Message From The Chairman

2017 Corporate Accountability Report

The Power to shape the Future

For more information go to: AEPsustainability.com
For more information contact:

Sandy Nessing – smnessing@AEP.com
Melissa Tominack – matominack@AEP.com
www.AEPsustainability.com
Chairman’s Message

We have a vision for American Electric Power to deliver an energy future built on diverse energy resources and an interactive power grid that is more reliable and secure. We are transforming our business to create sustainable economic, social and environmental value for all of our stakeholders. We believe the power to shape the future is in all our hands and by working together we have the ability to turn this vision into reality.

Our basic responsibility is “keeping the lights on.” But because lives, lifestyles and livelihoods depend on us, we have to go beyond the basics. We must support strong and vibrant communities, be an advocate for education and opportunity, help the less fortunate, care for our employees, exceed our customers’ expectations and protect the environment.

We must also be inclusive and collaborative, while creating shared value for our customers, employees, investors and communities. Ultimately, we must balance the pace of our transition to a cleaner, modern system with our customers’ economic capacity. As we work to position AEP for the future, we have a solid foundation built upon financial strength and operational excellence. The geographic diversity of our regulated companies, the engagement of our employees, our commitment to customers, economic development and strong communities, and the investments we are making in infrastructure and technological innovation, have delivered and will continue to deliver success. And above all, our employees are helping to drive us forward.

Our culture of engagement, safety, diversity, compliance and continuous improvement is also integral to our future success. AEP’s culture is extremely important to me and I talk about it frequently with people
inside and outside of the company. That’s because it defines who we are and what we value. It is our true north, inspiring and motivating us to achieve our goals. Our continuous focus to improve our culture never really ends and we are making good progress toward achieving the levels of engagement and accountability we desire and need for success.

We can’t do all of this by ourselves. We have formed strategic partnerships with innovative companies, such as Greensmith, Innovari, Tendril, C3, Utilidata and Braemar Energy Ventures, to work with us on energy technology and storage, and to help us develop and deploy new technologies on both sides of the electric meter. These transformational technologies were unimaginable a few years ago.

We will continue evolving to deliver the technologies, programs and services customers want. We are working with policymakers, regulators and other stakeholders to ensure that the rules by which we are governed keep pace and support our efforts. At the same time, we know that changes to existing laws and rules will be gradual, which is why we are seeking to identify innovative rate design options we can begin to introduce to our regulators and customers.

The power grid of the future will be different, enabling diverse, distributed technologies and resources and permitting multi-directional flows of electricity and information. We envision an intelligent, integrated grid that is resilient, secure and flexible; a system with technologies closer to the customer than power plants or transmission lines, such as smart thermostats, appliances and building controls (often referred to as “grid edge” technologies); and universal-scale technologies and resources that enhance access and services for all customers.

**Safety First**

Safety and health are our highest priority, but our performance in 2016 did not meet our expectations. Tragically, we lost two of our employees in vehicle accidents, the first employee fatalities at AEP in four years. These are profound losses, especially for the families, and our hearts and prayers are with them. Both were long-time employees, and the AEP family is going through a very difficult period in the aftermath of these tragedies.
The best way to honor and remember our colleagues is to do everything we can to learn from these horrible events, so that we can prevent similar situations in the future. We held a mandatory, companywide safety stand-down to share information about the events and provided safety training. In 2017, we held a Driving Summit for our employees and contractors to continue to emphasize our responsibility to be defensive drivers on the job and off.

It grieves me further to have to report that three contractors died while working for AEP – two in 2016 and one in early 2017. This is not acceptable and we are strengthening our contractor safety program to emphasize our expectations for their safety performance. We will hold a contractor safety summit within our transmission business unit – where significant construction is taking place – to reinforce the Zero Harm imperative, which extends to all of those working on our behalf.

There were also tragic consequences when members of the public came into contact with our facilities, causing 11 fatalities in 2016. We are strengthening our public education efforts about the dangers of coming into contact with electrical facilities.

Finally, we did not meet our safety and health objectives for reducing our injury rates. Slips, trips and falls continue to be the leading cause of injuries and lost work time.

These results are unacceptable to me and to the entire organization. We frequently remind ourselves that safety and health is a full-time job and that we each have a responsibility to ourselves, our coworkers and our families to work without harm. We know that Zero Harm is possible because work teams across AEP achieve it frequently. We want to learn from them so we can replicate their success across the company.
We are also working to enhance leaders’ abilities to provide constructive feedback and engage with employees. We are encouraging employees to identify and correct hazardous situations and we are identifying high-risk activities that we encounter in our day-to-day work and putting plans in place to reduce those risks. Our employee-led Good Catch program proactively collects and shares information about potential hazards. In 2016, the number of Good Catches tripled compared with 2015.

We have established a safety and health governance structure that enables us to effectively develop solutions and share information across AEP. We have also created a new leadership position responsible for contractor safety and health.

Although we measure safety and health by the numbers, we know in our hearts that it’s deeply personal. We have friends and loved ones who count on us every day. When events happen, lives are changed forever. In 2016, we launched a “Because We Care” campaign to drive that message home. Our employees share stories about what their commitment to safety and health means to their families. We can’t accept anything less than Zero Harm.

We have concluded the first year of a five-year safety transformation program to dramatically improve our safety performance. The results thus far tell us we have a lot of work ahead of us.

**Repositioning for Success**

2016 was a pivotal year in AEP’s history, setting the stage for near-term success and long-term sustainable growth. Our many achievements set the stage and provide a clear path forward as we evolve our business model to be the premier energy company of the future. In 2016:

- We updated our company brand to reflect our clean energy transition and commitment to customers and communities.
- We energized the first BOLD transmission line, developed by our own engineers, reducing tower heights, increasing capacity and using existing rights-of-way.
- We began serving customers in Indiana and Michigan from our first AEP-owned universal-scale solar project.
• We partnered with the City of Columbus and others and were chosen over more than 70 other cities to win the federal Smart City Challenge, which seeks to accelerate the transition to an electrified, low-emissions transportation system.

• We continued to reduce our carbon emissions; in 2016, CO₂ emissions were 44 percent below 2000 levels and continue to decline.

• We delivered a 5.4 percent increase in the quarterly dividend for shareholders.

We also established an increased earnings growth trajectory for AEP of 5 percent to 7 percent, compared with our previous 4 percent to 6 percent growth rate. The sale of a portion of our merchant generation, including the 2,665 MW coal-fired Gen. James M. Gavin Plant, reduced risk and volatility of future earnings while reinforcing our balance sheet to support long-term growth. The sale reduced our owned generating capacity from 32,000 MW to approximately 26,000 MW and will positively impact our direct environmental footprint in the future, reducing emissions as well as impacts to water and land.

We plan to reinvest the $2.2 billion proceeds ($1.2 billion net after tax) from our asset sales into our core regulated businesses to modernize the grid; deploy technologies, programs and services that improve the customer experience; expand growth beyond our traditional footprint; and continue our transition to low-carbon resources.

Approximately 2,700 MW of additional generation remaining in Ohio is under strategic review. We are taking these steps because Ohio’s competitive, deregulated power generation market does not support our goal of being a premier regulated energy company. Competitive electricity markets do not provide the

The first BOLD transmission line was energized in 2016.
long-term price signals needed to build new generation resources; this is especially true in Ohio, where the state now faces a future of net energy imports.

I am very proud of the employees of all of these plants who made these generating stations what they are today and maintained their focus on safety and operational excellence during a time of great uncertainty.

Customer Focus

Delivering excellent service to our customers is a critical part of our work ethic and has been for more than a century. But today’s customers want a different kind of service, and we need to meet them where they are. We must provide a superior customer experience if we want to continue as an industry leader. Our customers are important to us, and with our commitment to providing world class customer service, we have adjusted our capital spending priorities to treat customer experience investments equally with investments in generation, transmission and distribution. This will allow us to more effectively meet customers where they want to be met and deliver programs and services they want and value. This also offers a key growth opportunity for AEP.

The relationship we have with our customers means everything to us and we work to strengthen it all the time. In 2016, we created the position of Chief Customer Officer and an organization charged with improving the customer experience. Part of this strategy requires learning about and investing in new energy technologies and talking more with our customers about what they want and need. Another component is to understand that all customers are not alike and a one-size-fits-all approach to programs, services and rate structures no longer works.

In early 2017, we partnered with Accenture to develop an overarching customer strategy. From that effort, a five year Customer Experience Roadmap was developed with 80 initiatives, many of which were identified by Accenture based upon their consumer research and market intelligence. In addition, a prioritization framework and governance model were established to provide the oversight of these initiatives, leveraging a newly-created Customer Experience Governance Board, which will oversee the Customer Experience Roadmap and $116 million of approved funding between 2017 and 2021.
Today’s consumer sees energy as a plug-and-play digital platform that must be flexible, reliable and affordable. Think of the grid as a smart device through which you can send and receive information, buy products and services and interact with others. That’s the type of experience consumers want with the power grid.

To get to that point, we must have regulatory reforms. We can no longer treat every customer exactly alike; we need pricing programs that recognize the level of service customers want and value. We know it will take time and we are talking with our regulators to move this forward.

**A Diverse & Inclusive Workforce**

To be successful, we need a diverse workforce and an environment that welcomes different experiences, beliefs, backgrounds, cultures and thoughts. We must maintain an inclusive work environment in which every person is respected, can maximize their opportunities, and can contribute to AEP’s success. Diversity and inclusion must be the norm at AEP, and we want to be better at creating and supporting diversity and inclusion than we are today.

Every employee, at every level, needs to be engaged – highly motivated and deeply involved in their work and with their colleagues – and we’ve acted to move us forward on this continuum. Our Diversity and Inclusion Advisory Council is charged with setting goals and aligning policies, practices and processes – work that we believe will strengthen our efforts to build awareness, respect and inclusiveness across AEP.

Our seven Employee Resource Groups – including groups focused on race, gender, sexual orientation, disability, cultural heritage and military service – are fundamental to this effort, and we seek to expand them across the company.

“We are transforming our business to create sustainable economic, social and environmental value for all of our stakeholders. We believe the power to shape the future is in all our hands and by working together we have the ability to turn this vision into reality.”
2016 AEP Company Overview

- **Regulated & Competitive Customers (millions)**: 5.8
- **Transmission (miles)**: 40,000
- **Distribution (miles)**: 224,000
- **Generating Capacity**: 26,000 MW
- **Total Renewable Portfolio**: 4,166 MW
- **Total Assets (millions)**: $63,468
- **GAAP Earnings Per Share**: $1.24
- **Operating Earnings Per Share**: $3.94
- **Cash Dividends Per Share**: $2.27
- **Service Territory (square miles)**: 200,000
- **Regulated & Competitive Customers**: 5.8
- **GAAP Earnings Per Share**: $1.24
- **Operating Earnings Per Share**: $3.94
- **Cash Dividends Per Share**: $2.27
- **Service Territory (square miles)**: 200,000
- **Approximately 10,000 MW of renewable generation interconnected across the U.S. via AEP’s transmission system today**

### AEP’s Renewable Portfolio

<table>
<thead>
<tr>
<th>Hydro, Wind, Solar &amp; Pumped Storage</th>
<th>Owned MW</th>
<th>PPA MW</th>
<th>Total MW</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEP Ohio</td>
<td>—</td>
<td>209</td>
<td>209</td>
</tr>
<tr>
<td>Appalachian Power*</td>
<td>788</td>
<td>455</td>
<td>1,243</td>
</tr>
<tr>
<td>Indiana Michigan Power</td>
<td>38</td>
<td>450</td>
<td>488</td>
</tr>
<tr>
<td>Public Service Company of Oklahoma*</td>
<td>—</td>
<td>1,137</td>
<td>1,137</td>
</tr>
<tr>
<td>Southwestern Electric Power Company</td>
<td>—</td>
<td>469</td>
<td>469</td>
</tr>
<tr>
<td>Competitive Operations</td>
<td>443</td>
<td>177</td>
<td>620</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,269</td>
<td>2,897</td>
<td>4,166</td>
</tr>
</tbody>
</table>

* Some RECs are monetized and not retired on behalf of AEP regulated customers. As of April 2017.
AEP’s Generating Capacity Portfolio

<table>
<thead>
<tr>
<th>Year</th>
<th>Coal</th>
<th>Natural Gas</th>
<th>Nuclear</th>
<th>Hydro, Wind, Solar &amp; Energy Efficiency/Demand Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

All periods include Purchase Power Agreements (PPA) and AEP-owned assets whose capacity/energy are sold to third parties through PPA's. 1999 represents AEP and Central & South West generation combined. Post Ohio represents the potential disposition of Cardinal, Conesville, Stuart and Zimmer plants. Future includes integrated resource plans forecasted additions and retirements through 2030.

AEP System Planned Generation Resource Additions

Regulated and AEP Ohio Purchase Power Agreement

2018 2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 Total

Source: Current Internal Integrated Resource Plans. Wind and solar represents nameplate MW capacity.
Investing Billions to Reduce Emissions

$ in millions

Total AEP System – Annual CO₂ Emissions

in million metric tons

* Reflects the sale of generation assets in early 2017.
** Post Ohio represents the potential disposition of Cardinal, Conesville, Stuart and Zimmer plants.
Total AEP System NOx & SO2 Emissions

* Reflects the sale of generation assets in early 2017.
** Post Ohio represents the potential disposition of Cardinal, Conesville, Stuart and Zimmer plants.

Total AEP System Mercury Emissions

* Reflects the sale of generation assets in early 2017.
** Post Ohio represents the potential disposition of Cardinal, Conesville, Stuart and Zimmer plants.
### 2016 Total Shareholder Return

<table>
<thead>
<tr>
<th>One Year</th>
<th>Three Year</th>
<th>Five Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.9%</td>
<td>15.4%</td>
<td>50.7%</td>
</tr>
<tr>
<td>12.0%</td>
<td>43.3%</td>
<td>29.0%</td>
</tr>
<tr>
<td>86.2%</td>
<td>53.6%</td>
<td>98.1%</td>
</tr>
</tbody>
</table>

- **AEP**
- **S&P 500 Electric Utilities Index**
- **S&P 500**

### AEP Capital Investments

<table>
<thead>
<tr>
<th></th>
<th>2016 Actual</th>
<th>2017 Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEP Transmission Holding Co.</td>
<td>$1,327</td>
<td>$1,506</td>
</tr>
<tr>
<td>Distribution</td>
<td>$1,254</td>
<td>$1,354</td>
</tr>
<tr>
<td>Transmission*</td>
<td>$1,003</td>
<td>$1,466</td>
</tr>
<tr>
<td>Competitive Operations</td>
<td>$338</td>
<td>$317</td>
</tr>
<tr>
<td>Regulated Environmental Generation</td>
<td>$325</td>
<td>$203</td>
</tr>
<tr>
<td>Nuclear</td>
<td>$249</td>
<td>$318</td>
</tr>
<tr>
<td>Regulated Fossil/Hydro Generation</td>
<td>$218</td>
<td>$180</td>
</tr>
<tr>
<td>Corporate and Other</td>
<td>$220</td>
<td>$322</td>
</tr>
<tr>
<td><strong>Total Capital &amp; Equity Contributions</strong></td>
<td><strong>$4,934</strong></td>
<td><strong>$5,666</strong></td>
</tr>
</tbody>
</table>


### AEP Earnings & Dividend Data

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings Per Share (GAAP)</td>
<td>$2.60</td>
<td>$3.04</td>
<td>$3.34</td>
<td>$4.17</td>
<td>$1.24</td>
</tr>
<tr>
<td>Operating Earnings Per Share</td>
<td>$3.09</td>
<td>$3.23</td>
<td>$3.43</td>
<td>$3.69</td>
<td>$3.94</td>
</tr>
<tr>
<td>Cash Dividends Per Common Share</td>
<td>$1.88</td>
<td>$1.95</td>
<td>$2.03</td>
<td>$2.15</td>
<td>$2.27</td>
</tr>
</tbody>
</table>

The difference between year-end 2016 GAAP and Operating Earnings was primarily due to the impairment of certain merchant generation assets.

- **Our people contributed to AEP’s strong financial performance**

- **$16.4 billion in GAAP Revenues**

- **2016 Total Shareholder Return**
  - 11.9% 15.4% 12.0% 50.7% 29.0% 86.2% 53.6% 98.1%

- **AEP Capital Investments**
  - **$ in millions**
  - **2016 Actual**
  - **2017 Projected**
  - **AEP Transmission Holding Co.** $1,327 $1,506
  - **Distribution** $1,254 $1,354
  - **Transmission*** $1,003 $1,466
  - **Competitive Operations** $338 $1,466
  - **Regulated Environmental Generation** $325 $203
  - **Nuclear** $249 $318
  - **Regulated Fossil/Hydro Generation** $218 $180
  - **Corporate and Other** $220 $322
  - **Total Capital & Equity Contributions** $4,934 $5,666

**AEP Workplace Demographics**

- **2016**
  - 20% Millennials (Generation Y, 1982 & after)
  - 52% Generation X (1961 – 1981)
  - 28% Baby Boomers (1943 – 1960)
  - <1% Traditionalist (1942 & before)

**AEP Leadership Diversity**

- **70%** Male
- **30%** Female
- **87%** White
- **13%** Minority

Includes AEP’s Board of Directors, AEP Leadership and Regional Utility Presidents in 2016.

**Philanthropic Giving**

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arkansas</td>
<td>$326,867</td>
<td>$39,000</td>
<td>$156,106</td>
</tr>
<tr>
<td>Indiana</td>
<td>$1,700,078</td>
<td>$1,228,797</td>
<td>$1,127,127</td>
</tr>
<tr>
<td>Kentucky</td>
<td>$579,538</td>
<td>$253,617</td>
<td>$346,380</td>
</tr>
<tr>
<td>Louisiana</td>
<td>$1,206,654</td>
<td>$699,827</td>
<td>$645,145</td>
</tr>
<tr>
<td>Michigan</td>
<td>$1,284,456</td>
<td>$192,146</td>
<td>$514,302</td>
</tr>
<tr>
<td>Ohio</td>
<td>$12,982,388</td>
<td>$6,943,820</td>
<td>$12,619,206</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>$795,617</td>
<td>$432,352</td>
<td>$736,367</td>
</tr>
<tr>
<td>Tennessee</td>
<td>$17,171</td>
<td>$18,400</td>
<td>$510,694</td>
</tr>
<tr>
<td>Texas</td>
<td>$1,941,808</td>
<td>$1,538,932</td>
<td>$1,614,117</td>
</tr>
<tr>
<td>Virginia</td>
<td>$824,173</td>
<td>$446,033</td>
<td>$552,211</td>
</tr>
<tr>
<td>West Virginia</td>
<td>$1,655,935</td>
<td>$920,528</td>
<td>$933,808</td>
</tr>
<tr>
<td>Other**</td>
<td>$1,978,006</td>
<td>$806,628</td>
<td>$1,134,458</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$25,292,691</strong></td>
<td><strong>$13,520,080</strong></td>
<td><strong>$20,889,921</strong></td>
</tr>
</tbody>
</table>

* Corporate philanthropic giving each year included pre-payments to select organizations that were earmarked for use in the succeeding year.

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

As of April 2017.
In 2016, AEP proudly joined a new coalition called Paradigm for Parity® to promote gender parity in leadership roles. AEP Board member Sandra Beach Lin is one of the founders of the organization. The goal is to achieve gender parity in all leadership levels by 2030. Today, only 30 percent of AEP’s leadership team is comprised of women; we can do better and we will. Diversity at all levels of an organization drives innovation and, in my own experience there is a strong correlation between success and diversity, including gender parity.

We also signed on to the CEO Action for Diversity & Inclusion pledge along with more than 50 of America’s largest corporations. The pledge commits us to providing work environments that allow for sometimes difficult conversations about diversity and inclusion; implementation of unconscious bias education for all employees; and sharing of best, as well as, unsuccessful practices.

We believe these commitments will help us accelerate the progress we’ve already made by strengthening our commitment and challenging us to continue being a leader in workplace diversity.

**Energy Transition in Motion**

The traditional, centralized electric power system we’ve known for more than a century is becoming more distributed and responsive, driven by technology and customer demand. This is really significant because transmission and distribution are critical resources that enable the grid’s interoperability, allowing us to manage customer-sited technologies, such as distributed energy resources, as well as universal-scale renewables, end to end.

The growth of the Internet of Things is transforming our business – from sensors that help improve resilience and data that enables active management of all resources at once, to optimizing the grid for customers to make informed choices about generation and power use.

With these rapid and dramatic changes, our customers want us not only to be their energy supplier but also to be their trusted energy advisor across the spectrum of energy products now available. These include energy storage systems, private solar systems, electric vehicles, building management controls, smart thermostats and smart appliances – technologies that are closer to the customer than our power plants.
We have taken steps to rebalance our resource portfolio as we transition to a cleaner energy future. In part, we are doing this by expanding our renewable portfolio within and beyond our traditional service territory. Over the next three years, we plan to invest approximately $1.5 billion in renewable energy in our competitive and regulated companies.

For example, AEP Ohio is seeking to develop the first 350 MW of a 900-MW Ohio-sited wind and solar commitment in that state. Appalachian Power Company (APCo) is also expanding its renewable portfolio, seeking to add up to 25 MW of universal-scale solar. We are requiring these projects be located within our service territory. This ensures that our investments pay dividends for local communities by providing clean energy locally, taxes that support long-term public needs and temporary construction jobs.

In early 2017, APCo received regulatory support to add 120 MW of new wind power to its resource portfolio, consistent with its forward-looking integrated resource plans. The 20-year purchased power agreement (PPA) takes advantage of federal production tax credits, making it more cost-effective for customers. The new generation, which is under construction, is expected to be available to APCo customers by 2018.

In Oklahoma, where Public Service Company of Oklahoma’s (PSO) resource portfolio already comprises of over 20 percent renewable energy, the company now has solar in the mix for the first time thanks to a recent project at the University of Tulsa. In addition, Southwestern Electric Power Company and PSO are seeking to add new wind resources to their portfolios. By 2030, our integrated resource plans call for us to add more than 7,000 MW of new wind and solar to our AEP system, subject to regulatory approval. We will also invest $9 billion in our transmission system during the next three years, replacing aging
infrastructure, improving reliability and modernizing the grid. From 2017 through 2019, our annual planned investments in transmission constitute about 14 percent of the total annual forecasted transmission investment for all investor-owned utilities in the nation.

Our job is to better integrate energy efficiency, clean energy sources and advanced technology into the essential energy services we already provide, and to give consumers the choices they demand. We also have a responsibility to deliver value to our shareholders. We must harness technology innovations and work with our stakeholders to adapt to this changing environment.

We can’t do this alone. We’ve partnered with clean technology companies including a commercial energy management partnership with Innovari and our residential energy management partnership with Tendril – companies that are devoted to connecting utilities and their customers to work together to optimize usage so that energy can be more precisely measured and used to manage demand. We are also developing technology solutions for large customers who need resiliency as well as clean power and reliability. These are the types of “no regrets” growth strategies to which we are committed.

**Carbon and Climate**

AEP’s carbon footprint has been dramatically reduced in recent years. In 2017, we estimate that our carbon emissions will be 56 percent below 2000 levels. In addition to new renewable sources, the sale of merchant generation, previous coal unit retirements and economic factors such as lower natural gas prices, all contributed to this decline.

Carbon and climate change continue to take center stage in discussions with many of our stakeholders. Investors and environmental groups ask us about how we will continue to transition to a less-carbon-intensive energy future, and customers want more access to renewable resources to meet their own clean energy objectives.

Our path forward is clear. We do not foresee adding new coal. However, our remaining fossil and nuclear units provide critical 24/7 power to the grid and a resilient source of power for all customers. We need these resources to ensure a continued balanced portfolio of resources.
Regardless of the political environment and the fate of the Clean Power Plan or other changes that may be in the works, AEP remains committed to a clean energy future because that is what our customers and stakeholders expect. We have always maintained that any approach to climate change should be economy-wide and addressed through legislative policy. That said, the U.S. Supreme Court has ruled that the U.S. Environmental Protection Agency can regulate carbon, so we are preparing for that prospect. Our planning criteria includes a proxy cost of carbon when developing all of our resource plans to prepare for that eventuality.

We will continue to engage with all of our stakeholders on carbon and climate change and to be transparent about our plans.

**Smart Columbus**

In 2016, the city of Columbus competed against 77 cities nationwide to win the U.S. Department of Transportation’s $40 million Smart City Challenge. In addition, the Paul G. Allen Foundation awarded up to $10 million to reduce greenhouse gas emissions by de-carbonizing the energy and transportation sectors. AEP Ohio will invest nearly $175 million in the project.

We are very proud of this achievement. This exciting project will help Columbus and AEP deploy universal-scale renewable resources, electric vehicle (EV) charging infrastructure, fleet electrification, microgrids, smart street lighting and other grid modernization and efficiency programs.

In addition to technology benefits, the social benefits of this program are extremely important. We seek to expand access to cleaner transportation, especially in disadvantaged neighborhoods. By increasing transportation options, we can improve access to jobs and create new opportunities for everyone. This is what real sustainable development looks like.

On February 1, 2017, AEP Ohio’s proposed implementation of Phase 2 of its smart grid project was approved which, in part, will support Smart Columbus initiatives. AEP Ohio will install approximately 894,000 smart meters, deploy approximately 250 circuits with Distribution Automation Circuit Reconfiguration
(DACR), and install Volt VAR Optimization (VVO) technologies on an estimated 160 circuits. In a separate filing that is still pending, AEP Ohio is requesting approval to install electric vehicle charging stations, batteries, microgrids and smart street lighting. This infrastructure, combined with our investments to build renewable resources, will provide positive environmental benefits by reducing air emissions in both the energy and transportation sectors. We are excited to see this project move forward and learn how we can leverage the learnings of Smart Columbus into our future strategy.

**Grid Security and Resiliency**

In 2016, we made progress in our ongoing efforts to protect the power grid and make it more resilient. The Federal Energy Regulatory Commission approved Grid Assurance™, enabling an industry-led project to strengthen transmission grid resiliency. This new program augments other federal spare parts programs, making access more robust when the equipment is needed most.

As we modernize the grid, making it smarter and more resilient, the telecommunications network we rely upon for this growing connectivity also has to be upgraded. We are investing $700 million in a telecomm modernization program to increase the technological capabilities of the system over the next decade. This upgrade will also enhance cybersecurity and improve reliability and resiliency based on real-time data on equipment condition. This will enable us to restore service faster and give us more options for connecting new technologies to the grid.

---

AEP is a founding member of Grid Assurance, a proactive effort that allows us to source, store and deploy spare parts for the transmission grid that often have very long lead times for production.
Making a Mark

Resources, technology and workforce development are not the only things evolving at AEP. In March 2017, we unveiled a repositioning of our corporate logo and brand. In addition to updating our brand, we refreshed our vision and mission statements to reflect our commitment to our customers and communities and to being the premier energy company of the future.

A company’s mark identifies and differentiates the brand to help drive customer experiences – a main focus for AEP today. Our evolved logo breaks through the walls of the old parallelogram to signal to customers and communities that our company is changing. Today and in the future, we are more devoted than ever to meeting customers’ expectations. AEP exists because our customers use and pay for our product, and we must shape an energy future – with them – that meets their expectations and lifestyles.

We conducted dozens of focus groups, interviews, surveys and one-on-one meetings with customers across our service territory. Our customers told us they want to partner with AEP and they also want a voice in helping us to shape our future. These were major considerations in our rebranding effort.

Our new logo embodies our view of the future in which AEP and its family of companies are breaking through to provide a new customer experience based on new technologies and a newly-empowered grid. It recognizes the unique relationship that each AEP company has with its unique set of customers. In fact, our new tagline best communicates this idea – Boundless Energy.

Building Our Future, Together

AEP’s longevity and strength reflect the fact that we are proud and honored to be in the energy business. We deeply understand and embrace our responsibilities, and beyond all else, we value the reliance and trust that our customers, shareholders and communities place in us. This is in the front of our minds as we invest billions of dollars to transform our company and the grid to enable a new generation of resources and technologies. We are committed to giving our customers the sustainable, alternative options they want and need. We also know that shaping the future of energy isn’t ours to do alone.
We seek to become partners with our customers to optimize the production and use of energy. We want to partner with our communities to create sustainable economic growth. If our customers are happy and our communities are thriving, so are we.

We need new technologies and a more balanced resource portfolio to achieve our vision. Our employees have the ideas, knowledge and willingness to meet this challenge, along with the desire to collaborate with our customers and other stakeholders to make it happen. We will do this while staying true to our core responsibility to provide safe, reliable, clean electricity that is the backbone of our nation’s economy and that powers our customers’ daily lives.

The changes that are happening require us to develop new sustainability goals to carry us into a new energy era. In 2017, we are reformulating our sustainability goals. Because stakeholder interests have evolved, we need to set new goals to measure our performance in diversity and inclusion and in economic and community investment, for example. We are engaged in this effort, which comes from a well-thought-out and vetted sustainability strategy linked to AEP’s overall corporate strategy, under the guidance of AEP’s Enterprise Sustainability Council. We have teams of employees across AEP engaged in this work. We expect to begin reporting on new sustainability goals in 2018.

I was honored and humbled this year to receive the Edison Electric Institute’s Distinguished Leadership Award. I proudly share this award with my fellow employees, who have made AEP a leader, and have established the company as an honest, credible and ethical organization.
I invite you to review our 2017 Corporate Accountability Report to learn more about our exciting and transformative efforts, and I invite you to join us as we move forward to grasp the opportunities before us and meet the challenges that lie ahead. Together, we are building a brighter future, one step at a time.

Sincerely,

Nicholas K. Akins
Chairman, President & Chief Executive Officer
American Electric Power