releases, investor presentations, shareholder information and customer service information, is available at [www.AEP.com/investors](http://www.AEP.com/investors).

**Inquiries Regarding Your Stock Holdings:** Registered shareholders (shares that you own, in your name) should contact the Company's transfer agent, listed below, if you have questions about your account, address changes, stock transfer, lost certificates, direct deposits, dividend checks and other administrative matters. You should have your Social Security number or account number ready; the transfer agent will not speak to third parties about an account without the shareholder's approval or appropriate documents.

### Transfer Agent & Registrar

Computershare Trust Company, N.A.  
P.O. Box 43078  
Providence, RI 02940-3078

For overnight deliveries:

Computershare Trust Company, N.A.  
250 Royall Street, Canton, MA 02021-1011  
Telephone Response Group: 1-800-328-6955  
Internet address: [www.computershare.com/investor](http://www.computershare.com/investor)

Hearing Impaired #: TDD: 1-800-952-9245

**Beneficial Holders:** (Stock held in a bank or brokerage account) –When you purchase stock and it is held for you by your broker, it is listed with the Company in the broker's name, and this is sometimes referred to as "street name" or a "beneficial owner." AEP does not know the identity of individual shareholders who hold their shares in this manner; we simply know that a broker holds a certain number of shares which may be for any number of investors. If you hold your stock in street name, you receive all dividend payments, annual reports and proxy materials through your broker. Therefore, questions about your account should be directed to your broker.

### Dividend Reinvestment & Direct Stock Purchase

**Plan:** A Dividend Reinvestment and Direct Stock Purchase Plan is available to all investors. It is an economical and convenient method of purchasing shares of AEP common stock, through initial cash investments, cash dividends and/or additional optional cash purchases. You may obtain the Plan prospectus and enrollment authorization form by contacting the transfer agent or visiting [www.AEP.com/investors/buyandmanagestock](http://www.AEP.com/investors/buyandmanagestock).

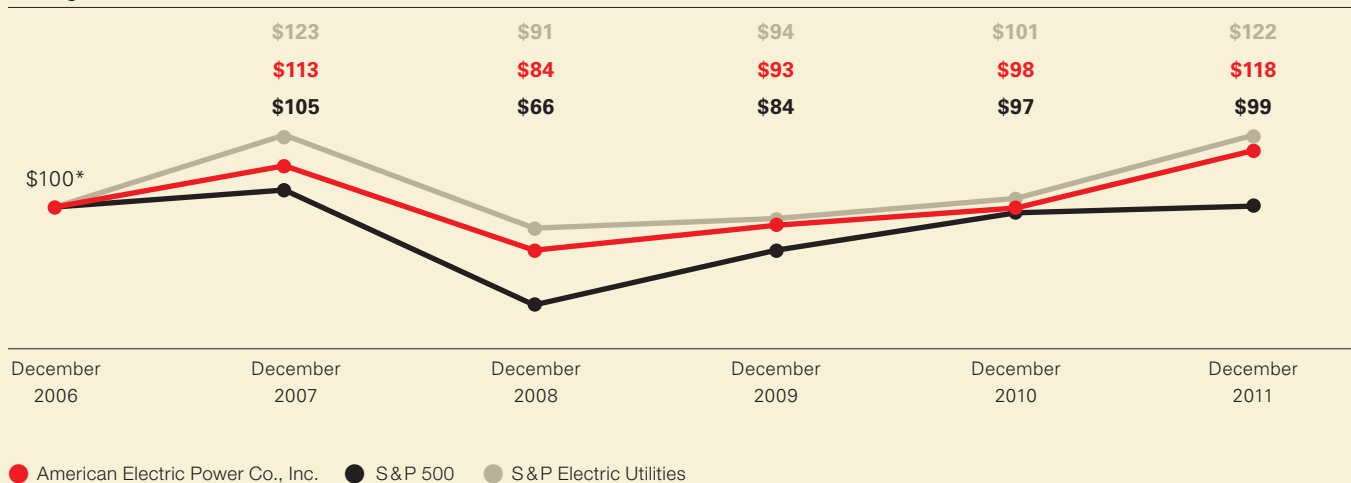
**Financial Community Inquiries:** Institutional investors or securities analysts who have questions about the Company should direct inquiries to Bette Jo Rozsa, 614-716-2840, [bjrozsa@AEP.com](mailto:bjrozsa@AEP.com); Julie Sherwood, 614-716-2663, [jasherwood@AEP.com](mailto:jasherwood@AEP.com); or Sara Macioch, 614-716-2835, [semacioch@AEP.com](mailto:semacioch@AEP.com). Individual shareholders should contact Kathleen Kozero, 614-716-2819, [klkozero@AEP.com](mailto:klkozero@AEP.com).

**Number of Shareholders:** As of Dec. 31, 2011, there were approximately 87,000 registered shareholders and approximately 407,000 shareholders holding stock in street name through a bank or broker. There were 483,422,868 shares outstanding on Dec. 31, 2011.

**Form 10-K:** Upon request, we will provide without charge a copy of our Form 10-K for the fiscal year ended Dec. 31, 2011. A copy can be obtained via mail with a written request to AEP Investor Relations, by telephone at 1-800-237-2667 or electronically at [klkozero@AEP.com](mailto:klkozero@AEP.com).

### Comparison of Five-Year Cumulative Total Return

Among American Electric Power Co., Inc., The S&P 500 Index & The S&P Electric Utilities Index



\*\$100 invested on 12/31/06 in stock or index, including reinvestment of dividends.

Fiscal year ending Dec. 31.

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## International Integrated Reporting Framework

The International Integrated Reporting Council has established high-level guidance and framework for integrated reporting that is designed to build upon the foundations of financial, governance, management commentary, and sustainability reporting. The purpose is to show the interdependencies of total performance that support an organization's ability to create and sustain value for all of its stakeholders. AEP's 2012 Corporate Accountability Report reflects this framework as we attempt to further refine our approach to integrated reporting. Following is a description of the framework's elements, which appear in each section of this report. Learn more about the work of the IIRC ([www.iirc.org](http://www.iirc.org)) online; a full description of these content elements can be found on [www.AEPsustainability.com](http://www.AEPsustainability.com).



**Organizational overview & business model:** What does the organization do and how does it create and sustain value in the short, medium and long term?



**Operating context, including risks and opportunities:** What are the circumstances under which the organization operates, including the key resources and relationships on which it depends and the key risks and opportunities that it faces?



**Strategic objectives & strategies to achieve those objectives:** Where does the organization want to go? And how is it going to get there?



**Governance & remuneration:** What is the organization's governance structure, and how does governance support the strategic objectives of the organization and relate to the organization's approach to remuneration?



**Performance:** How has the organization performed against its strategic objectives and related strategies?



**Future outlook:** What opportunities, challenges and uncertainties is the organization likely to encounter in achieving its strategic objectives and what are the resulting implications for its strategies and future performance?

# +2.6

million pounds of hazardous waste disposed of in 2011

## Total Overhead Circuit Miles

	Transmission & Distribution	765 kV Lines
AEP*	224,475**	2,116
Appalachian Power	52,312	734
Indiana Michigan Power	22,005	615
Kingsport Power	1,359	–
Kentucky Power	11,113	258
Ohio Power*	46,413	509
Public Service of Oklahoma	21,083	–
Southwestern Electric Power	21,883	–
Texas Central Co.	29,301	–
Texas North Co.	17,212	–
Wheeling Power	1,727	–

\*Includes 766 miles of 345,000-volt jointly owned lines.

\*\*Includes 73 miles of overhead transmission lines not identified with an operating company.

## GRI Table of Contents/Key Indicators

G3.1, including *Electric Utilities Sector Supplement (EU)*

All GRI information and data are on [AEPsustainability.com](http://www.AEPsustainability.com)

\* Electric Utilities Sector Supplement Commentary included

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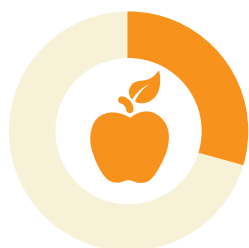
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2011 Charitable Giving by Area of Focus



Education 29%



Community 15%



Safety & Health 11%



Arts & Culture 9%



Economic Development 9%



Hunger & Housing 8%



Environment 7%



Youth 6%



United Way 5%



Disaster Relief 1%

**37,000** metric tons  
of CO<sub>2</sub> stored underground at CCS project

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**Projected U.S. Renewable Energy Generating Capacity** (gigawatts, unless otherwise noted)

Net Summer Capacity	2010	2015	2020	2025	2030	2035	Annual Growth 2010-2035
Conventional Hydropower	78.03	78.41	78.95	79.62	80.48	81.67	0.2%
Geothermal <sup>1</sup>	2.37	2.80	3.65	4.40	5.48	6.41	4.1%
Municipal Waste <sup>2</sup>	3.30	3.36	3.36	3.36	3.36	3.36	0.1%
Wood and Other Biomass <sup>3</sup>	2.45	2.72	2.72	2.72	2.72	2.73	0.4%
Solar Thermal	0.55	1.44	1.44	1.44	1.44	1.44	3.9%
Solar Photovoltaic <sup>4</sup>	0.38	2.02	2.02	2.33	3.80	8.17	13.0%
Wind	39.05	51.39	51.42	54.35	57.28	65.23	2.1%
Offshore Wind	0.00	0.20	0.20	0.20	0.20	0.20	-
<b>Total</b>	<b>126.13</b>	<b>142.35</b>	<b>143.76</b>	<b>148.42</b>	<b>154.76</b>	<b>169.20</b>	<b>1.2%</b>

<sup>1</sup> Includes both hydrothermal resources (hot water and steam) and near-field enhanced geothermal systems (EGS). Near-field EGS potential occurs on known hydrothermal sites; however, this potential requires the addition of external fluids for electricity generation and is only available after 2025.

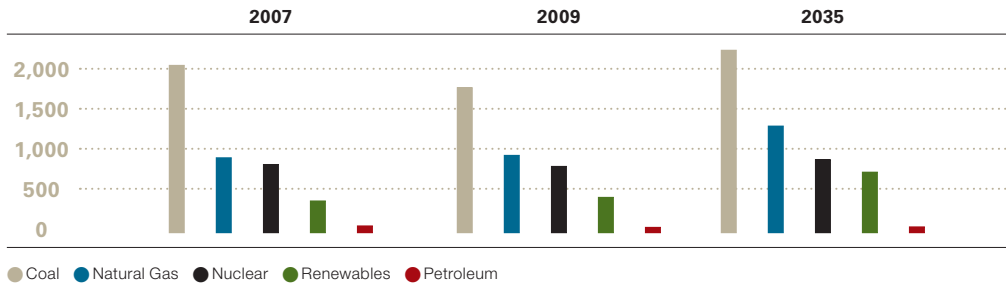
<sup>2</sup> Includes municipal waste, landfill gas, and municipal sewage sludge. Incremental growth is assumed to be for landfill gas facilities. All municipal waste is included, although a portion of the municipal waste stream contains petroleum-derived plastics and other non-renewable sources.

<sup>3</sup> Facilities co-firing biomass and coal are classified as coal.

<sup>4</sup> Does not include off-grid photovoltaics (PV). Based on annual PV shipments from 1989 through 2009, EIA estimates that as much as 245 megawatts of remote electricity generation PV applications (i.e., off-grid power systems) were in service in 2009, plus an additional 558 megawatts in communications, transportation, and assorted other nongrid-connected, specialized applications.

Source: U.S. Energy Information Administration, *Annual Energy Outlook 2012 Early Release*.

**U.S. Electricity Generation Capacity by Fuel Type** (billion kilowatt-hours)



Source: U.S. Energy Information Administration, *Annual Energy Outlook 2011*.



**million**  
 approximate  
 investment in energy  
 efficiency programs  
 2008-2011

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## Forward-Looking Information

This report made by AEP and its Registrant Subsidiaries contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Although AEP and each of its Registrant Subsidiaries believe that their expectations are based on reasonable assumptions, any such statements may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. Among the factors that could cause actual results to differ materially from those in the forward-looking statements are:

- The economic climate and growth in, or contraction within, our service territory and changes in market demand and demographic patterns.
- Inflationary or deflationary interest rate trends.
- Volatility in the financial markets, particularly developments affecting the availability of capital on reasonable terms and developments impairing our ability to finance new capital projects and refinance existing debt at attractive rates.
- The availability and cost of funds to finance working capital and capital needs, particularly during periods when the time lag between incurring costs and recovery is long and the costs are material.
- Electric load, customer growth and the impact of retail competition, particularly in Ohio.
- Weather conditions, including storms, and our ability to recover significant storm restoration costs through applicable rate mechanisms.
- Available sources and costs of, and transportation for, fuels and the creditworthiness and performance of fuel suppliers and transporters.
- Availability of necessary generating capacity and the performance of our generating plants.
- Our ability to resolve I&M's Donald C. Cook Nuclear Plant Unit 1 restoration and outage-related issues through warranty, insurance and the regulatory process.
- Our ability to recover regulatory assets and stranded costs in connection with deregulation.
- Our ability to recover increases in fuel and other energy costs through regulated or competitive electric rates.
- Our ability to build or acquire generating capacity and transmission line facilities (including our ability to obtain any necessary regulatory approvals and permits) when needed at acceptable prices and terms and to recover those costs (including the costs of projects that are canceled) through applicable rate cases or competitive rates.
- New legislation, litigation and government regulation, including oversight of nuclear generation, energy commodity trading and new or heightened requirements for reduced emissions of sulfur, nitrogen, mercury, carbon, soot or particulate matter and other substances or additional regulation of fly ash and similar combustion products that could impact the continued operation and cost recovery of our plants and related assets.
- A reduction in the federal statutory tax rate.
- Timing and resolution of pending and future rate cases, negotiations and other regulatory decisions, including rate or other recovery of new investments in generation, distribution and transmission service and environmental compliance.
- Resolution of litigation.
- Our ability to constrain operation and maintenance costs.
- Our ability to develop and execute a strategy based on a view regarding prices of electricity, natural gas and other energy-related commodities.
- Changes in the creditworthiness of the counterparties with whom we have contractual arrangements, including participants in the energy trading market.
- Actions of rating agencies, including changes in the ratings of our debt.
- Volatility and changes in markets for electricity, natural gas, coal, nuclear fuel and other energy-related commodities.
- Changes in utility regulation, including the implementation of ESPs and the expected legal separation and transition to market for generation in Ohio and the allocation of costs within regional transmission organizations, including PJM and SPP.
- Accounting pronouncements periodically issued by accounting standard-setting bodies.
- The impact of volatility in the capital markets on the value of the investments held by our pension, other postretirement benefit plans, captive insurance entity and nuclear decommissioning trust and the impact on future funding requirements.
- Prices and demand for power that we generate and sell at wholesale.
- Changes in technology, particularly with respect to new, developing or alternative sources of generation.
- Our ability to recover through rates or prices any remaining unrecovered investment in generating units that may be retired before the end of their previously projected useful lives.
- Other risks and unforeseen events, including wars, the effects of terrorism (including increased security costs), embargoes, cyber security threats and other catastrophic events.
- Our ability to successfully manage negotiations with stakeholders and obtain regulatory approval to terminate or amend the Interconnection Agreement and break up or modify the AEP Power Pool.
- Evolving public perception of the risks associated with fuels used before, during and after the generation of electricity, including nuclear fuel.

The forward-looking statements of AEP and its registrant subsidiaries speak only as of the date of this report or as of the date they are made. AEP and its Registrant Subsidiaries expressly disclaim any obligation to update any forward-looking information.



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