COMPANY OVERVIEW 2009
American Electric Power has been providing electric service for more than 100 years and is one of the nation’s largest electric utilities, serving 5.2 million customers in 11 states.

<table>
<thead>
<tr>
<th>Category</th>
<th>2008</th>
<th>2009</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues (in billions)</td>
<td>$13.5</td>
<td>$13.5</td>
<td>$0.00</td>
</tr>
<tr>
<td>Net Income (in millions)</td>
<td>$1,357</td>
<td>$1,357</td>
<td>$0.00</td>
</tr>
<tr>
<td>Earnings Per Share</td>
<td>$2.96</td>
<td>$2.96</td>
<td>$0.00</td>
</tr>
<tr>
<td>Cash Dividends Per Share</td>
<td>$1.64</td>
<td>$1.64</td>
<td>$0.00</td>
</tr>
<tr>
<td>Service Territory</td>
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<tr>
<td>Transmission</td>
<td>197,500</td>
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</tr>
<tr>
<td>Distribution</td>
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</tr>
<tr>
<td>Generating Capacity</td>
<td>215,800</td>
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<tr>
<td>Generating Stations</td>
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<td></td>
<td></td>
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<tr>
<td>Renewable Portfolio (hydro)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pumped Storage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Renewable Portfolio (wind, solar)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Kilowatt-hour Sales (in millions)</td>
<td>195,312</td>
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<td>0</td>
</tr>
<tr>
<td>Total Assets (in billions)</td>
<td>$48.3</td>
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<td>$0.00</td>
</tr>
<tr>
<td>U.S. Customers (year-end, in thousands)</td>
<td>5,220</td>
<td>5,220</td>
<td>0</td>
</tr>
</tbody>
</table>

1 Generally Accepted Accounting Principles
2 Represents nominal capacity; includes 270 MW of mothballed/decommissioned generation, AEP’s interest in Ohio Valley Electric Corp., purchased power agreements and renewables
3 Excludes pumped storage; includes owned capacity and purchased power
4 Regulated wind and solar capacity on line or under contract


The company is based in Columbus, Ohio.

MARKET PRICE — COMMON STOCK

<table>
<thead>
<tr>
<th>Year-End</th>
<th>High</th>
<th>Low</th>
<th>Year-End</th>
<th>High</th>
<th>Low</th>
<th>Year-End</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$25.54</td>
<td></td>
<td>$25.54</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>$33.28</td>
<td></td>
<td>$33.28</td>
<td></td>
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<tr>
<td></td>
<td>$36.51</td>
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<tr>
<td></td>
<td>$34.79</td>
<td></td>
<td>$34.79</td>
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</table>

SERVICE TERRITORY

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. Because it was printed using 100 percent wind-generated electricity, 6,507 pounds of greenhouse gases were not emitted into the atmosphere. This is equivalent to 5,645 automobile miles not being driven or the planting of 442 trees.

COVER: The carbon capture unit, center left, at AEP’s Mountaineer Plant in West Virginia

© 2010 American Electric Power Co., Inc.
In 2009, AEP’s CO₂ emissions decreased 12.5 percent. The decline in SO₂ and NOₓ emissions reflects, in part, the success of our environmental programs.
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   Chairman, President & Chief Executive Officer

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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. At two of the Committee’s meetings in the past year, the Committee and company management reviewed the company’s sustainability objectives, challenges, targets and progress. That Committee supported the integration of sustainability reporting with financial reporting and gave management input and guidance for the proposed approach to this corporate accountability report. It reviewed and discussed the final text of this report before recommending its approval by the full Board of Directors.

The AEP Board of Directors has received periodic reports both from management and from the Committee on Directors and Corporate Governance about the company’s sustainability initiatives. Many of the topics in this report have been the subject of active discussion at Board and Committee meetings. All members of the Board received copies of this report before it was published, and several directors made suggestions that have been incorporated into the report. Following its review, and upon recommendation of the Committee, the Board of Directors adopted a formal resolution approving the report.

The Board believes this report is a reasonable and transparent presentation of the company’s plans and performance and of its environmental, social and financial impacts. The Board realizes that the company must be prepared to make frequent adjustments in response to the difficult economic and financial challenges that the nation and the regions we serve are experiencing. The Board is committed to the company’s continuing efforts to increase its transparency and to its sustainability. The Board has emphasized to management that it will 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.  
Presiding Director of the AEP Board of Directors
April 7, 2010
A Climate of Change:
Our Progress, Our Future

ABOUT THIS REPORT
This accountability report combines AEP’s Annual Report to Shareholders with its Corporate Sustainability Report. It is divided into three performance sections — Business, Environmental and Social. This printed report is supported by a website — www.AEPsustainability.com — that includes significant additional data and information about AEP’s performance. All performance metrics are located on the website. For more information about AEP, visit www.AEP.com.

GLOBAL REPORTING INITIATIVE
We follow the GRI guidelines for reporting our performance. A complete index of performance indicators begins on Page 48. All of the data supporting these indicators can be found on our website — www.AEPsustainability.com. We also report on electric utility industry-specific indicators.

GIVE US YOUR FEEDBACK
We want to hear from you. Tell us what you think about our integrated reporting approach. E-mail your comments to Sandy Nessing at smnnessing@AEP.com.
DEAR FRIENDS:
I am pleased to share with you American Electric Power’s first Corporate Accountability Report. This report presents our financial, governance, environmental and social performance together for the first time. It contains information we believe to be important to all of our stakeholders in one integrated report.

During the past decade, many businesses have seen how financial, environmental and social performance are connected, and AEP is no exception. Our success is increasingly related to our ability to meet environmental responsibilities; maintain financial strength; deliver safe, reliable electricity to our customers; safeguard our work force; and deepen relationships with communities and key stakeholders. This report demonstrates our efforts to be more transparent and to integrate environmental and social risks and opportunities into everything we do.

We believe that global environmental and social forces will increasingly move corporations toward considering these issues as part of their routine business decisions. That is one reason I am pleased to serve on the executive committee of the World Business Council for Sustainable Development, to learn from and work with other CEOs around the world who share this vision of the future.

Our investors and other stakeholders are urging us toward integrated reporting, seeking more information on a much wider range of issues than ever before. We have brought various stakeholders into some of our most important business discussions. This engagement has influenced our thinking and our actions and has framed our reporting. Our quest to become a more sustainable company is continuous and reflects the efforts of thousands of people within AEP. We made progress in 2009 and are optimistic about 2010 and beyond. Our financial health is good, we expect steady growth, and our shareholders have received quarterly dividends for 100 years. We continue to provide safe, reliable and affordable electricity to our 5.2 million customers. We have achieved significant new technology advancements, and we remain deeply committed to keeping people safe and healthy while successfully managing our environmental impacts.

We continue to engage and partner with stakeholders in each of our states on critical issues such as global climate change, the future of coal and energy efficiency. We have learned how we are perceived and what is expected of us, and we have created new opportunities for collaboration and business growth. We will work to strengthen these relationships, and we hope that our stakeholders will, too.

BOARD & MANAGEMENT CHANGES
James F. Cordes was elected to our Board of Directors in 2009. He was formerly the executive vice president of The Coastal Corp., president of American Natural Resources Co. and chairman and chief executive officer of ANR Pipeline Co. Sara Martinez Tucker, former undersecretary of the U.S. Department of Education, president and chief executive officer of the Hispanic Scholarship Fund and regional vice president for AT&T Global Business Communications Systems, also was elected to the Board in 2009.

The independence of our Board is integral to our corporate governance. I am pleased to say that, of our 13 directors, I am the only director from within AEP.

Brian X. Tierney was named executive vice president and chief financial officer in 2009. After 41 years of service to AEP, J. Craig Baker, senior vice president – Regulatory Services, retired. Richard E. Munczinski succeeds him. These appointments were among several management changes made last year, some of which were part of our succession planning process.

FINANCIAL PERFORMANCE
In a year of many uncertainties, AEP outperformed expectations in 2009 and ended the year in a strong financial position. Our $2.97 ongoing earnings per share were well within our guidance range. During the year, the management team demonstrated its commitment to maintaining the company’s investment-grade ratings by issuing $1.6 billion of equity. Our action was well received in the market.

We had many regulatory successes, securing $725 million of incremental rate increases in 2009 that helped earnings by providing cost recovery for environmental compliance, tree trimming, energy efficiency
As the economies in our service territories improve, we expect our retail and wholesale sales to recover as well.

OPERATIONAL PERFORMANCE
We had many successes in 2009, but we also did not meet our expectations in some important areas. The lowest points of the year were when two AEP employees and two AEP contractors lost their lives while on the job. Although we make efforts to educate the public about electrical safety, nine members of the public also died after coming into contact with our electrical facilities.

There is simply nothing more important to me, and to our company, than the safety and health of our employees, contractors and the public. We missed critical safety goals, tragically, and everyone at AEP regards this as unacceptable. One reason the Board of Directors awarded no incentive compensation to me and my senior management team was because safety is a strategic goal we failed to achieve. All other employees also lost a portion of their incentive compensation.

As part of our commitment to being financially disciplined, we have announced a cost reduction initiative that includes reducing our workforce by up to 10 percent.

We reduced our utility operation’s capital budget by $1.4 billion, from $3.8 billion in 2009 to $2.4 billion in 2009. We plan to hold it at $2 billion in 2010 and 2011. Investments in new infrastructure will increase future earnings strength and potential while allowing us to provide safe, reliable electricity to our customers. Our anticipated $2 billion in capital investments, factoring in depreciation of $1.3 billion, create potential growth in our rate base of $700 million.

Like many businesses, we faced financial challenges. Electricity demand was down significantly, especially among industrial customers in the metals, transportation, plastics, rubber and paper sectors. Off-system sales volumes – the excess power we sell in the wholesale power markets – dropped by half in 2009.

Maintaining compliance with laws and regulations is complex and ever changing. We strive for superior performance and recognize that compliance is the cornerstone of everything that we do.

Our business has significant environmental impacts, and managing them responsibly is both our legal obligation and moral responsibility. We devote significant resources to compliance, we have checks and balances in place to measure our performance, and we think our overall record is excellent. We constantly challenge ourselves to be best in class, setting the bar at zero for significant enforcement actions from regulators. Given the complexities of our business, this goal is very difficult to meet, but having it helps us to ensure continuous improvement.

We were involved in five significant enforcement actions related to landfill issues and wastewater discharges in 2009, among other matters. We have learned from these events and have changed practices or procedures to prevent recurrences. Heightened regulatory focus on coal ash presents potentially significant financial and operational challenges. We must maintain beneficial use of this material or dispose of millions of additional tons of coal ash each year. We take strong measures to ensure the safe and proper operation of our coal ash impoundments. Even so, we recently
enhanced our monitoring, inspecting and auditing performance and will continue to improve these activities. We oppose classifying coal ash as a hazardous waste, but we understand and agree with the need for greater oversight. As we move toward greater certainty around federal classification of coal ash products and how they affect our facilities, we will work with neighbors so they better understand our operations.

Our $5.4 billion environmental investment program has resulted in the lowest emissions of sulfur dioxide (SO₂) and nitrogen oxide (NOₓ) from our system in two decades. We will further reduce our SO₂ and NOₓ emissions through emissions caps we agreed to in our New Source Review consent decree. Regulators also recognize the importance of this program and have supported it in customer rates.

Our greatest success in 2009 was the commissioning of the world’s first fully integrated carbon dioxide capture and storage validation facility at our Mountaineer Plant in West Virginia. Our next project is to take this technology to commercial scale at Mountaineer and we have been awarded federal funding for 50 percent of the project costs, up to $334 million. We also will seek regulatory support and additional investment partners.

We succeeded in securing the needed permits from the U.S. Army Corps of Engineers and the U.S. Environmental Protection Agency (EPA) for the construction of the 600-megawatt (MW) John W. Turk Jr. Plant in southwest Arkansas. Although legal challenges to our permits are pending, this ultra-supercritical coal plant will be among the most efficient coal plants in the world when it becomes operational in 2012. A new 500-MW natural gas combined-cycle plant begins operation in 2010 in Shreveport.

The Mountaineer Plant in West Virginia is the site of the world’s first integrated carbon capture and storage project.

La., to serve our customers in Arkansas, Texas and Louisiana. Both of these plants are critical to meeting the growing demand for electricity in that region and reflect our strategy to use advanced technologies and resources that lessen our carbon emissions.

Our Cook Nuclear Plant Unit 1 came back on line at reduced power at the end of 2009, which is good news for customers and the environment. It is expected to return to full power by the end of 2011, after new low-pressure turbine rotors are installed. The scope of the restoration exceeded anything previously attempted in our industry.

As we consider ways to reduce our carbon emissions, we are studying potential improvements that would allow us to increase the output of the Cook Plant while operating it safely and reliably for its extended operating life. A separate project is addressing the prospects for long-term spent nuclear fuel storage, which continues to be a concern and could challenge the plant’s long-term operation.

We rounded out our transmission strategy with the creation of AEP Transmission Co. This allows us to pursue new, on-system transmission opportunities within our service area while preserving the credit quality of our operating companies. Our vision for a national interstate extra-high voltage transmission system, similar to our nation’s interstate highway system, is unchanged. We believe the modernization of our transmission system is imperative to our nation’s energy future and we are continuing to advance this vision.

Our gridSMART™ initiative received significant support last year with additional deployment of “smart” meters and other supporting technologies in four states. Two of our companies were awarded federal aid to support these deployments, which help us learn how gridSMART™ technology works, improve the efficiency of the grid and give our customers more control over their energy use. We set a goal to install 5 million smart meters by 2015, thereby further reducing customer demand and energy use. This will be very challenging
to achieve absent regulatory support but is necessary if we want to change how consumers use electricity and to reduce demand. Therefore, we will continue to press forward.

The reliability of our system improved in 2009; there were fewer nonstorm-related outages, and they were shorter in duration. Customer satisfaction also improved.

We began evaluating the environmental, safety and health performance of our non-fuel suppliers in 2008 and extended that assessment to our coal suppliers in 2009. We conducted our first survey of coal suppliers and brought many of them together with environmental groups, regulators and community leaders for an unprecedented stakeholder meeting. It was the beginning of a dialogue on coal issues that we intend to continue.

GLOBAL WARMING
In the public policy arena, the debate about global warming continues to dominate because of the significant financial and operational implications it will have on our business and our customers. Global warming is a controversial issue, and the public policymakers and influencers in Washington, D.C., and in the 11 states we serve have conflicting views. Regardless of the debate about the science and solutions, our position on this issue has not changed. We are taking actions that make sense for AEP and our customers, such as improving energy efficiency, investing in cost-effective and less carbon-intensive technologies and evaluating our options across a range of possible outcomes.

We believe that global warming requires global action that does not disproportionately compromise American jobs or our economy, which will be the case if our trading partners do not follow and participate in a solution. We are encouraged by China’s and India’s participation in the discussions; it is a step in the right direction.

The U.S. EPA is moving ahead with rules to regulate greenhouse gas emissions, which would affect our power plants. We prefer a legislative solution with an economy-wide cap-and-trade approach, and we supported the Waxman-Markey bill approved last summer by the U.S. House of Representatives. The bill includes several provisions that would help our customers and our company transition to a lower-carbon environment, including the allocation of carbon allowances, use of carbon offsets and incentives for moving carbon capture and storage technology forward. Under EPA regulations, we would lose these benefits for our customers and shareholders. We do not support a sector-by-sector carbon bill because it would unfairly affect customers of coal-based electric utilities.

We are making progress toward achieving our goals in energy efficiency and boosting the use of renewable energy on our system. We have identified the potential for more than 900 MW of energy efficiency and demand-reduction opportunities to help meet our 2012 goal and have contracted to add 1,013 MW of renewable energy to meet a 2011 goal. These important milestones are an integral part of our carbon reduction strategy.

We are considering several options that protect the reliability of the electric system while reducing our carbon emissions. The outcome of the global climate change debate is only one factor that will drive change in how we operate our business. Other considerations include potential new or more stringent regulations on coal plants; the shift toward greater use of natural gas, including shale gas; and the age and efficiency of some of our coal-fired units. But if we are forced to move too quickly in any direction without having sufficient new resources in place, the reliability of our electricity system would be jeopardized and the economy would be imperiled.

OUR VISION FOR THE FUTURE
We believe that reliable, safe and reasonably priced energy is a key to the global economic recovery. Through our state legislatures and public utility commissions and with the collaboration of our partners and many stakeholders, AEP is helping to change the way that electricity is generated, distributed and consumed. We are at the beginning of a new era; we know that bold changes are around the corner, and we embrace them. The men and women of AEP are moving forward. We invite you to join us.

Sincerely,

MICHAEL G. MORRIS
Chairman, President & Chief Executive Officer
April 2010
Leadership, Management & Strategy

We are a publicly traded electric utility that must protect and enhance the investments of our shareholders. We do this through our mission of bringing comfort to customers, supporting business and commerce, and building strong communities. Our duty is to provide reliable, safe and affordable electricity for the benefit of the public. This dual purpose is reflected in our corporate directives, management systems and operations.

Our strategy is directed toward aligning our business, environmental and social performance. We manage this strategy by setting explicit goals and objectives in all three areas and by holding ourselves accountable for meeting them. We also have linked our environmental, social and governance disclosure to our financial reporting.

Affordable, reliable energy has been the backbone of the U.S. economy for decades. It will be critical to our country’s economic recovery and growth. At the same time, we realize that fossil fuel emissions are a growing concern and we are weighing all of our options as we prepare for the future.

Our strategy for sustainability is grounded in a commitment to meet our customers’ needs as efficiently and cost-effectively as possible without putting our shareholders at undue risk. Although the future is uncertain and there are many challenges, it is clear that the electric utility industry is at the start of a major transformation. This is a consideration in our resource planning process, from the supply side to the customer.

Global climate change is one element driving this change. We may operate fewer coal units in the future, driven by a combination of factors. These include the relative age and efficiency of certain units, carbon reduction mandates, new and more stringent environmental regulations, the cost of compliance, and the potential for increased use of natural gas.

We are exploring many different technology options, such as carbon capture and storage and distributed generation. We are also weighing the possibility of retrofitting older, inefficient coal units to natural gas, preparing to operate a grid that supports energy storage and the electrification of the transportation sector, ramping up energy efficiency, modernizing the grid to enable greater use of renewable energy, and giving customers control over their electricity use.

We expect the focus will sharpen in the next couple of years. Our challenge will be to determine how much and where to invest capital and which technologies to deploy. At the same time, we have to balance the level of investment our customers are able to afford with the ability of our shareholders to earn a fair return on their investment.

The actions we are taking today will position us to meet these challenges while continuing to provide affordable electricity to our customers. These include actions, subject to regulatory approval, to reduce CO₂ emissions; invest in new technologies such as gridSMART℠, community energy storage, advanced coal, and carbon capture and storage; expand our use of biomass, wind and solar power; increase the use of natural gas and nuclear power; and advocate public policies that support modernizing our transmission system.

We are also taking steps to ensure that we have a skilled, diverse work force and can attract and retain the best talent to build, operate and maintain today’s technologies as well as the technologies of the future.

We have ongoing dialogue with many stakeholders who have an interest in or are affected by our business. These include shareholders, customers, labor, legislators, regulators, policymakers, employees, prospective employees, retirees, communities and nongovernment organizations. We will continue working with all of our stakeholders to find common ground on these critical issues.
RISK MANAGEMENT

Effective risk management enables us to respond confidently in a rapidly changing environment. From safety risks on the job to financial or operational risks that can affect the company’s competitiveness, finances or reputation, risk management is an ongoing process at all levels of AEP.

The Risk and Strategic Initiatives group reviews information about our enterprise-wide risks and helps the company understand the internal and external relationships that influence them. The group produces a material risk report based on many information sources, including input from the Risk Executive Committee (REC). The REC considers existing and emerging risks and ensures that controls are in place and mitigation is taken where necessary.

While it is management’s responsibility to identify and manage risks, the Board of Directors oversees and reviews the company’s risk management process to help ensure that it is effective and responsive to changing circumstances. Some risks, such as changing public policy and potential systemic and catastrophic risk, are considered primarily at the Board level whereas others are delegated for consideration, oversight and recommendation to Board committees.

Under New York Stock Exchange standards and the Sarbanes-Oxley Act of 2002, the Audit Committee must discuss our policies for risk assessment and risk management, as well as risks that pertain specifically to the company’s operations and controls and disclosures.

We review all risks and devote significant time and effort to managing risks that relate to our material issues. For example, if we fail to comply with North American Electric Reliability Corp. rules, we could potentially expose the bulk power supply system to reliability problems and the company to significant fines. Many business units are affected by these rules. Therefore, actions to ensure compliance are routinely monitored. The potential impact of environmental policies on our coal-fired generating plants is a material risk, and we weigh potential operational challenges such as a reliance on new technologies against potential cost increases to customers and available resources. For each risk, we consider a range of possible actions in order to assess and react to them effectively.

GOVERNANCE

AEP’s commitment to being a profitable, sustainable enterprise is led by our chairman and executive management team with oversight from the Board of Directors and is embedded throughout the organization through goals, incentive plans, measurement and reporting.

The Board’s Committee on Directors and Corporate Governance has direct oversight of this report and reviews the company’s sustainability objectives, strategies, targets and progress. The committee provides input and guidance to management and holds it accountable for performance. The full Board adopts and issues a statement to that effect, which we publish.

Management formally reports to the Committee on Directors and Corporate Governance twice a year on our progress toward achieving the commitments in this report, but management, the full Board and each committee of the Board regularly discuss the issues that are most material and pose the greatest risk. Many of these issues are directly connected to our sustainability commitments.

The Board has emphasized that it will evaluate management by its success in executing the company’s strategic plan to meet stakeholders’ and the Board’s expectations, including its agility in adapting to the current economic environment while respecting the commitments we make.

We are guided by values and by a set of Principles of Business Conduct that require us to operate with integrity, fairness, respect and care for others and with the highest regard for safety and the environment. All employees are bound by these principles, which also help to ensure legal compliance. A confidential 24/7 hotline allows employees to report concerns anonymously and seek guidance on ethics and compliance issues. Our goal is to maintain a supportive working environment in which employees know that their concerns are being addressed in a respectful and confidential manner.

Scope of This Report

This is our first integrated report, combining information about our financial performance with data on our environmental, social and governance performance. Information contained herein is largely based on calendar year 2009, with exceptions for some early 2010 data as noted. Supporting information can be found on our sustainability website at www.AEPsustainability.com or on our corporate website at www.AEP.com.

In 2009, per our commitment to stakeholders, we began reporting our progress twice a year. A full update is provided every spring. An update of key commitments is published to the Web in the fall at www.AEPsustainability.com.
We define issues material to our sustainability as those that: 1) have or may have a significant impact on the company’s finances or operations; 2) have or may have a 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. For the first time, internal auditors audited the printed report for reliability and consistency.

**Financial Performance:** Our ability to manage business risks and to maintain a strong financial foundation allows us to deliver returns to our shareholders; provide safe, reliable electricity to our customers; and deliver broader economic, environmental and social benefits to society.

**Energy Security, Reliability & Growth:** Our electric generation and delivery systems must be modern, reliable, and able to handle a diverse fuel supply as well as diverse technologies. They also must keep pace with customer demand. Collaboration with others is essential to create and maintain these systems and to ensure adequate and timely cost recovery.

**Public Policy:** We must actively engage legislators, regulators, policymakers and other stakeholders to ensure that public policy, laws and regulations enable us to continue to serve our customers, compensate our shareholders and pursue our vision for sustainability.

**Environmental Performance:** Although environmental laws and regulations are complex and changing, we are committed to compliance at all times. Our challenge is to achieve compliance, to go beyond compliance when we can, to reduce our impact on the environment and to improve the economic well-being of our communities.

**Global Climate Change:** AEP has a major role to play in addressing global climate change, including bringing advanced coal and other technologies to commercial scale, securing access to large-scale renewables through transmission development and increasing energy efficiency through our gridSMART℠ initiative. Our company’s and our customers’ economic well-being requires us to work cooperatively with regulators and policymakers, our stakeholders and our communities to reach a reasonable global solution that will protect the environment and foster economic growth.

**Work Force:** Protecting the safety and health of our employees and contractors and reducing the severity of work-related injuries and illnesses is a core value. We seek a skilled, diverse and highly motivated work force to support all aspects of our business.

**Stakeholder Engagement:** All of the material issues and risks we face and our well-being as a company increasingly depend on working closely with our stakeholders, disclosing our intentions, reporting on our performance and engaging in active and forthright dialogue.

**CONTACT INFORMATION**
For information about this report, the GRI information on our website or AEP’s sustainability initiatives, please contact Sandy Nessing at smnessing@AEP.com or Jerra Thomas at jmthomas2@AEP.com.
AEP Board of Directors

Left to right: Ralph D. Crosby, Jr., Lionel L. Nowell III, James F. Cordes, Linda A. Goodspeed, Dr. Donald M. Carlton, John F. Turner, Thomas E. Hoaglin, Sara Martinez Tucker, Dr. Lester A. Hudson, Jr., Dr. Kathryn D. Sullivan, E.R. Brooks, Dr. Richard L. Sandor, and Michael G. Morris.
AEP generates, transmits and distributes electricity to businesses and homeowners through an interconnected system that operates in several regions of the country. We also sell power to the wholesale electricity market, including other utilities, municipalities and cooperatives. The rates we charge customers are set by state and federal regulators and are primarily based on the cost of operating the system to provide this service. The rate-setting process gives us the opportunity to earn a reasonable return for our shareholders on prudently incurred investments and to recover our expenses.

One of our central business challenges is to meet our obligation to serve while obtaining recovery of our operating and capital costs — for fuel, environmental compliance, energy efficiency programs, labor, construction and other costs — as soon as possible and to earn returns that are acceptable to our shareholders. In recent years, we have succeeded in recovering costs in a more timely manner through approximately 100 rate adjustment mechanisms approved by regulators across our 11 states. These mechanisms increase our revenues to cover our costs and improve our cash flow.

In order to keep up with customer demand, comply with government environmental mandates, and improve the efficiency and reliability of our system, we invest in new or replacement equipment and technology. Our capital investments constitute a large part of our business and financial condition. Our financial success is based on our ability to obtain capital on favorable terms, which in turn depends on access to the capital markets, the strength of our credit ratings, and prudent management of our balance sheet.

Much of our capital investment is related to environmental protection. We are nearing completion of a $5.4 billion environmental program to retrofit nearly three-quarters of our coal-fired power plants with controls to reduce nitrogen oxide (NOx) and sulfur dioxide (SO2) emissions to comply with the Clean Air Act Title IV regulations, the NOx State Implementation Plan, and the Clean Air Interstate Rule. As a result, our SO2 and NOx emissions are at their lowest levels in two decades. We are also developing advanced coal technologies, including carbon capture and storage, to meet anticipated carbon emissions mandates, and are investing in “smart grid” technologies to improve the efficiency and operational abilities of our system and to give customers more control over their energy use.

In general, we consider our overall financial performance to be successful if we can provide a reasonable rate of return to our shareholders, receive timely and appropriate cost recovery from regulators, and keep electricity affordable for our customers.

2009 OVERVIEW
AEP had good financial results in 2009, despite the effects of the recession and abnormal weather. During the year, we initiated steps to reduce debt, maintain strong credit ratings, ensure access to capital markets, control costs and improve our cash flows.

Our GAAP (Generally Accepted Accounting Principles) earnings per share totaled $2.96. Our debt ratio improved from 62.5 percent of total capitalization at the end of 2008 to 57.2 percent at year-end 2009. This debt-to-capital ratio improvement was due to a $1.6 billion equity offering, debt reduction, and enhanced discipline in our capital expenditure program.

Shareholders earned a 10.4 percent total return (including reinvested dividends) on their overall investment in 2009. AEP and the electric utility sector did not perform as well as the broader market last year, but our
company and the overall market showed dramatic improvement from the unfavorable returns of 2008.

AEP’s contribution to local economies is important, especially during difficult economic times. In most communities where we operate power plants, for example, we are the largest or among the largest employers, and these communities benefit from the substantial tax revenue we provide. At the end of 2009, we employed 21,673 across our system, and we paid $901 million in federal, state and local taxes.

THE IMPACT OF THE RECESSION
Our revenues come from three primary components: 1) customer electricity usage, 2) retail customer electric rates, and 3) wholesale off-system sales.

The recession hit many of our customers hard in 2009, particularly our industrial customers, and resulted in lower sales for the year. Despite our customer counts remaining stable, we experienced a moderate decline in residential and commercial sales from 2008 but much sharper decreases in industrial sales, which were off 16 percent. Half of that decline was the result of cutbacks or shutdowns for 10 of our largest metal-producing customers. In addition, our sales of electricity in the wholesale market dropped by approximately half in 2009.

The recession adversely affected our fuel inventory costs and related carrying costs. When our power plants run less than we plan during the year, we often end up with an imbalance between the fuel we bought and what we need. Our primary fuel is coal, and our coal consumption declined 14 percent from 2008. This caused coal inventories to increase beyond what was needed at our power plants, particularly at our coal plants in the eastern part of our service territory, where demand was down the most. We worked with our coal suppliers to better match deliveries with consumption in the future.

Weather was also a factor. Cooler than normal summer weather affected sales as customers needed less electricity for air conditioning. Damage to our system from storms, although generally recoverable in rates, also was significant.

The effect of the recession varied from one region to another, which in turn affected our operating companies differently. In our AEP East states, where we serve approximately 3.3 million customers, economic output declined 5 percent, sending the unemployment rate into double digits. Residential and commercial kilowatt-hour (kWh) sales declined from 2008, even after adjusting for weather. Revenues were up because of rate increases associated with fuel and capital investments. None of the eight largest industrial sectors we serve in this region increased their electricity use in 2009. Our AEP East footprint consists of portions of Indiana, Kentucky, Michigan, Ohio, Tennessee, Virginia and West Virginia.

In our AEP West footprint, where we serve 1.9 million customers, the impacts varied. AEP Texas, a wires-only business, had lower residential and commercial kWh

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JOE HAMROCK
President & chief operating officer, AEP Ohio

“After more than 100 years of serving our customers and returning dividends to our shareholders, we continue to adapt to the changing needs of all stakeholders. Today, more than ever, innovation is at the core of AEP’s ability to meet the rapidly changing needs of modern society. Through game-changing initiatives such as the Mountaineer carbon capture and storage project and our gridSMART™ programs, the men and women of AEP are finding new ways to meet customer needs with ever cleaner and more reliable methods of producing and delivering electricity.”
Lower demand in the retail and wholesale markets also resulted in excessive coal inventories and a 50 percent reduction in off-system sales volumes — the electricity we sell in the wholesale power market.

AEP RIVER OPERATIONS
Our River Operations business transports coal and dry bulk commodities primarily on the Ohio, Illinois and lower Mississippi rivers. It is the second-largest full service, dry-bulk carrier in the nation. AEP River Operations’ commercial income decreased from $55 million in 2008 to $47 million in 2009 primarily due to lower rates and volumes resulting from a weak import market.

In 2009, our fleet of 2,984 barges,
2010 PROJECTED CAPITAL INVESTMENT (in millions)

<table>
<thead>
<tr>
<th>Category</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>$2,096</td>
<td>$3,116</td>
<td>$3,171</td>
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<tr>
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</table>

2010 OUTLOOK

As the economies in our service territories improve, we expect our retail and wholesale sales to recover as well.

One of our main objectives in 2010 is to obtain rate increases that are fair to both our shareholders and our customers. We are seeking rate relief of approximately $320 million across our system this year; by the end of 2009, we had already received approval for half of that amount.

We anticipate our Board of Directors will declare our 400th consecutive quarterly dividend in April 2010, marking 100 years of paying dividends to our shareholders.

We are committed to maintaining our credit quality and managing our liquidity conservatively. In 2010, we intend to access the debt capital markets for approximately $1.2 billion and renew our $1.5 billion core credit facility that is due in March 2011.

We are disciplined about our capital and operations and maintenance spending. We are moving forward in a financially responsible way, recognizing there are many demands and limited resources. As part of our commitment, we have initiated a cost reduction program that includes reducing our work force by up to 10 percent.

We anticipate spending $2.2 billion in capital in 2010, including approximately $1.4 billion on our base operations. The capital program is highlighted by the following initiatives:

- **New Generation ($253 million):**
  Completion of the Stall Plant in Louisiana and continued construction of the Turk Plant in Arkansas;

- **Environmental ($320 million):**
  This includes scrubber projects at our Amos Plant in West Virginia and Conesville Plant in Ohio, and associated projects such as landfills, among other projects;

- **Transmission ($360 million):**
  $240 million will be invested in our operating companies and approximately $120 million through our new transmission company, AEP Transmission, which will operate within our existing retail service areas;

- **gridSMARTSM ($95 million):**
  Investments will be primarily related to projects in Ohio, Texas and Oklahoma.

GENERATION & MARKETING

Our Generation and Marketing business includes nonutility generating assets and a competitive power supply and energy trading and marketing business. Income decreased from $65 million in 2008 to $41 million in 2009 mainly due to lower gross margins at the Oklaunion Power Station in Texas. This reflects lower power prices in the Electric Reliability Council of Texas region and decreased generation from our wind farms.

ALL OTHER BUSINESS OPERATIONS

Income from all other business operations (before discontinued operations and extraordinary loss) decreased from $133 million in 2008 to a loss of $47 million in 2009. Part of this disparity was due to the receipt in 2008 of $164 million in after-tax income from a litigation settlement of a purchase power and sale agreement.

66 towboats and 22 harbor boats delivered more than 70 million tons of cargo, of which 32.8 million tons were commercial and 37.5 million tons were coal and consumables for our power plants. This compared with more than 33.9 million tons of commercial freight and 35.3 million tons for the power plants in 2008.

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Having the real-time reporting means I can actively monitor which items in my house are the worst energy consumers and do something about them, right there.

Paul Ross, gridSMART™ pilot participant, South Bend, Ind.
rates for customers as we scramble to secure power in a tight market. Overestimating demand could burden customers with paying for unneeded and underused infrastructure.

Planning for long-term generation is complicated by the potential for legislative and regulatory actions on climate change (see Climate Change). We are uncertain about these possibilities and related future costs. Current environmental regulations are also in a state of flux and could change the way we produce or transmit electricity. It is therefore difficult to determine with certainty whether we can meet future demand with our own generation or will need a combination of our own generation and electricity we purchase.

We are developing tools that will help inform this planning process. One component of our gridSMARTSM initiative will allow us to evaluate our infrastructure needs from the power plant to the customer meter. This technology, known as a virtual power plant, helps us to better understand what we will need if we are to deploy a robust smart grid system. It also will allow us to modernize the grid cost-effectively by showing us what we need or don't need.

We already have some generation projects under way that anticipate a lower-carbon future, including the 600-megawatt (MW) John W. Turk Jr. ultra-supercritical coal plant under construction in southwest Arkansas, which is scheduled to be in service by late 2012. The plant was
designed to allow for the future installation of carbon capture and storage technology. Read more about this plant in Climate Change. Work also continues on the J. Lamar Stall Plant, a 500-MW natural gas combined-cycle facility in Shreveport, La., that will begin operation in 2010. Our use of natural gas has steadily increased as our gas generation has grown; we consume approximately 100 billion cubic feet per year. Between 2005 and the end of 2010, we will have added 4,600 MW of natural gas to our system, further diversifying our fuel mix.

The Federal Energy Regulatory Commission (FERC) granted a 30-year extension of the license for the Smith Mountain 586-MW pumped storage hydroelectric plant on the Roanoke River in Virginia in December 2009. We worked closely with area groups, communities and regulators to address concerns about water level, shore erosion, sediment and endangered species. Hydroelectric power is an important part of our resource base; we operate 16 hydroelectric plants plus Smith Mountain’s pumped storage facility on six rivers in five states, generating approximately 1,549 gigawatt hours (GWh) each year. Approximately 940 GWh of that is free of carbon emissions.

Energy security is increasingly important as we become a more energy-dependent nation and seek to guard ourselves against the threat of intentional harm. Like all other utilities, AEP is subject to new grid reliability and security compliance standards enacted by the North American Electric Reliability Corp. (NERC), which has been designated by the FERC to ensure grid security. About two-thirds of our power lines and nearly half of our substations are subject to NERC regulations. Although the bulk of NERC standards apply to our Transmission operations, our Generation, Shared Services and Commercial Operations business units are also subject to NERC oversight.

NERC has identified three areas of high risk to the grid: managing the growth of trees or shrubs that could cause outages; system protection and controls, such as maintaining relays, batteries and related equipment critical to the grid; and Critical Infrastructure Protection (CIP). CIP entails ensuring that critical installations such as control centers and substations are secure from tampering or unintentional damage. New CIP standards went into effect Jan. 1, 2010, that significantly increase the number of AEP facilities subject to stricter compliance from a handful to approximately 100. For example, these new standards require more controlled access to critical facilities and stricter controls on the ability to manage certain transmission assets remotely. The intent is to prevent either intentional or unintentional actions that could compromise the nation’s bulk power system.

We self-reported grid security-related compliance violations that occurred in 2009 to NERC and expect to pay fines of less than $100,000. Our chairman has since emphasized to all employees the importance of maintaining the security of the bulk power system. If we fail, we could jeopardize system reliability, create financial risk, affect other regions of the country and harm our reputation.

As we add advanced communications capabilities to our system, grid security becomes a more significant and challenging issue. Using U.S. Department of Energy (DOE) grant money from the Ohio gridSMARTSM project, we plan to develop a Cyber Security Operations Center, the first of its kind in the industry. It will correlate multisource public and private

**HELEN MURRAY**
President & chief operating officer, Indiana Michigan Power Co.

“Today’s customers have higher expectations for the reliability and security of energy delivery systems, and that means we must find creative solutions. The gridSMARTSM project implemented in South Bend, Ind., is an excellent example of how innovative ideas will help us meet customer expectations now and in the future.”
data and provide threat and risk mitigation information. The data will allow us to identify system vulnerabilities and help prevent network exploitation.

We conduct spot checks of our NERC-related compliance, meet with managers regularly and provide training to all employees to help ensure compliance with NERC rules.

Our recent efforts to enhance grid security include co-founding the Transmission Forum, which will develop transmission security and operations standards, identify best practices and provide support to members in a manner similar to what the Institute of Nuclear Power Operations does for the nuclear energy industry.

ENERGY GROWTH

AEP remains committed to developing an extra-high voltage (EHV) transmission “superhighway” that would facilitate the movement of power among regions of the country. This system would reduce congestion and costs and enable the transmission of renewable power such as wind and solar from where it is generated to where it is needed. We believe that widespread use of renewable energy depends on the ability of the transmission system to transport it.

One way we are tackling this is through a collaborative effort to develop a master plan for transmission that supports the development of renewable energy in the Midwest and enables its delivery to consumers. Electric Transmission America (ETA), a joint venture between AEP and MidAmerican Energy Holdings Co., along with five other utilities and transmission operators have begun a comprehensive study of the transmission system in the upper Midwest. Called the Strategic Midwest Area Transmission Study, it will identify the transmission needed to harvest the vast clean energy resources in areas such as Minnesota, the Dakotas and Iowa.

Phase 1 of the study focuses on determining the most reliable alternatives based on predetermined metrics. It will be completed this spring. Phase 2 will measure the economic and societal benefits and is due to be completed this summer.

The sponsors of the study believe that an EHV transmission network in the upper Midwest will provide significant economic, environmental and reliability benefits by ensuring access to new generation sources and strengthening the transmission system in the heart of the nation. This study is part of a process we started in 2008 to develop an EHV transmission system in that region.

We formed a wholly owned transmission company to facilitate capital investment within our service areas. The AEP Transmission Co. (AEP Transco) will construct, own and operate only new transmission assets. By setting up a separate company with its own capital structure, we will relieve some of the financing burden on our operating companies because the transmission company ultimately will be able to finance transmission projects on its own.

The transmission company already has filed a proposed rate structure with the FERC.

AEP’s Transco is just one part of our transmission strategy. We have entered into several joint ventures with other utilities, including two joint ventures with MidAmerican Energy, ETA and Electric Transmission Texas (ETT), to build transmission.

Although the Potomac-Appalachian Transmission Highline project, a joint venture with Allegheny Energy, had filed permits with Maryland, West Virginia and Virginia for permission to build the line, we withdrew the Virginia request in January 2010 based on new information from the regional transmission operator, PJM Interconnection. The grid operator said that preliminary studies showed the line would not be needed in 2014, as originally planned, because of reduced demand brought on by the recession and energy efficiency projects. We plan to resubmit the request when the results of PJM’s formal planning process warrant the line.

ENERGY RELIABILITY

Our electric generation and delivery systems must be modern, reliable and able to handle diverse fuels and technologies. They also must be able to keep up with customer demand.

Overall reliability, as recorded by the average number and duration of sustained outages on our distribution system, improved systemwide in 2009.

Rather than focusing on single-year numbers, we have begun using a three-year rolling average, which even out weather-related outages. We believe this is a more meaningful measure that better reflects changes in the overall status of the system. The three-year SAIFI average was 1.470 in
2009, compared with 1.526 in 2008. The SAIDI average was 198.1 in 2009 versus 201.0 the previous year.

Distribution — the infrastructure and the processes that deliver electricity from high-voltage transmission lines to customers’ homes and businesses — continues to improve as we develop better tools and processes to manage our system. Several challenges remain, however.

AEP is more than 100 years old, and many of our assets are at or near the end of their useful and depreciable life. For example, we have more than 5 million distribution poles in service, some of which are more than 40 years old, increasing the likelihood of failure when stressed by wind, snow or ice. To prevent this, we have a pole inspection program to continually evaluate the status of all distribution poles. In addition, 21 percent of our distribution station power transformers and 22 percent of our distribution line transformers are beyond their expected operational life. New, higher efficiency equipment is available that we will use to begin replacing these aging assets while also achieving demand and energy efficiency goals.

Our generation and transmission businesses face similar challenges as equipment ages.

We conduct regular operational risk audits in our Generation business unit to assure equipment reliability, as well as inspecting, testing and monitoring equipment. However, at no time are we compromising safety and health. We also formed an aging asset task force to develop a long-term plan to address the issue in each state in our service territory.

New tools and processes enhance our ability to manage the system. For example, we began using a Line Equipment Analysis Device (LEAD), an electronic “sniffer” developed in our own labs, that detects interference caused by cracked insulation or other difficult-to-detect failures. Combined with GPS technology, this allows crews to check the status of equipment more easily and accurately by driving along our lines. The LEAD can find electrical “leaks” that the human eye cannot, providing us with advance warning about potential imminent failure.

Preventive vegetation management is critical to reliability and is one of the most proactive measures we take to reduce interruptions. Public Service Company of Oklahoma and AEP Ohio adopted four-year trim cycles, and similar requests have been submitted for Kentucky Power, the Texas portion of SWEPCO and in Michigan. In the long run, scheduled tree trimming is more cost effective and provides greater reliability than simply responding to overgrown vegetation. Cutting vegetation once it is entangled in lines requires more time while increasing the risk of injury and customer outages.

Following an employee-led study of outages, we also adopted new maintenance procedures within breaker zones that should lead to increased reliability. The study team determined that breaker zones — the initial 2-to-6-mile segment of a main line coming from a substation before it branches off — account for 35 percent of the sustained interruptions per customer because outages in those areas affect a large number of customers beyond the interruption. By better maintaining breaker zones, we have been able to improve reliability significantly for more customers.

Early in 2010, ETT, a joint venture between AEP and MidAmerican Energy Holdings Co., completed installation of a storage technology that will enhance grid reliability in Presidio, Texas, a small town on the Mexican border. The 4.8-MW sodium sulfur, or NaS, battery is part of a $67 million transmission project to improve grid performance in a remote portion of the state. This is the largest use of battery storage in the nation.

By the end of 2010, we will have installed a total of 11 MW of NaS battery storage in Indiana, Ohio, Texas and West Virginia. NaS battery technology provides up to eight hours of backup power in the event of a transmission failure and also improves power quality. However, NaS technology has become more expensive compared with other storage technologies and we do not plan further installations at this time. The Presidio battery and substation cost approximately $23 million.

Future storage projects will center on community energy storage, which
uses lithium-ion battery technology. That technology is expected to become less expensive as the batteries become widely used in Plug-in Hybrid Electric Vehicles (PHEV). Read more about this in Climate Change.

GRIDSMART™
AEP launched an initiative called gridSMART™ in 2007. It is designed to give customers greater control over their energy usage and ultimately their bills; improve the efficiency of the electric grid; reduce overall demand, energy consumption and emissions; and improve customer service and internal efficiencies. The technology is still in the pilot stage, but we expect to achieve all of our goals once it is fully deployed.

The initial gridSMART™ pilot began in 2009 in South Bend, Ind., and confirmed much of what we expected. Among the major insights we learned:

• The technology that allows AEP to manage its grid from our back office systems, such as billing, to the meter and distribution field equipment works. But the technology that goes beyond the meter into the customer’s home is still evolving.
• Customers who participated in the time-of-day rate plan did shift their demand to different times, as expected.
• Cost savings from better system management, fewer crew trips, reduced fuel consumption, better theft detection and streamlined billing are being achieved.
• During the cooling season, customers who volunteered allowed us to raise the temperature in their homes using a programmable, communicating thermostat, demonstrating that we can control customer usage directly between the meter and the home through wireless technology.
• Greater education of consumers will be needed in future projects.

The year-long South Bend pilot involved approximately 10,000 meters and was to end after the 2009 cooling season, but it has been extended to include the 2010 cooling season because of some early technical problems.

A larger and more comprehensive gridSMART™ demonstration project involves 110,000 customers in central Ohio. Paid for in part with a $75 million grant from the DOE, the $150 million project will include smart meters, distribution automation equipment to better manage the grid, community energy storage devices, smart appliances and home energy management systems, a new cyber security center, PHEVs, and installation of utility-activated control technologies that will reduce demand and energy consumption without requiring customers to take action.

This technology is known as integrated voltage/VaR control, a form of voltage control that allows the grid to operate more efficiently. By controlling voltage more accurately, we estimate that we can reduce demand by approximately 2 percent to 3 percent, and energy that is needed to serve existing customer loads by 3 percent to 4 percent. This allows us to achieve both demand and energy reduction goals.

Meter installation began in December 2009, and installation of utility-activated voltage/VaR control technologies and distribution automation equipment will begin this year.

Working with major appliance manufacturers, we are also testing smart appliances — devices that react to signals from the grid about price and demand — in our Dolan Laboratory in Groveport, Ohio. In the Ohio pilot, we will deploy smart appliances in select homes to determine how they work. Based on the parameters that the homeowner sets, the dishwasher may not run until 7 p.m., after the demand for power has decreased, or the refrigerator may postpone a defrost cycle until the evening, when demand — and prices — are lower. Smart appliances have the potential to help residential customers save energy and money and for utilities to save fuel and reduce emissions.

PHEVs, which many expect to be widely used in the future, will also be part of the Ohio pilot. Read about gridSMART™ initiatives in Oklahoma and Texas at www.AEPsustainability.com.

Our gridSMART™ initiatives support our goal to install 5 million smart meters in our service areas by 2015. This goal will be impossible to achieve without regulatory support in all states. However, we believe this initiative is critical to modernizing the electricity delivery system, reducing demand and changing how customers use electricity. Therefore, we will continue to deploy these technologies where regulators are supportive.
We are the most imaginative people in the industry and the cost of energy is one of, if not the most important, cost in doing business these days. We must stay competitive in this world or we cannot survive. We need a fair playing field with all other businesses in order to compete.

Ed Kersey, manager, Pratt Paper plant, Shreveport, La.
Our business is regulated at the federal, state and local levels and is therefore heavily influenced by public policy. We need regulatory approval for the rates we charge, the investments we make, the projects we undertake, the programs and services we can offer to customers, and the actions we must take to protect the environment. For these reasons, we are actively engaged in Washington, D.C., in the 11 state capitals covering our service territory and in the communities where our facilities are located. We strive to work closely with regulators, legislators, environmental agencies, and environmental and consumer groups. Our involvement includes lobbying activities as well as relationship building at all levels.

On the national level, global climate change and energy policy are our top public policy issues because of their potentially far-reaching effects. We are also active in our states on a wide range of issues: building support for investments in our system, potential nuclear power expansion, renewable energy, transmission siting, eminent domain, smart grid deployment, energy efficiency, and legislation that would enable new technologies such as carbon capture and storage.

The recession played a key role in policy development during 2009, and the expectation that customer rates will be higher continued to be a concern in our states. The cost of electricity is increasing due to the need to modernize our infrastructure, the age of much of our transmission and distribution equipment, the need for new plants to meet growing customer demand, higher fuel costs and environmental compliance.

We work with utility commissions and state legislatures on policies and regulatory actions that allow us to be as cost-effective and efficient as possible while recovering our costs in a timely and fair manner. State regulators approved $725 million in rate increases in 2009 to address this. These rate increases, while necessary, can cause difficulty for our customers, and we work hard to find ways to reduce the burden.

### ALTERNATIVE REGULATION

The electric utility industry requires large amounts of investment to maintain and improve service. AEP is no exception. The Brattle Group, a leading energy think tank, estimates that the industry will spend $1.5 trillion for capital improvements from 2010 to 2030, not including the cost to address carbon emissions.

Our challenge is that we have limited resources to meet our financial obligations and our duty to serve our customers. As equipment on our system ages, it will have to be replaced. Environmental mandates also require significant investment, and that could lead to some coal plant retirements. In addition, power reserves — the additional capacity needed to cover an abnormally high peak load or provide power to a neighboring region — are shrinking across the country. The North American Electric Reliability Corp. projects that, by 2018, all regions of the country will have fallen below these requirements, and investment is needed to address that capacity shortage.

U.S. electricity demand is growing at a slower pace due to the recession and improvements in appliance and building efficiencies. At the same time, the proliferation of new electricity-consuming devices in home, commercial and industrial applications continues to grow. We expect our customers’ energy consumption to grow modestly in 2010 as the economy recovers from the recession.

<table>
<thead>
<tr>
<th>Million megawatt-hours energy consumption saved by 2012</th>
<th>Approximate number of rate trackers in place in our 11 states</th>
<th>Corporate political contributions 2009</th>
<th>Lobbying portion of trade association dues paid in 2009 (in millions)</th>
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<tbody>
<tr>
<td>2.25</td>
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For Ed Kersey at Pratt Paper, the cost of energy is one of his most important business considerations.

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Internal Demand</th>
<th>Change from Previous Year</th>
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<tr>
<td>2004</td>
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<tr>
<td>2005</td>
<td>746,470</td>
<td>7.73%</td>
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<tr>
<td>2006</td>
<td>776,479</td>
<td>4.02%</td>
</tr>
<tr>
<td>2007</td>
<td>766,786</td>
<td>−1.25%</td>
</tr>
<tr>
<td>2008</td>
<td>744,151</td>
<td>−2.95%</td>
</tr>
</tbody>
</table>

Source: Energy Information Administration, Electric Power Annual 2008, January 2010
reovers. Energy efficiency programs will help offset some of that growth.

Increased investment inevitably leads to increased rates. Alternative ratemaking (as opposed to the traditional model) is one way we are addressing rising costs. The traditional utility model required us to build and operate the infrastructure and then wait for a state utility commission to determine if we could recover costs. This process created financial hardship for three reasons: a) capital costs became exponentially more expensive than they used to be, making up-front costs prohibitive; b) the time between construction and cost recovery is too long for us to carry those costs; and, c) the possibility that the commission may not approve recovery of any or all of our investment and financial costs was too high a risk for us to bear. These factors made the overall cost of capital too high for us, our shareholders and our customers. We cannot keep up with needed improvements under the traditional approach.

We have been working with regulators to develop alternative regulatory frameworks and are already using a number of them. While we support some, we have concerns about others. For a complete list of alternative regulations under consideration, go to [www.AEPsustainability.com](http://www.AEPsustainability.com).

### ENERGY EFFICIENCY

Energy efficiency continues to be a high priority for many of our stakeholders and is increasingly important to us. We believe that energy efficiency can be a cost-effective tool for managing demand and reducing energy consumption, which creates environmental benefits and helps delay the need for new power plants.

When we began conversations with stakeholders about energy efficiency four years ago, we did not have a policy or principles to guide us, and programs were in place only in those states with mandates. We have since set goals to reduce demand and energy consumption by the end of 2012 that led to initiatives within each of our operating companies to assure success. Consequently, we have seen our investments in energy efficiency increase from approximately $13 million in 2008 to a projected $110 million in 2010. We now have a dedicated energy efficiency manager in each operating company responsible for achieving energy efficiency goals, and we are working with regulators and others to develop and implement programs.

For example:

- In Texas, we are committed to offset 20 percent of the annual load growth in our service territory, along with a commensurate reduction in energy usage.
- In Ohio, our energy efficiency programs will reduce annual energy consumption, starting at 0.3 percent of retail sales in 2010 and increasing to 2 percent in 2019.
- In Indiana, our energy savings goals start at 0.3 percent of retail sales in 2010 and increase to 2 percent in 2019.
- In Michigan, we are participating with the state’s energy efficiency program administrator to reduce energy sales. The goals start at 0.3 percent of retail sales in 2009 and ramp up to 1 percent in 2012.
- In Virginia, our goal is a 10 percent cumulative reduction of baseline retail sales by 2022.
- In West Virginia, energy efficiency is an eligible source to help meet the state’s alternative renewable energy requirement.

A state-by-state breakdown of energy efficiency programs, goals and savings achieved is available at [www.AEPsustainability.com](http://www.AEPsustainability.com).

We recognize that more progress is expected in the long term, and we are balancing what may be desirable with what practically can be achieved. We have completed market potential studies and some of the states we serve are finalizing rules regarding energy efficiency, including cost recovery mechanisms. While our initial energy efficiency goals are a good start, we know that we will need to stretch to achieve even better results in the future.

We are working with regulators to ensure that we can recover our energy efficiency investments in rates. So far, we are having good success. We seek approval for three main components when investing in energy efficiency programs: program costs, net lost revenues and an appropriate return on investment.

### TRANSMISSION

As global climate change challenges the electric industry and our nation, the role of transmission has been at the forefront of the debate but without resolution. The grid must be transformed soon to ensure that energy delivery, including renewable energy, is efficient, cost-effective and reliable.

The existing transmission system, while functional, is challenged to meet the current demands on the grid and bring large quantities of renewable energy, such as wind and solar, to customers. This requires investments in new transmission capacity to deliver the energy demand, which is expected to increase as a result of the rapid growth in renewable energy and demand for carbon-free energy sources.

We believe that the most cost-effective long-term solution is alternative transmission, such as clean coal, natural gas and nuclear power plants, located near the source of energy generation, as well as renewable energy sources. These can be more efficient, cost-effective and reliable than traditional utility models.

We have been working with regulators to develop alternative regulatory frameworks that allow us to move forward with alternative transmission. These frameworks include a variety of options, including cost recovery mechanisms, tax credits, rebates and other incentives to encourage investment in alternative transmission. The frameworks also include provisions to ensure that we can recover our costs and maintain a competitive advantage in the market.

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as wind and solar, from where it can be produced most economically to where it is needed. As demand and availability for renewable energy grows, the grid’s limitations become more apparent. At the same time, emerging technologies such as plug-in electric vehicles and the growth of low-emission power generation further challenge the electric delivery system.

Today’s U.S. grid operates transmission from as low as 23 kilovolts to as high as 765 kilovolts. This indicates the lack of consistent planning to meet the needs of every region of the country, including the ability to move power from region to region. Any expansion of the system will require more land for rights of way unless planners become more strategic. Siting continues to be a major public concern and an obstacle to upgrading the system. Our ability to be more strategic in our planning becomes increasingly critical if we are to eliminate economic disparities or prevent system reliability risks.

We have been a long-standing advocate for a robust and efficient extra-high voltage grid, one that is planned on the basis of comprehensive and consistent principles. We also support broader regional transmission planning and broad-based cost allocation. We recognize that widespread cost allocation is controversial, but we believe it will help create the most efficient and cost-effective electric grid. It will also better facilitate integration of renewable resources into our nation’s fuel portfolio.

Read more about our strategy, actions and vision for transmission on the Web at www.AEP.com/about/transmission.

Industry Activity

LOBBYING

Employee and contract lobbyists in our states and at the federal level advocate on our behalf on legislation that is important to business, leads to better public policy and best serve our customers’ interests. Many of the company’s lobbyists have been with AEP for many years. They understand our values and abide by our strict rules of ethics. All lobbying expenses are reported as required by law and are available on state and federal websites. According to reports filed with the Clerk of the U.S. House, AEP spent $7,297,245 lobbying at the federal level in 2009.

We made a commitment in 2007 to publish the dues we pay to trade associations that are allocated to their lobbying activities and the political contributions we make. We publish this information at www.AEPsustainability.com.

STUART SOLOMON
President & chief operating officer, Public Service Company of Oklahoma

“As a public utility that provides an absolutely essential service, we must be actively engaged with a wide number of stakeholders on public policy issues that impact our customers, our employees and our shareholders. AEP is committed to working collaboratively with all these parties to craft policies and solutions that benefit everyone. We recognize that if we want to achieve our strategies and goals, including meeting our obligations to serve our customers, we must be the leader in public policy dialogues at the local, state and federal levels — and we’re dedicated to making that happen.”

| Transmission Joint Venture Initiatives (estimated cost in thousands) |
|----------------------|---------------------|------------------|
| Project  | Location  | Completion Date  | Owners (Ownership %)  | Estimated Cost  |
| ETT  | Texas  | 2017  | MEHC Texas Transco, LLC (50%)  | AEP (50%)  | $3,097,000  |
| PATH  | West Virginia/ Virginia/Maryland  | To be determined  | Allegheny (50%)  | AEP (50%)  | $1,800,000  |
| Tallgrass  | Oklahoma  | 2013  | OGE Energy (50%)  | ETA (50%)*  | $500,000  |
| Prairie Wind  | Kansas  | 2013  | Westar Energy (50%)  | ETA (50%)*  | $400,000  |
| Pioneer  | Indiana  | 2015  | Duke Energy (50%)  | AEP (50%)  | $1,000,000  |

*Electric Transmission America, LLC (ETA) is a 50/50 joint venture with MidAmerican Energy Holdings Co. (MEHC) America Transco, LLC and AEP Transmission Holding Co., LLC. ETA will be utilized as a vehicle to invest in selected transmission projects located in North America, outside of ERCOT. AEP Transmission Holding Co., LLC owns 25 percent of Tallgrass and 25 percent of Prairie Wind through its ownership interest in ETA.
“Often one of the most challenging parts of my job is trying to explain to employees why we do what we do in regard to various environmental rules and regulations.”

Ginger MacKnight, environmental and lab supervisor, Philip Sporn Plant
so far, and we expect we would continue to be allowed to do so if new government mandates are imposed.

Compliance Performance & Management

Protecting the environment is the foundation and focus of our environmental activity and daily operations. Our performance baseline is to achieve compliance, but we reach for levels beyond compliance when we believe it is in the best interest of our customers, shareholders and other constituents. Our commitment to protecting the environment is embodied in a target of zero significant enforcement actions. Although our overall performance was very good in 2009, we did not meet our goal of zero significant enforcement actions. We were cited in five enforcement actions involving power plants in Virginia, West Virginia, Kentucky and Arkansas. For details, go to www.AEPsustainability.com.

Ginger MacKnight is responsible for the environmental systems at the Philip Sporn Plant in West Virginia.

1 We define a significant enforcement action as one arising from events that are within our control, have more than a minor environmental impact, and result in a fine greater than $1,000.
2009 COAL COMBUSTION BYPRODUCTS

Boiler Slag 1%
Fly Ash 54%
Bottom Ash 12%
Gypsum 16%
FGD* Material 17%

8,349,267 tons of coal combustion byproducts were produced

AEP HISTORICAL & PROJECTED ENVIRONMENTAL INVESTMENTS (in millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009 (est.)</th>
<th>2010 (est.)</th>
<th>2011 (est.)</th>
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<td>$887</td>
<td>$457</td>
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manage air and water regulatory programs.

This system complements our efforts to conform our plants to environmental, safety and health management systems standards — ISO 14001 and OHSAS 18001 — to strengthen our compliance performance. Ensuring that our policies and procedures are accurately documented enables us to capture the knowledge and practices of our experienced employees, many of whom are nearing retirement. We are in varying stages of implementation at 39 coal, gas and hydroelectric plants across the AEP system.

REGULATORY LANDSCAPE CHANGING

The U.S. EPA is considering revising many significant regulations that govern our industry. The agency plans to revise the CAIR, develop a new hazardous air pollutant rule for coal-fired power plants, change existing standards for water discharges from steam electric plants, propose new standards for water intake structures at existing power plants, and develop a new rule for the storage and disposal of coal combustion byproducts.

Protecting the environment and the public are our clear priorities. But regulatory uncertainty followed by overly aggressive compliance deadlines could force us to close some coal units prematurely, jeopardizing reliability and forcing us to raise costs to pay for new controls, finance unproven technologies or replace retired units.

Specific Issues

COAL ASH

The December 2008 breach of a coal ash dike at the Tennessee Valley Authority’s (TVA) Kingston Station resulted in 5.4 million cubic yards of ash spilling into a nearby river and onto private properties and prompted a federal and state review of laws regulating coal ash. Coal ash disposal facilities around the country came under greater scrutiny as regulators took enforcement actions against TVA and stepped up inspections elsewhere. The U.S. EPA is considering whether coal ash should be classified as a hazardous waste, subjecting it to more stringent storage and disposal rules under the Resource Conservation and Recovery Act. A decision is expected this year.

AEP operates 11 large ash impoundments, 26 smaller impoundments and seven “in-ground” ponds (ash ponds that do not have dams) used to store fly ash, bottom ash, boiler slag and other byproducts from flue gas desulfurization systems, also called scrubbers. The management of many of our dry storage facilities includes liners, leachate collection systems and groundwater monitoring. U.S. EPA regulations may lead to entirely dry storage methods, so we are evaluating that possibility and its associated costs, including lost revenue from the sale of coal combustion byproducts. We are in the process of converting one of our largest ash impoundments from wet storage to dry storage within the next couple of years at a cost of approximately $75 million. The change is the result of the remaining life of the current facilities and the opportunity to address future water quality issues.

Our internal impoundment inspection program is based on federal dam safety guidelines and applicable state and local dam safety regulations. We periodically assess and ensure the structural integrity of our storage facilities. After the TVA event, we conducted an additional review of these facilities with independent technical consultants. This helps us ensure that our management practices are sound and that we are not missing something important. These reviews help us improve but also provide assurance that our practices are appropriate and conservative.

We work closely with state agencies to assess risks to the environment and the public and to ensure that we are meeting all permit requirements. We also participate in an industry effort to install groundwater monitoring wells even where they are not required. And we are adding additional audits of our performance to the inspection schedule in 2010.

While we support greater oversight of ash impoundments, we believe that coal ash should not be reclassified as a hazardous waste. Many state regulators and policymakers agree and have shared their views with the EPA. We have met with the EPA and have testified before Congress.
about our concerns. This is an important issue to AEP because of the large number of impoundments we operate.

The public is legitimately concerned about coal ash impoundments and the beneficial use of coal ash. We seek to be both transparent and persuasive about the steps we are taking to protect public safety and the environment, and we are developing a plan that will include better and more frequent outreach and dialogue with stakeholders.

Approximately 40 percent of AEP’s coal combustion byproducts are recycled as raw materials in road construction and concrete. By selling coal ash, we avoid approximately $14 million in disposal costs and net about $8 million in revenues.

**AIR QUALITY**

The $5.4 billion environmental control construction program at our coal-fired power plants is nearly complete. We began operating two new scrubbers in 2009 at the Conesville Plant in Ohio and the John Amos Plant in West Virginia. We also began operating a selective catalytic reduction system to reduce NOx emissions at Conesville.

We met a new limit on total NOx emissions that took effect at our eastern coal-burning plants in 2009, and we will also meet a cap for SO2 that takes effect in 2010 as part of our 2007 New Source Review consent decree. Under this agreement, SO2 emissions from our eastern coal plants will be reduced to 174,000 tons per year by 2019, a reduction of more than 650,000 tons per year compared with emissions prior to the agreement. In addition, NOx emissions will be reduced to 72,000 tons per year, a decrease of 159,000 tons per year prior to the agreement.

Several key regulations the EPA is considering for revision would have significant impact on our coal-fired power plants and on our customers. The EPA is developing a replacement for the CAIR that will reduce SO2 and NOx emissions from our power plants. An earlier EPA decision about the CAIR was remanded to the agency by the D.C. Circuit Court of Appeals in 2008 but remains in effect during the additional rule-making activities. We devoted 6.7 million work-hours to CAIR-related construction in 2009.

The EPA also is working on a replacement for the Clean Air Mercury Rule, including collecting detailed information regarding a wide range of hazardous air pollutant emissions for its rule development analysis. Twenty-one of our coal-fired units are among approximately 500 units nationwide that are providing air sampling information about mercury to the EPA. Although we don’t expect the rule to be final until 2011, we have begun installing mercury monitoring equipment on nearly all of our coal-fired power plants. But the technology is not achieving the needed reliability and requires daily technical adjustments. Consequently, we slowed the installations until we can resolve the equipment issues.

An additional benefit of the SO2 and NOx controls we installed on a number of our larger coal-fired power plants is that they also significantly reduce mercury emissions.

While we don’t know precisely what the new rules will require, we continue to work with the EPA to establish requirements that are realistic, achievable and allow enough time to implement.

**WATER ISSUES**

For more than 50 years, the federal government has protected water quality in the United States by regulating discharges into streams and water bodies. Restructured in the 1970s under the Clean Water Act, these regulations established the National Pollutant Discharge Elimination System (NPDES) permit program to set discharge limits. This program is administered by state environmental agencies with U.S. EPA oversight. We work closely with regulators to ensure we do not exceed our permit limits.

The EPA intends to revamp the Clean Water Act’s compliance and enforcement program. The agency also plans to revise the steam electric effluent guidelines, which govern the standards for water discharges at coal-fired power plants, including discharges from coal ash ponds, coal piles, air...
2008 AEP SYSTEMWIDE RELEASES TO WATER (192,639 pounds)

- Other 1%
- Chromium 1%
- Chlorine 2%
- Selenium 3%
- Nickel 3%
- Ammonia 5%
- Arsenic 6%
- Manganese 7%
- Zinc 11%
- Barium 34%
- Copper 27%

pollution control systems and other sources. We are committed to working with the agency to assure that any new standards are achievable and affordable.

When coal is burned to produce electricity, the effects on the environment extend beyond air quality. For example, the installation of scrubbers to remove SO₂ from air emissions also results in the capture of other pollutants such as mercury and selenium, which end up in the wastewater and scrubber byproduct. The byproduct is managed in well-designed landfills, but to protect water quality and ensure that we remain compliant, AEP installed wastewater treatment facilities at each power plant with air emission controls. We also are leading an industry effort to develop treatment technologies for removing mercury from power plant wastewater discharges.

The Cook Nuclear Plant is effectively monitoring tritium levels in groundwater and recently installed five multi-level wells to further improve groundwater monitoring. No tritium levels have been detected at the site that require reporting in accordance with the Nuclear Energy Institute 07-07 “Groundwater Protection Initiative.”

The outcome of the EPA's deliberations about how to implement Section 316(b) of the Clean Water Act is very important to us. The U.S. Supreme Court ruled that the Clean Water Act allows the EPA to use cost-benefit analysis in setting standards related to cooling water intake systems at power plants to better protect fish and shellfish. That decision paves the way for our industry to protect the environment in ways that take costs into account. The potential price tag may be significant for us, but without this balance of cost and benefit, it could be cost-prohibitive with limited environmental benefit. We continue to work with the EPA and others to reach a reasonable outcome.

Stakeholders have raised concerns about the amount of water that is needed to produce electricity. Our air emissions challenges take higher priority than our water use challenges because our air emissions create greater financial, environmental and operational risks. However, water conservation is important to us, and we are investigating new technologies and other conservation opportunities.

We formed an internal water study group to identify opportunities to address our water use. We also are participating in a three-year research project with the Electric Power Research Institute and other utilities to develop, test and deploy efficient, advanced cooling technologies. We do not have specific water use metrics for our existing power plants; our focus is on maximizing generating unit operating efficiency to help reduce the amount of water we use for cooling purposes. Opportunities to incorporate specific water use metrics may come with new construction, such as replacing older steam electric facilities when they are retired with new facilities. However, new power plants today typically have cooling towers, which reduce overall water use but increase water consumption from local resources. We also consider water consumption in evaluating pollution control technology. For example, a “wet” SO₂ scrubber will consume more water than a “dry” scrubber. We also are studying potential impacts related to carbon capture and storage. Read more online at www.AEPsustainability.com.

WASTE REDUCTION & LAND ISSUES
We seek to reduce and properly manage...
the waste that we produce, including its disposal and the remediation of contaminated land. We extend this vigilance to our suppliers whenever possible. In 2009, we disposed of more than 110,000 pounds of hazardous waste and recycled 1.8 million pounds of paper, 51 million pounds of metal, 250,000 light bulbs and 1.7 million gallons of oil. We also recycled or reused approximately 135,000 pounds of electronic equipment, such as computers and phones, keeping it out of landfills. Read more about this issue at www.AEPsustainability.com.

Working With Our Suppliers

COAL SUPPLIERS

The life cycle of coal is of great concern to many of our stakeholders because of the full range of environmental impacts, from mining to combustion for energy production to combustion byproducts. As part of our stakeholder engagement process, we made a commitment in 2008 to begin evaluating the environmental, safety and health performance of our coal suppliers. We conducted our first survey of coal suppliers in 2009, seeking information about their mining practices, environmental and safety and health performance, and contributions to local communities. We also used the survey to help us learn what percentage of our coal supply comes from mountaintop removal mining.

We hired a mining consultant to help develop and conduct the survey and included numerous performance indicators from the GRI’s Mining and Metals Sector Supplement. Twenty-four of our 31 coal suppliers responded to the survey, representing about half of the nation’s coal production and 82 percent of our 2008 coal deliveries. We used the survey results as a core component of a stakeholder meeting that brought coal suppliers together with environmental groups, regulators, elected officials, community leaders, academics and AEP executives. We believe this was the first time these groups had met face-to-face to discuss coal production issues.

We learned a lot about our suppliers. The survey showed that the safety and health performance of those responding was better than the national average for their industry. Their environmental performance also was generally good, but in the absence of a national database or other benchmark, we found it difficult to identify important trends or make meaningful comparisons beyond those who responded. We also confirmed that roughly 7 percent of our coal comes from mountaintop mining.

We discussed the survey results, mountaintop mining, the economic importance of mining and the challenges of reducing coal production in light of its status as a low-cost fuel. The meeting participants agreed that coal is necessary to keep the lights on in this nation, but there was disagreement about how and when to transition to other sources of energy.

We intend to conduct the survey annually and our goal is for all suppliers to participate. Through the survey, we identified certain companies whose environmental, safety and health performance was exemplary. We also identified companies whose performance was below the norm. We intend to reach out to companies from both groups to learn what factors they believe influence their performance. From these discussions, we hope to share nonconfidential information with all of our coal suppliers that could help improve the overall environmental, safety and health performance of the group.

We are initiating conversations with public utility regulators in our states to test their receptivity to including environmental, safety and health performance considerations in our fuel bid evaluations. In the interim, we will revisit the survey to enhance it and continue to engage stakeholders on these issues.

Read more about what two stakeholders have to say about coal mining, in their own words, in Stakeholder Engagement and at www.AEPsustainability.com. More information about the survey and next steps, along with our work with nonfuel suppliers, is on the Web.
When the United States develops legislation or regulations that require a reduction in CO₂ emissions, there is no doubt in my mind that CCS will be an integral part of compliance for the coal-fired power generation industry. While efficiency improvements to the power generation process can take us part of the way toward a lower carbon footprint, there will be no substitute for advanced CCS technology deployment.

Gary O. Spitznogle, manager of IGCC and Gas Plant Engineering
A team of employees and contractors completed the Mountaineer carbon capture project on time and on budget.

For more than 100 years, AEP has produced low-cost electricity by burning coal—a plentiful, domestic and cost-effective source of energy. Coal-fired electricity has played a vital role in expanding the American economy, creating well-paying jobs and assuring the safety, health and well-being of our customers. Nearly half of the nation's daily electricity comes from coal. We firmly believe that coal will continue to be a significant component of America's energy mix for the foreseeable future.

At the same time, we recognize that the carbon dioxide (CO2) emissions created through the combustion of fossil fuels, including coal, are a matter of concern. AEP has the largest portfolio of coal-based generation in the United States, so we have a responsibility to lead our industry in proactively addressing this issue. We are doing so through our investments in clean-coal technology and carbon offsets and in our vocal support for responsible federal legislation, including cap-and-trade policies.

We are leading in terms of our measurable, voluntary efforts to reduce our carbon emissions and use more renewable fuels, and through our efforts to modernize the electric grid, put more control of energy use in consumers' hands, and increase energy efficiency. And we are leading in the international arena as well, working with the World Business Council for Sustainable Development and International Emissions Trading Association, and by participating in the international climate treaty discussions in Copenhagen, Denmark.

We expect the makeup of our generation portfolio to change in response to several external factors, including global climate change. The number of coal-fired units we operate in the future will be determined by new or more stringent environmental regulations; greater potential use of natural gas, including shale gas; the age and efficiency of some of our coal units; and the outcome of the climate change debate. The transition to other fuel sources will take time and will be expensive, but we are preparing for it.

**STRATEGY & APPROACH**

Our strategy is to pursue multiple options, including renewable energy, new technologies, offsets, natural gas, energy efficiency, and increasing the output of our nuclear units. At the same time, we will continue to improve the efficiency of our plants; retire or mothball some older, smaller coal units when factors warrant; and complete our environmental retrofit program.

Stakeholders have asked us if we consider a carbon price when making capital investment decisions. Our assumptions take into account the many different options being considered for legislating or regulating CO2 emissions. If CO2 and other emission standards are imposed,
they could require significant increases in capital investments and operating costs. We don’t know with any certainty what those might be, but we believe that the costs of compliance would be allowed in customer rates, as they have been in the past.

Our CO2 emissions in 2010 and beyond will be affected by continued changes in our generation portfolio, market prices, the pace and scale of the economic recovery, available capital, weather and other factors. We expect that our CO2 emissions between 2010 and 2012 will remain largely flat despite sales rebounding from the recession lows of 2009. During the next decade, we expect our CO2 emissions growth to decline due to retirements of some older coal units and increased use of renewable energy, among other things. Our capital investment decisions take all of these factors, including public policy, risks, cost to customers and available resources, into consideration in the planning and decision-making process.

We are voluntarily taking actions that help us reduce or offset our CO2 emissions. As a founding member of the Chicago Climate Exchange (CCX), AEP committed to cumulatively reduce or offset 48 million metric tons of CO2 from 2003 to 2010. Through 2009, we had already reduced or offset more than 70 million metric tons of CO2. We achieved this through the purchase of CO2 credits and verifiable offsets and by improving the efficiency of our power plants; by increasing our renewable, natural gas and nuclear generation; and by retiring less efficient fossil units, among other actions.

Though AEP’s commitment to CCX runs only through the end of this year, we expect to continue voluntary actions that help us reduce our carbon emissions in the absence of mandatory legislation or regulations. These voluntary actions could include an extension of our commitment to CCX as an interim solution until mandatory legislation or regulation does take effect, if this is a viable option. As with other voluntary actions, we are working with legislators, regulators, policymakers and other stakeholders to gain support for regulatory cost recovery. In the long run, when carbon mandates are issued, our early actions will help us comply.

PUBLIC POLICY & FEDERAL LEGISLATION
Climate change is a global issue. The United States and its trading partners must take action together, otherwise the U.S. economy will be placed at a competitive disadvantage. It is encouraging that China and India have agreed to be part of the Copenhagen Accord, along with other developing countries. The accord, reached during international treaty negotiations in Copenhagen in December 2009, sets a nonbinding goal of limiting global warming to less than 2 degrees Celsius above pre-industrial times. It is a step in the right direction toward a global solution. And President Obama’s pledge of a 17 percent reduction in greenhouse gas emissions by 2020 for our nation is a signal of where the United States likely is headed.

Read more about our international work at www.AEPsustainability.com.

We believe that a U.S. climate policy should include a federal cap-and-trade system to reduce greenhouse gases (GHGs), provide incentives to develop and deploy new technologies, create targets for emissions reductions that match available technology, and allow for unrestricted use of real, verifiable domestic and international offsets. For more details on our position, please visit www.AEPsustainability.com.

Legislation that targets only specific sectors of the economy, including the electric utility sector, has been suggested. We do not support this. We do not believe that a single industry and its customers should shoulder the weight of this global issue.

We supported the American Clean Energy and Security Act of 2009 (the Waxman-Markey bill) that was passed by the U.S. House of Representatives. The bill included important provisions that addressed jobs, costs and the economy. Given the large number of future administrative actions the bill would create, there is still too much uncertainty about the potential outcomes to be able to predict the impact on electricity rates or the level of capital investment that may be needed. However, we believe that under the current provisions, the bill would
likely drive up costs to our customers significantly while also providing important incentives for technology development.

**OFFSETS, ALLOCATIONS, AUCTIONS**

Emission “offssets” include emission reductions, avoided emissions or sequestration at sources that are not subject to emission reduction requirements under cap-and-trade legislation. Under a flexible cap-and-trade system, emission offsets can play an important role in lowering compliance costs while at the same time assuring the emission reduction goals are met. Offsets are generally less expensive than direct reductions in emissions from power plants, factories or vehicles. They can also deliver valuable ancillary economic and environmental benefits. We plan to use them to assure compliance until new clean-energy technologies are ready for commercial deployment and become more economical.

We have voluntarily invested in offsets, including forestry and agricultural methane destruction, and purchased credits through the CCX. The offsets we purchase are verified and fully accredited by third parties and reputable registries.

Our position on CO2 allowance allocations and auctions has not changed. The distribution of valuable emission allowances will have serious implications throughout the economy and enormous financial consequences for our customers. Although we recognize there may be a need for some auctioned allowances from the overall allocation to support complementary climate change efforts, we seek a full allocation of allowances to the electric utility sector (equal to the sector’s total share of the U.S. emissions cap) in order to minimize the cost and subsequent rate impact on our customers. Without sufficient allocations, the effects on local economies struggling to emerge from the recession would be harsher.

Our responsibility to our customers is paramount, and we are passionate about seeking a legislative approach that considers the cost and economic impacts upon them.

**POTENTIAL REGULATION UNDER CURRENT LAW**

The U.S. Environmental Protection Agency (EPA) is preparing to regulate GHGs under the Clean Air Act (CAA). In 2007, the U.S. Supreme Court found in Massachusetts v. EPA that GHGs can be regulated as air pollutants under existing law. The EPA issued a Public Endangerment Finding in December 2009 stating that GHGs are “reasonably anticipated to endanger public health and welfare.” In response to concerns raised by state agencies and the regulated community that the EPA was moving too fast, the agency in February 2010 announced its intent to phase in the program.

We strongly believe regulating GHGs through the CAA is the wrong approach. We support a cap-and-trade legislative approach, similar to the Waxman-Markey bill, and we have advocated this to Congress. Provisions in legislation that allocate allowances, offer incentives for technology development and provide other benefits that allow us to continue to cost-effectively transition to a lower carbon economy are critical for our customers, our company and our shareholders.

When this rule takes effect, GHG emissions from stationary sources, such as power plants, could be considered a “regulated air pollutant” under the CAA’s permitting programs. This could bring CO2 and other GHGs into the existing regulatory program for stationary sources and require that these gases be considered in permits when building new units or modifying existing ones.

The standard would likely trigger a requirement to apply best available control technology (BACT) to GHGs to meet the regulations. However, it is not yet clear what the BACT for GHGs will be. In addition, the EPA is likely to move forward with the development of New Source Performance standards for electric generating units and other stationary sources.

We have been working with the EPA through industry trade associations as well as participating in the agency’s Clean Air Act Advisory Committee, and we are looking closely at how these new rules would affect our ability to continue operating existing coal units that are not already equipped with environmental controls. We are also monitoring the development of technologies that could be considered in a BACT analysis for our power plants.

Federal and state regulations or legislation limiting the emission of GHGs could result in significant increases in capital expenditures, financing and operating costs. This higher level of investment could also lead to an increase in earnings because of the higher value of our rate base. The cost of additional regulatory requirements would ultimately be borne by consumers through higher prices for energy.
TECHNOLOGY
AEP is leading the U.S. utility industry in advancing carbon capture and storage (CCS) technologies. We successfully captured, transported and geologically stored carbon dioxide emissions from an existing coal-fired power plant for the first time in October 2009, demonstrating the capability of fully integrated carbon capture and storage technology at our 1,300-megawatt (MW) Mountaineer Plant in West Virginia. The project uses Alstom’s patented chilled ammonia technology to capture the CO₂ from a 20-MW portion of the plant’s flue gas—a major technology achievement. It is the largest integrated CCS demonstration applied to an operating power plant. Approximately 90 percent of the CO₂ from the flue gas stream is being captured and stored underground.

CCS — HOW IT WORKS
To be able to store the CO₂ underground, the Mountaineer Plant received West Virginia’s first-ever CO₂ storage permit from the West Virginia Department of Environmental Protection. The permit allows the demonstration facility to inject a maximum of 165,000 metric tons of CO₂ per year for up to five years.

The next project—to install the nation’s first commercial-scale, coal-derived CO₂ capture and storage system at Mountaineer—will be partially funded through the U.S. Department of Energy’s (DOE) Clean Coal Power Initiative. AEP was awarded 50 percent of the cost of the project, up to $334 million. This will reduce the costs to our customers for the first commercial deployment of this technology. We are seeking additional partners to help pay the remaining cost of the project.

This commercial-scale project will capture approximately 90 percent of the CO₂ from 235 MW of the plant’s 1,300-MW capacity. The captured CO₂, approximately 1.5 million metric tons per year, would be treated, compressed and stored underground. We intend to begin this commercial-scale operation in 2015; if the technology is successful, can be commercialized and is cost-effective, we would seek regulatory support to begin retrofitting existing coal plants.

For more information about the CCS technology at Mountaineer Plant and our project partners, visit our website at www.AEPsustainability.com.

MAKING THE ECONOMICS WORK FOR CUSTOMERS
Developing new technologies such as CCS can impose significant costs on customers, particularly in the early development stages. But as the technology matures, the costs should decline. For example, Mountaineer’s 20-MW project cost more than $5,000 per kilowatt (kW), but the proposed 235-MW system is estimated to cost less than $3,000 per kW. When the government subsidies are factored in, the cost falls to approximately $1,500 per kW.

We are able to be a first mover of technology because of our engineering, technical and construction expertise. First movers always pay an initial premium with respect to cost and risk. However, they also gain valuable knowledge and understanding as the technology develops. This particularly benefits AEP and our customers, but also the industry by being a driving force for cost reductions, increased reliability and improved availability for all users. It is not clear what the cost-reduction curve will be for CCS technology over time, but we are seeing it head in the right direction as we move past the demonstration phase to full commercial availability in 2020.

OTHER ADVANCED TECHNOLOGIES
We made significant progress in 2009 on the 600-MW John W. Turk Jr. ultra-supercritical pulverized coal plant under construction in southwest Arkansas. Southwestern Electric Power Co. successfully secured all major construction permits but still faces legal challenges to the process used by the Arkansas Public Service Commission to approve construction of the plant.

We set a goal two years ago to deploy 25 MW of sodium sulfur (NaS) battery storage on our system by 2010. Instead, we have a capacity of 11 MW with the completion of a project in Presidio, Texas. We stopped installing these batteries because the technology became cost-prohibitive. We are now focusing on community energy storage (CES), which uses lithium-ion battery technology—the
same type of batteries used in electric vehicles — making them more widely available and cost-effective. We are installing 2 MW of CES as part of the AEP Ohio gridSMART™ Demonstration Project. Read more about CES online at www.AEPsustainability.com.

VOLUNTARY ACTIONS MATTER
Wind energy accounts for 2 percent of the total power generation in the United States. The U.S. wind industry installed a record 9,922 MW of generating capacity in 2009, helped by federal tax subsidies.

We committed to add 2,000 MW of renewable resources between 2007 and the end of 2011, assuming regulatory approval. We are making progress. We have secured 1,013 MW of renewable energy through power purchase agreements, including 10 MW of solar power. Our integrated resource plan contains a 10 percent renewable energy target by 2020, based on the expectation that additional federal or state requirements may be enacted. Renewable energy requirements ranging from 9 percent to 15 percent by 2021 have already been part of federal energy and climate legislation in the House and Senate.

In the states that have renewable energy mandates, there is regulatory support for cost recovery. This is not necessarily true in states without such requirements. We are working with regulators and policy-makers in service territory states without mandates to help ensure cost recovery; if they approve it, we will move forward, but if they don’t, we will not. Read more about voluntary actions online at www.AEPsustainability.com.

ENERGY EFFICIENCY
Energy efficiency is a high priority for us and for many AEP stakeholders. We believe energy efficiency is an important, cost-effective way to reduce GHGs and can possibly delay the need to build new power plants. We work closely with legislators, regulators, environmental groups, technical experts and others to develop and implement efficiency and demand response programs. Despite challenges, we are seeing signs of success.

Market potential studies completed in 10 states help us identify the technical, economic and achievable energy and demand reduction potential in homes, businesses, schools and other facilities. Our investment in energy efficiency programs has steadily increased from about $13 million in 2008 to a projected $110 million in 2010 and $218 million in 2012. This year, we anticipate more than two dozen regulatory filings in our states.

These initiatives, and others we hope to implement, will help us to achieve our 2012 goal to reduce demand by 1,000 MW and energy consumption by 2,250,000 megawatt-hours (MWh). We already have identified the potential for more than 900 MW of demand reduction and approximately 2,800,000 MWh of energy reduction. We are actively seeking regulatory approval of our plans, which will be necessary if we are to meet our goals. We recognize that in the longer term more is expected, and we are pursuing additional programs and demand reduction opportunities that may be practical in many of our jurisdictions.

We are also beginning to investigate energy efficiency in wholesale markets. Our ability to move forward relies on regulatory approval that includes recovery of program costs and lost revenues and a return on investment. Learn more about gridSMART™ and energy efficiency efforts in our states at www.AEPsustainability.com.

DANA WALDO
President & chief operating officer, Appalachian Power Co.

“Meeting the challenge of reducing the carbon impacts of the nation’s electric infrastructure will require thoughtful engagement with every level of our stakeholders. We must be at the table to help identify, develop and support policy pathways that balance reductions in greenhouse gas emissions with our ongoing commitment to provide reliable, affordable and environmentally responsible electricity to our customers.”

<table>
<thead>
<tr>
<th>TOTAL COAL DELIVERED TO AEP PLANTS</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thousands of tons</td>
<td>72,644</td>
<td>77,054</td>
<td>75,909</td>
</tr>
<tr>
<td>Average price per ton</td>
<td>$36.65</td>
<td>$47.14</td>
<td>$49.54</td>
</tr>
</tbody>
</table>

2010 AEP Corporate Accountability Report / 35
Social Performance:

**Work Force**

“...The (employee) fatality reminded me that an accident can happen at any given time, to anyone. It made me change my way of thinking and be more aware of my surroundings. Something like this sticks with you.”

Richard Worsham, heavy equipment operator, Dolet Hills Lignite Mine
The most important aspect of our operations is to make sure everyone who works for us returns home safe and sound at the end of each workday. Our health and safety management systems failed tragically in 2009 when two of our employees and two contractors working for us were fatally injured on the job. This is unacceptable to us, and our entire company felt these losses.

We have programs and specific measures in place to avoid injuries, but it is clear that we have much more work to do to strengthen our safety culture if we are to reach our goal of having no fatalities, no injuries and no occupational illnesses—a condition we call “zero harm.” A highly skilled work force that actively pursues zero harm and is deeply committed to mutual care and peer protection is the key to success. Our Human Performance initiative is dedicated to eliminating hazards and human errors that cause accidents. Although this culture change is taking hold, we are still concerned that productivity takes precedence over safety and health in some cases, and we are working to change that.

Our incentive plan for executive management includes a substantial penalty if there are employee fatalities. As a result of the deaths that occurred in 2009 and other factors, executive management did not receive any incentive compensation. All employees lost a portion of their incentive compensation because of the fatalities.

We have other work force challenges, particularly as we reduce our work force to address new economic realities and the need to find and retain the best talent to meet our future business goals. We must fully engage our employees and find ways to foster an environment that makes people want to work and stay here.

REACHING FOR ZERO HARM

Two employees and two AEP contractors were fatally injured on the job last year. We deeply regret each of these incidents and the grief they caused for so many.

An employee at our Dolet Hills lignite mine in Louisiana was killed in March 2009 while working on heavy machinery, called a walking dragline, used to extract coal. What caused him to fall or to be in the location he was in is unknown. However, we now prohibit employees and contractors from having contact with the dragline when it is in motion. Physical barriers such as gravity gates and safety chains have been installed at all access points, and tripping hazards have been removed. Employees are now equipped with radios to ensure continuous communication between those on the ground and the equipment operator.

A River Operations employee lost his life in November when he fell from a barge into the Mississippi River. As a result, teams of employees are evaluating vessel operating practices with the goal of reducing deck crew exposure. Approximately 1,000 River Operations employees are receiving training in hazard recognition, safe work practices and job safety briefings to enhance awareness and increase focus on job responsibilities. We also are working with marine consultants and engineers to consider installing grab-bar devices on our barges as another layer of protection against going overboard. We will champion barge construction safety standards aimed at reducing the risk of personal injury and fall-overboard events across the industry.

Our two contractor fatalities occurred in January and July of 2009. One contractor died while unloading pole sections during the rebuilding of a transmission line. Another contractor was fatally injured while acting as
Our transmission group improved both safety and operational performance by embracing the error-reduction methods of the Human Performance initiative. By focusing on reducing errors, we reduced the number of recordable injuries as well as customer outages caused by transmission station switching errors.

The Chairman’s Life Saving Award recognizes employees for extraordinary efforts in life-threatening situations. It has been presented to 39 employees since 2004, including eight in 2009. Their acts of heroism included rescuing an electrical contact victim who was performing work for a telecommunications company, helping a victim of a head-on vehicle collision who was trapped in her car, and rescuing a boy from a burning apartment building.

We also reinforce a zero harm environment with programs such as peer-to-peer coaching, incident reporting, pre-job briefings and clear, unmistakable messages about safety. The Human Performance initiative is one of our most important safety and health efforts. It is directed toward building best practices, reducing mistakes and preventing those that do occur from causing injuries.

AEP formed a corporatewide Human Performance oversight team and steering committee in 2008 and expanded the effort a safer place to work.

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in 2009. Our focus on error reduction is having a measurable impact. The severity rate in our Fossil/Hydro generation business unit improved from 32.3 in 2008 to 19.4 in 2009, but we believe this is just the beginning and we intend to continue to improve. In our Transmission business unit, a commitment to Human Performance resulted in a decline in the recordable injury rate from 4.0 a decade ago to nearly 1.0 in 2009. We are finding that when we eliminate errors that can cause injuries, we also eliminate operational errors, which improves our overall performance.

Approximately 2,500 electrical distribution line employees who were trained in Human Performance principles are now learning specific ways to prevent errors and are sharing their knowledge with their co-workers. These employees are adjusting to an environment that encourages them to stop working when they are unsure whether a certain practice or working condition is safe.

As our employees gain a better understanding of the risks in their jobs and what they can do to eliminate them, we must overcome a perception that still exists in some parts of the company that productivity is more important than safety and health. We have an obligation to deliver safe, reliable electricity to our customers, but never at the expense of safety and health.

**SPECIFIC SAFETY INITIATIVES**

Combustible dust can be a significant workplace hazard, and we are being proactive in our efforts to prevent harm. A U.S. Chemical Safety Board combustible dust hazard study found that nearly 280 dust fires and explosions have occurred in the United States during the past 25 years, resulting in 199 fatalities and more than 700 injuries. Among the types of dust involved were sugar, paper, aluminum, wood, plastic and coal.

We are working closely with the Occupational Safety and Health Administration (OSHA) to validate our compliance with the agency’s proposed combustible dust restrictions through audits at our power plants. Because we burn coal, we are aggressively working to comply with the proposed standard. Elements of OSHA’s program include electrical and fire protection, ignition control, an emergency action plan, personal protective equipment and hazard communication.

During the past two years, we conducted a study of the potential health hazards of welding, a common task throughout our industry and especially in our power plants. The study, consisting of 555 air samples from various types of welding, is one of the largest ever conducted in the electric utility industry. While study recommendations remain under review, it is apparent that either local exhaust ventilation or respiratory protection will be needed for many of our welding activities in the future. OSHA currently does not have a specific welding exposure regulation, in part because of the difficulty in measuring exposure fume levels.

Mandatory fall restraint devices and 19 other pole safety recommendations from an employee-led team in 2008 resulted in a 56 percent reduction in incidents related to falls from poles, compared with the previous four-year average.

We are reducing the probability of interactions with threatening animals by attaching special codes to customer accounts where such animals are known to be present and with new equipment that

**PABLO VEGAS**

President & chief operating officer, AEP Texas

“AEP Texas employees are the company’s greatest assets. That’s why we place a tremendous emphasis on our safety and work cultures. Our safety goal is for every employee to return home in the evening in the same condition in which he or she came to work in the morning. Nothing less will do. Our work culture embraces a skilled, diverse work force. Diversity in all of its varied forms, including experience, ethnicity, age and gender, provides a broader and richer context to our business challenges and opportunities. This, in turn, allows us to understand and serve the many and equally varied needs of our customers to the very best of our abilities.”

Cook Plant employees learn control room operations in a new exact replica of Unit 1’s control room that opened last fall.
gives our employees advance warning.
To help employees avoid some of the common causes of injury, we developed training in safe truck cab and bed access and started a program to prevent slips, trips and other walking hazards through error reduction methods. One-third of all slips and trips become recordable injuries, and these account for approximately 16 percent of recordable events companywide.

A study of AEP work practices showed that if a power line with a safety ground accidentally becomes re-energized, a worker could be exposed to hazardous voltage levels depending on his or her location in relation to the equipment. Consequently, we have stepped up our efforts to encourage workers to wear rubber gloves in those situations, giving them extra protection.

Lifting and rigging practices are another area of concern. At AEP, an employee was killed in late 2006 while using a crane at a power plant. Our analysis found that crane-related policies and new procedures, including training, were inconsistent and outdated across the enterprise. New policies and procedures took effect in January 2010 with a one-year grace period to allow for proper training.

We also are strengthening the process by which safety and health issues are considered when projects are engineered. This will prevent costly future retrofits to achieve safety and health compliance and will provide protection from the start. AEP’s Safety and Health team works closely with Engineering and other functions to review designs of new construction projects. In addition, several safety- and health-related factors have already been incorporated into design standards for new construction. The end result will be a safer work environment.

A safer environment has resulted from converting boilers at coal-fired power plants that are retrofitted for sulfur dioxide control from forced-draft design to balanced-draft design. Any leaks that occur in the boiler at these plants now introduce outside air into the boiler rather than causing gases and ash to leak out. The equipment and vicinity do not become contaminated, creating a much safer, cleaner work area.

Our effort to conform our power plants to environmental, safety and health management systems standards will help us move toward zero harm. These systems will help ensure that our policies and procedures are accurately documented. In so doing, they will enable us to capture the knowledge and practices of our experienced employees, many of whom are nearing retirement.

DEALING WITH H1N1
The threat of the H1N1 virus has been a challenge for AEP as it has been for other companies. The virus ultimately had little impact on our operations except for a somewhat higher-than-usual level of absences. Cases of the flu—including H1N1 and seasonal flu—reached a three-year peak in 2009, totaling 947, according to AEP’s Human Resources Recovery Center. Seasonal flu vaccines were administered to approximately 13,325 employees, spouses and domestic partners in 2009 during company-sponsored health screenings. We also provided H1N1 vaccines as soon as they became available to us in 2010.

PROTECTING THE PUBLIC
Zero harm includes no harm to the public. Although it is more difficult to reach the public with safety information, we have initiated a significant outreach and education campaign that we believe will move us closer to our goal. We know this will take time, and that is why we have set a Path to Excellence for public safety. It is imperative that we succeed: All of the nine public fatalities and 34 electrical contacts that occurred in 2009 could have been prevented had basic electrical safety practices been followed.

Copper theft declined in 2009, possibly because of declining copper prices and increased public education. While none of the fatalities last year involved copper theft, two of the electrical contacts did. However, we are starting to see an increase in copper theft in some parts of our service territory, and we are stepping up our public education and outreach efforts to address this.

2009 EMPLOYMENT DATA — EEO-1 (as of Aug. 31, 2009)

<table>
<thead>
<tr>
<th>Employees</th>
<th>Females (%)</th>
<th>Minorities (%)</th>
</tr>
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<tbody>
<tr>
<td>Total Employment</td>
<td>21,737</td>
<td>4,013 (18.5%)</td>
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<tr>
<td>Officials &amp; Managers</td>
<td>3,629</td>
<td>382 (10.5%)</td>
</tr>
<tr>
<td>Professionals</td>
<td>5,544</td>
<td>1,450 (26.2%)</td>
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</tbody>
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2008 EMPLOYMENT DATA — EEO-1 (as of Aug. 31, 2008)

<table>
<thead>
<tr>
<th>Employees</th>
<th>Females (%)</th>
<th>Minorities (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Employment</td>
<td>22,746</td>
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<tr>
<td>Officials &amp; Managers</td>
<td>3,711</td>
<td>368 (9.9%)</td>
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<tr>
<td>Professionals</td>
<td>5,625</td>
<td>1,456 (25.9%)</td>
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WORKING TOWARD A SUSTAINABLE WORK FORCE
AEP’s future success hinges largely on the availability of a skilled, motivated and diverse work force. Many challenges face us, from employee retention and morale to ensuring that employees have the skills to perform the required work in an ever-changing environment. We strive to be certain we have the resources and tools to succeed in the decades ahead despite uncertainty about the economic, policy and regulatory landscape.

ATTRACTING & RETAINING TALENT
Our work force is aging, which increases the risk of a talent shortage in the future. For the past five years, the average age of our retirees has been 60 or 61. Today, the average age of our employees is 45.9 years. The economic downturn has delayed some retirements and reduced hiring and advancement opportunities. Even so, we expect to reduce our work force by 5 percent to 10 percent in 2010 to better align our company to the new economic realities.

Elimination of a merit pay increase in 2009 and the relatively small increase planned for 2010 also could affect our future ability to offer a competitive compensation package to prospective and current employees. Given these challenges, we are working to retain an optimal, productive and engaged work force. For employees seeking advancement and development, we continually explore opportunities to offer job rotations, temporary “job swaps” and developmental tasks that usually are not part of a particular job.

We remain hopeful the economic recovery will pick up steam and we are seeing some companies begin to hire again. The risk we face is that they may try to hire away our best performers. We continue to offer employee development programs and to put a strong emphasis on AEP’s Performance Review and Feedback process, which focuses on goal alignment, employee engagement and developing a culture of accountability.

Read more about work force development at www.AEPsustainability.com.

VALUING DIVERSITY
We recognize that a diverse work force gives us the best opportunity to succeed. The greater the variety of ages, cultures, backgrounds and skills brought to a project or task, the greater the likelihood the best possible decisions will be made.

One-third of our employees are minorities or females. In 2009 as in past years, we set diversity targets for females and minorities for management, professional and front-line employees. Placement rates in four of the six job categories exceeded target, but two fell short. For the first time ever, we met our placement target for females in front-line jobs, even though the 2009 level of hiring from outside the company was lower than usual. We were just shy of target in that job category for minorities. But we were far from target in the placement rate for minorities in management-level posts.

Our efforts to increase diversity will continue, and we expect the progress we’ve made to be sustainable.

ORGANIZED LABOR AT AEP

<table>
<thead>
<tr>
<th>Labor Union</th>
<th>Number of Employees</th>
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<tbody>
<tr>
<td>International Brotherhood of Electrical Workers</td>
<td>3,816</td>
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<tr>
<td>Utility Workers Union of America</td>
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<tr>
<td>United Steelworkers of America</td>
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<tr>
<td>United Mine Workers of America</td>
<td>377</td>
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<tr>
<td>International Union of Operating Engineers</td>
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</table>
Federal support for energy assistance and weatherization is at an all-time high. But despite our progress, neither the federal and state governments nor the utility and nonprofit sectors, by themselves, can solve the problem of unaffordable energy for low-income customers.

David Fox, executive director, National Low Income Energy Consortium
As a provider of an essential service, we hold a public trust that requires a level of accountability and openness. We operate in a world that is far more interdependent than ever before. Like many companies, we deal with controversial and complex issues that have a real impact on people’s lives, beyond the power that we provide.

Many groups and individuals have a legitimate stake in our business. We believe that open, trusting relationships with our investors, our community leaders and other stakeholders are critical to our credibility and our business success.

Our stakeholders make us stronger and more resilient by:

- Keeping us well-informed about issues of concern and interest to people who make a difference to us.
- Providing us with important insights and points of view that we may not have fully considered on our own.
- Giving us an opportunity to discuss our points of view and, in some cases, to be persuasive about them.
- Helping us to find common ground and gain assistance in advancing common objectives.
- Providing us with incentives and additional accountability for commitments and performance.
- Reinforcing our integrity by knowing that what we say and do will be held up to public scrutiny.

Stakeholder engagement has helped us to transform one-way communication into two-way communication, dialogue into working relationships, and working relationships into partnerships. It has changed our culture; we are less inwardly focused and more externally focused. Engagement is considered a core competency and a matter of material import to our company.

HOW WE ENGAGE

We engage with a number of stakeholders on many levels, from face-to-face meetings to conferences and social networking sites, conference calls and briefings on specific topics. We have a dedicated sustainability website (www.AEPsustainability.com) to report on our activities, and our operating companies also hold stakeholder meetings to address state and local issues.

To fulfill a commitment to report more frequently about progress on our sustainability issues, we recently published our first Web-based mid-year update on key commitments and will continue to do so semiannually. We are expanding our channels of engagement to enable us to reach many more people who have an interest in our business.

For the past four years, we have collaborated with Ceres, a national network of investors, environmental organizations and other public interest groups working with companies and investors, to address sustainability challenges. Ceres facilitates a multi-stakeholder meeting with AEP executives at our Columbus, Ohio, headquarters. Our discussions typically focus on climate change, the future of coal, and energy efficiency. In 2009, we expanded our discussions to include water risks. Stakeholders who participate represent environmental organizations, labor, socially responsible investors (SRI) and other public interest groups.

This year marked the team’s fourth meeting with AEP, giving us an opportunity to review our progress as well as to discuss areas where we still have work to do. We talked about our business strategy and how it is evolving as we prepare for a transformation of the electric utility industry. We agreed to further clarify our strategy and to convene a stakeholder conference call later this year to provide an update. We recognize we need to be clearer about where we stand on some issues to keep the dialogue going and prevent misperceptions.

THE ISSUES ON WHICH WE ENGAGE

We have begun to focus intently on specific

<table>
<thead>
<tr>
<th>Live employee webcasts to keep management connected to employees</th>
<th>Charitable giving in 2009, including AEP Foundation (in millions)</th>
<th>Number of stakeholder meetings in 2009</th>
<th>Approximate number of investors we met with during 2009</th>
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</thead>
<tbody>
<tr>
<td>39</td>
<td>$23.4</td>
<td>7</td>
<td>400</td>
</tr>
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</table>
STAKEHOLDER PROFILES

We held an unprecedented stakeholder meeting on coal issues and the environmental, safety and health performance of our coal suppliers in 2009 as we brought together 10 coal suppliers, environmental groups, regulators and community leaders. The meeting was based on a supplier survey we conducted, but much of the conversation also focused on mountaintop removal mining. We invited two stakeholders from that meeting to share their views about coal in this report.

BILL RANEY, president of the West Virginia Coal Association

“Coal is truly the answer to America’s long-term security. Coal practices have significantly improved over the last 40 years, and that demonstrates our ability and ambition to mine and ship coal in a safe manner while advancing environmental stewardship. If those who oppose coal would focus their energy on making coal a better resource, the entire world would benefit. Prohibiting mining and coal use would have detrimental effects on our economy.”

MATT WASSON, director of programs, Appalachian Voices

“Since the industrial revolution, coal has played a central role in improving the quality of life of Americans and people across the world. Looking ahead, it will continue to play a transitional role as America begins to face the economic and environmental imperative of shifting to a clean energy economy. However, we should never call coal ‘clean’ without accounting for the huge range of health and environmental costs associated with the complete life cycle of coal, from mining and transportation to the disposal of post-combustion waste. Until the most destructive mining practices like mountaintop removal in Appalachia are eliminated, the subject of coal will remain controversial and polarizing in the debate over America’s energy future.”

Read more about the perspectives shared by these stakeholders at www.AEPsustainability.com.

issues that our public policy stakeholders have repeatedly said are most important to them, including energy efficiency, global climate change, the cost of electricity and conservation. These are high priorities for us as well.

We agree that energy efficiency is an important tool that can delay the construction of new power plants. We work with state-based collaboratives of utilities, regulators, environmental and community groups and customers to identify and develop energy efficiency programs in Ohio, Indiana, West Virginia, Kentucky and Texas. In all of our jurisdictions where we are implementing energy efficiency, we have programs designed specifically to target low-income customers. In some programs, we partner with local weatherization agencies that are trained to provide education and energy efficiency resources directly to customers. AEP Ohio, for example, distributed approximately 20,000 energy efficiency kits this way.

We are creating an external Energy Efficiency Advisory Council of experts from manufacturing, trade groups, home builders, government, nongovernment agencies and others willing to work with us to address this issue. We will report on our progress.

Engagement in Action

ENGAGING OUR INVESTORS

Our success as an investor-owned electric utility includes a track record of 100 years of paying dividends to our shareholders and is grounded in our ability to continue delivering reliable, reasonably priced electricity. Approximately 70 percent of our outstanding shares are owned by investors who have an investment horizon of greater than two years. Because of this, we hope that these investors understand our commitment to being a sustainable company is also in their long-term financial interest. Our challenge remains that many investors and analysts still focus on quarterly earnings rather than long-term performance related to sustainability. Analysts are beginning to pay attention to sustainability issues, particularly environmental issues. However, generally they are not factoring them into their recommendations with any regularity, unlike SRIs.
We continue to explain our sustainability agenda with traditional investors while also meeting the social objectives of SRIs. We make an effort to increase AEP’s inclusion in various sustainability-focused market indexes. In January 2010, we learned that AEP was included in the Maplecroft Climate Innovation Index (CII) Leaders, which includes the top 100 performers in the Maplecroft CII. This index evaluates and rates company performance in climate-related innovation and carbon management. Read more about our investor outreach at www.AEPsustainability.com.

CONNECTING WITH CUSTOMERS
Customer communications is a critical issue. Our customer service centers handle approximately 50,000 calls daily; in 2009, we responded to 17.8 million calls. When customers called us in 2009, they waited an average of 48 seconds before speaking with an AEP representative — up slightly from 47 seconds in 2008. Many more customers reached us online through our customer service websites. In 2009, registered customers logged in more than 2 million times to conduct business.

We receive quarterly data on customer satisfaction from Market Strategies International, an independent vendor that conducts benchmarking for a peer group of more than 100 electric and gas utilities. In 2009, five of AEP’s seven operating companies placed in the first quartile relative to the national peer group in residential overall satisfaction; six of our operating companies placed in the first quartile for commercial overall satisfaction.

We saw the economic downturn affect our customers in 2009. While customer consumption of electricity declined, more customers had difficulty paying their bills. Account delinquencies among residential customers increased 6 percent from 2008. The hardship was not so severe for nonresidential customers, whose average delinquent account balances declined 7 percent from 2008.

As a result, we increased our support for low-income energy assistance programs. The primary source of assistance for low-income customers is LIHEAP. In 2009, AEP customers received more than $86 million from these programs. The total assistance received by customers was approximately 91 percent higher than in 2008.

The primary reason for this unusual increase was that LIHEAP became fully funded at $5.1 billion for the first time in history during the 2008–2009 heating season. In prior years, funding for this program ranged between $1.8 billion and $3 billion.

ENGAGING OUR EMPLOYEES
Our employees are our most valuable resource and our most passionate advocates; we stay connected with them in many ways — new and old. We now host 12 internal blogs — twice what we had in 2008 — that give employees an additional opportunity to voice their opinions and that allow our leaders and managers to respond or introduce topics of their own. One blog is hosted by Mike Morris, our chairman, president and chief executive officer. He focuses on the company’s performance as well as how factors such as the economy or global climate change are affecting the company. Other blogs are devoted to sustainability, ethics and compliance, transmission and other business issues.

We held our first employee Sustainability Awareness Week in 2009 to highlight our material issues and how they relate to AEP’s sustainability. More than 60 events at 38 work locations in nine states were held, including test drives of Plug-in Hybrid Electric Vehicles, health screenings, electronic equipment recycling, developing energy efficiency e-cards, and town hall meetings. As a result of these and other activities, 67 percent of employees who responded to a follow-up survey said they understood AEP’s strategy for sustainability and how they contribute to it.

ENGAGING OUR COMMUNITIES
Our employees donated more than 78,000 hours of volunteer service to dozens of...
organizations and educational institutions on their own time during 2009. We support these activities with $150 AEP Connects volunteer grants to an organization to which an employee has donated at least 40 hours during the year. We made 894 grants totaling more than $134,000 in 2009. The hours donated by our employees have an economic value of more than $1.5 million (using the Independent Sector estimated value of volunteer time of $20.25 per hour) and an indirect contribution that is much greater.

Education is an important community endeavor, and we provide small grants to teachers to support them in the classroom. These Teacher Vision Grants range from $100 to $500 and are provided to educators in grades pre-K through 12 who live or teach in AEP’s service area or in communities with major AEP facilities. In 2009, we awarded nearly $53,000 in Teacher Vision Grants.

ENGAGING POLICY LEADERS

Being a large, highly regulated electric utility requires us to engage frequently with policymakers, legislators and other elected officials as well as regulators. We do so at the federal, state and local levels. We also engage internationally through the e8, at the international climate change negotiations, and through the World Business Council for Sustainable Development. Read more about our engagement with policy leaders in Public Policy.

CONTRIBUTING TO ECONOMIC PROSPERITY

We are committed to the prosperity of the communities we serve and in which we operate. Our operating companies partner with state and local organizations to provide economic development grants and work with communities and other companies to create jobs and spur economic growth. In 2009, we provided more than $1 million to nearly 200 organizations. Learn about our efforts at www.AEPsustainability.com.

CHARITABLE GIVING

In addition to economic development grants, in 2009 the company and the American Electric Power Foundation provided more than $23.4 million in charitable giving. These social investments are most important during difficult economic times, particularly in communities hit hardest by the recession. We donated $11.8 million to hundreds of local and nonprofit organizations. The AEP Foundation contributed $11.6 million to 111 organizations.

2009 GIVING BY AREA OF FOCUS

<table>
<thead>
<tr>
<th>Area of Focus</th>
<th>Percentage</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Development</td>
<td>5%</td>
<td>$1,257,338</td>
</tr>
<tr>
<td>Education</td>
<td>31%</td>
<td>$7,142,878</td>
</tr>
<tr>
<td>Youth</td>
<td>6%</td>
<td>$421,884</td>
</tr>
<tr>
<td>Safety &amp; Health</td>
<td>8%</td>
<td>$843,409</td>
</tr>
<tr>
<td>United Way</td>
<td>8%</td>
<td>$1,060,218</td>
</tr>
<tr>
<td>Community</td>
<td>9%</td>
<td>$2,160,028</td>
</tr>
<tr>
<td>Arts &amp; Culture</td>
<td>10%</td>
<td>$2,228,164</td>
</tr>
<tr>
<td>Hunger &amp; Housing</td>
<td>12%</td>
<td>$2,315,510</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>$23,418,171</td>
</tr>
</tbody>
</table>

TOTAL PHILANTHROPIC GIVING (Corporate and AEP Foundation)

<table>
<thead>
<tr>
<th>State</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arkansas</td>
<td>$354,920</td>
</tr>
<tr>
<td>Indiana</td>
<td>$2,228,164</td>
</tr>
<tr>
<td>Kentucky</td>
<td>$650,000</td>
</tr>
<tr>
<td>Louisiana</td>
<td>$421,884</td>
</tr>
<tr>
<td>Michigan</td>
<td>$1,257,338</td>
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<tr>
<td>Ohio</td>
<td>$10,434,443</td>
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<tr>
<td>Oklahoma</td>
<td>$843,409</td>
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<tr>
<td>Tennessee</td>
<td>$30,048</td>
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<tr>
<td>Texas</td>
<td>$2,315,510</td>
</tr>
<tr>
<td>Virginia</td>
<td>$2,160,028</td>
</tr>
<tr>
<td>West Virginia</td>
<td>$1,060,218</td>
</tr>
<tr>
<td>Other*</td>
<td>$1,662,209</td>
</tr>
<tr>
<td>Total</td>
<td>$23,418,171</td>
</tr>
</tbody>
</table>

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

TIM MOSHER

President & chief operating officer, Kentucky Power Co.

“Reliability and reasonable pricing are two of the most important aspects of providing service to our customers. Our customers expect consistent, safe and reliable service at an affordable price. It is important for us to regularly measure how we’re doing relative to those expectations with satisfaction surveys. Listening to our stakeholders’ perspectives is another excellent way to understand how our performance is perceived. It makes sense for us to do that; to operate in a vacuum would be a colossal mistake.”
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.

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
Telephone Response Group: 1-800-328-6955
Internet address: 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 customers. 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.

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; Julie Sherwood, 614-716-2663, jsherwood@AEP.com; or Jana Croom, 614-716-3175, jtcroom@AEP.com. Individual shareholders should contact Kathleen Kozero, 614-716-2819, klkozero@AEP.com.

Number of Shareholders: As of Dec. 31, 2009, there were approximately 96,000 registered shareholders and approximately 271,000 shareholders holding stock in street name through a bank or broker. There were 478,054,407 shares outstanding at Dec. 31, 2009.

Form 10-K: Upon request, we will provide without charge a copy of our Form 10-K for the fiscal year ended Dec. 31, 2009. 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.

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* $118 $121 $134 $178 $132 $125 $102
$105 $112 $128 $137


• American Electric Power Co., Inc. • S&P 500 • S&P Electric Utilities

* $100 invested on 12/31/04 in stock or index, including reinvestment of dividends. Fiscal year ending Dec. 31.

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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 and customer growth.
- 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 recover I&M’s Donald C. Cook Nuclear Plant Unit 1 restoration costs 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, including the Turk Plant, 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 cancelled) through applicable rate cases or competitive rates.
- New legislation, litigation and government regulation, including 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.
- 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 (including our dispute with Bank of America).
- 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 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 related regulation 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 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.
- Other risks and unforeseen events, including wars, the effects of terrorism (including increased security costs), embargoes and other catastrophic events.

AEP and its Registrant Subsidiaries expressly disclaim any obligation to update any forward-looking information.
American Electric Power
1 Riverside Plaza
Columbus, OH 43215
614-716-1000
www.AEP.com